



## Prospectus

for the admission to trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)

of

326,990,337 existing no-par value registered shares

and

399,654,856 newly issued no-par value registered shares from a capital increase against contribution in kind resolved upon by an extraordinary shareholders' meeting on May 22, 2020, which will be transferred to the shareholders of Siemens AG

– each representing a notional share in the share capital of € 1 per no-par value share and carrying full dividend rights from October 1, 2019 –

of

**Siemens Energy AG**  
Munich, Germany

– International Securities Identification Number (ISIN): DE000ENER6Y0 –  
– German Securities Identification Number: ENER6Y –  
– Common Code: 222693756 –  
– Trading Symbol: ENR –

### ***Lead Financial Advisors and Listing Agents***

<b>BNP PARIBAS</b>	<b>BofA Securities</b>	<b>COMMERZBANK</b>	<b>Credit Suisse</b>
<b>Deutsche Bank</b>	<b>Goldman Sachs Bank Europe SE</b>		<b>J.P. Morgan</b>

### ***Co-Advisors***

<b>Berenberg</b>	<b>HSBC</b>	<b>Jefferies</b>
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September 7, 2020

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# 1 SUMMARY OF THE PROSPECTUS

## 1.1 Introduction and warnings

This prospectus (the “**Prospectus**”) relates to the admission to the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*, “**FSE**”) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the FSE (the “**Listing**”) of 326,990,337 existing (the “**Existing Shares**”) and 399,654,856 newly issued (the “**New Shares**”) ordinary registered shares with no par value (*Stückaktien*) (the Existing Shares and the New Shares, the “**Shares**”) in Siemens Energy AG, Munich, Germany (the “**Company**”). Each Share has a notional par value of € 1 in the share capital and full dividend rights from October 1, 2019. Following the issuance of the New Shares, the Shares represent the entire share capital of the Company. The New Shares are issued in connection with a spin-off for absorption (*Abspaltung zur Aufnahme*) under the German Transformation Act (*Umwandlungsgesetz*) (the “**Spin-Off**”). In the Spin-Off, Siemens Aktiengesellschaft, Berlin and Munich, Germany (“**Siemens AG**”, together with its consolidated subsidiaries, “**Siemens**” or “**Siemens Group**”), as transferor will transfer shareholdings in entities directly and indirectly carrying out Siemens’ Gas and Power business and its indirect shareholding of approximately 67% in Siemens Gamesa Renewable Energy, S.A., Zamudio, Spain (“**SGRE S.A.**”, together with its consolidated subsidiaries, “**SGRE**”), to the Company as transferee. As consideration for the transfer of the spin-off assets, the shareholders of Siemens AG will receive the New Shares according to their proportional shareholding in Siemens AG.

In this Prospectus, references to the “**Siemens Energy Group**”, the “**Group**”, “**Siemens Energy**”, “**we**”, “**us**” or “**our**” are references to the combined group of entities and business activities comprising the Siemens Energy business, with the Company acting as the ultimate holding company as from the completion of the Spin-Off (“**Spin-Off Completion**”).

The International Securities Identification Number (ISIN) of the Shares is DE000ENER6Y0. The Company can be contacted at its business address: Otto-Hahn-Ring 6, 81739 Munich, Germany, by telephone: +49 89 636-00, or via its website: [www.siemens-energy.com](http://www.siemens-energy.com). The Company’s Legal Entity Identifier (LEI) is 5299005CHJZ14D4FDJ62.

The Company and Deutsche Bank Aktiengesellschaft, a stock corporation with its registered seat in Frankfurt am Main, Germany, and its business address in Taunusanlage 12, 60325 Frankfurt am Main, Germany (telephone: +49 69 910-00; website: [www.db.com](http://www.db.com); LEI: 7LTFWZYICNSX8D621K86) will ask for admission of the Shares to trading on the regulated market of the FSE with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard).

This Prospectus is dated September 7, 2020 and has been approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – “**BaFin**”) on September 7, 2020. BaFin can be contacted at Marie-Curie-Str. 24-28, 60439 Frankfurt am Main, Germany, by telephone +49 228 4108-0, or via its website: [www.bafin.de](http://www.bafin.de).

*This summary should be read as an introduction to the Prospectus. Any decision to invest in the Shares should be based on consideration of the Prospectus as a whole by the investor. Investors could lose all or part of their invested capital.*

*Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only where the summary is misleading, inaccurate or inconsistent, when read together with the other parts of the prospectus, or where it does not provide, when read together with the other parts of the prospectus, key information in order to aid investors when considering whether to invest in such securities.*

## 1.2 Key information on the issuer

### 1.2.1 Who is the issuer of the securities?

The Company is incorporated as a stock corporation (*Aktiengesellschaft*) under the laws of Germany. The Company’s registered office is Munich, Germany. The Company is registered with the commercial register of the local court (*Amtsgericht*) of Munich under HRB 252581. The Company’s Legal Entity Identifier (LEI) is 5299005CHJZ14D4FDJ62.

#### 1.2.1.1 Principal activities

We are a pure play company active along the entire energy technology and service value chain with a comprehensive and differentiated products, solutions and services offering. Our broad technology base, comprising both fuel-efficient conventional as well as renewable energies, enables us to meet the increasing energy demand while at the same time supporting efforts to reduce greenhouse gases. We also offer digital business and intelligent service models to our customers. We consider ourselves well-positioned to shape the energy transition towards decarbonized energy technologies and to promptly react to customer needs worldwide through our global footprint.

The Company is the holding company of the Siemens Energy Group and performs overarching tasks and corporate functions for the Group. We generated revenue of € 28,797 million in the fiscal year ended September 30, 2019 and € 19,828 million in the nine-month period ended June 30, 2020, as well as Adjusted EBITA of € 1,064 million in the fiscal year ended September 30, 2019 and € (1,211) million in the nine-month period ended June 30, 2020.

Our business operations are organized in two reportable segments, Gas and Power and Siemens Gamesa Renewable Energy:

- *Gas and Power segment* – Our Gas and Power segment offers a wide range of products, solutions and services in the fields of power transmission and conventional central and distributed power generation alongside industrial applications for the oil and gas industry and for industrial process applications. The Gas and Power segment further develops and markets new technologies in the field of decarbonization. The Gas and Power segment generated total revenue of € 18,709 million in the fiscal year ended September 30, 2019 and € 13,326 million in the nine-month period ended June 30, 2020, as well as Adjusted EBITA of € 589 million in the fiscal year ended September 30, 2019 and € (539) million in the nine-month period ended June 30, 2020. Its operations are split into three divisions: Transmission, Generation and Industrial Applications and are complemented by its Other Operations:
  - *Transmission* – Our Transmission division offers a broad portfolio of products, systems, solutions and services geared around the key market trends of digitalization, decarbonization, grid stability and electrification. The product portfolio comprises air- and gas-insulated switchgear, transformers, digitalized products and other products such as bushings (i.e., electrical components insulating high-voltage conductors carrying current passing through a metal enclosure or a building). The Transmission division offers its products individually or as part of tailor-made systems and solutions as well as services relating to power transmission of high (which includes ultra-, extra- and high-voltage layers) and, to a lesser extent, medium and low voltage levels as part of product bundles or solutions.
  - *Generation* – Our Generation division offers a broad portfolio of products, solutions and services for central and distributed power generation. The product portfolio comprises gas and steam turbines, generators and gas engines as well as instrumentation & controls and electrical systems. Products are sold individually or as part of solutions. A comprehensive set of services covering performance enhancements, maintenance services, customer training and professional consulting complement its products and solutions businesses.
  - *Industrial Applications* – Our Industrial Applications division offers a broad portfolio of products, integrated systems and solutions, comprising rotating equipment, integrated drive-train systems, electrification, automation and digital solutions for the on- and offshore industry, marine industry and the fiber industry, and water treatment solutions. Our Industrial Applications division also provides services for oil & gas and distributed generation customers, including other industries such as food and beverages, minerals and metals, industrial parks and municipalities.
  - *Other Operations* – Our Other Operations include our New Energy Business and certain at-equity investments. Our New Energy Business complements the portfolio of our Gas and Power segment by developing new technologies in the field of decarbonized energy systems. The current focus of the New Energy Business is to enable the green hydrogen economy and to promote decarbonization, for instance by developing “power-to-x” technologies which use electricity from renewable energy sources for the production of low-CO<sub>2</sub> synthetic energy sources (power fuels).
- *Siemens Gamesa Renewable Energy* – Our SGRE segment focuses on the promotion, design, development, manufacture and supply of products, installation and technologically advanced services in the renewable energy sector with a focus on wind power plants; it also provides services including management, operation and maintenance. SGRE also explores opportunities in adjacent renewable business fields which, in many cases, are also related to the wind turbine business. However, these activities represent only a small fraction of SGRE’s current business. The SGRE segment generated total revenue of € 10,227 million in the fiscal year ended September 30, 2019 and € 6,615 million in the nine-month period ended June 30, 2020, as well as Adjusted EBITA of € 481 million in the fiscal year ended September 30, 2019 and € (631) million in the nine-month period ended June 30, 2020. SGRE S.A.’s shares are listed on the Spanish stock exchanges of Madrid, Barcelona, Valencia, and Bilbao and included in the Spanish IBEX 35 index. Siemens Energy holds approximately 67% of the shares in SGRE S.A. The SGRE segment comprises the business units Onshore Wind Power, Offshore Wind Power and Service:
  - *Onshore Wind Power* – With almost 40 years of experience, our business unit Onshore Wind Power provides wind turbine design, manufacturing and installation solutions for global onshore markets mainly focused on geared technology including platforms, which can be adapted to regional and local needs.
  - *Offshore Wind Power* – Our business unit Offshore Wind Power provides its customers with nearly three decades of offshore wind turbine equipment design, manufacturing and installation experience focused on direct drive technology.
  - *Service* – Our business unit Service offers a comprehensive and flexible portfolio for the maintenance and optimization of wind turbines, providing a holistic, lifetime-care service. Complete asset management as well as technical assistance is provided for the SGRE segment’s wind turbines and is also being expanded for third party assets.



#### 1.2.1.2 Major shareholders

As of the date of the Prospectus, all of the Existing Shares, currently representing all of the shares in the Company, are held directly or indirectly by Siemens AG, so that the Company is controlled by Siemens AG.

Following Spin-Off Completion, Siemens AG and Siemens Pension-Trust e.V. will initially hold 35.1% and 9.9%, respectively, of the Shares, representing the Existing Shares. The New Shares, which will then represent 55% of the Shares, will be transferred to the shareholders of Siemens AG. The number of New Shares attributable to each shareholder of Siemens AG depends on the percentage of shares in Siemens AG held by such shareholder immediately prior to Spin-Off Completion.

In order to prevent Siemens AG from controlling the Company after Spin-Off Completion, the Company and Siemens AG entered into a deconsolidation agreement (*Entherrschungsvertrag*) which, *inter alia*, restricts the exercise of the voting rights attached to the Existing Shares. Under the deconsolidation agreement, Siemens undertakes vis-à-vis the Company that, among other things, there will be a maximum of three shareholders' representatives in the Company's supervisory board who are dependent on Siemens, e.g., members of the executive board (*Vorstand*) of Siemens AG. For purposes of the deconsolidation agreement, membership in the supervisory board of Siemens AG alone does not result in that person being dependent on Siemens. Accordingly, union representatives who are members of both the supervisory board of Siemens AG and the supervisory board of the Company are deemed to be independent of Siemens under the deconsolidation agreement, although their dual mandates may result in conflicts of interest (see "1.4.3.3 Material conflicts of interest pertaining to the Listing").

#### 1.2.1.3 Executive board

The Company's executive board (*Vorstand*) has four members. Dr.-Ing. Christian Bruch acts as the chief executive officer (CEO, *Vorstandsvorsitzender*) of the Company. Ms. Maria Ferraro acts as chief financial officer (CFO) of the Company. Mr. Tim Oliver Holt acts as Segment Manager for the Gas and Power segment (Transmission) and the SGRE segment and as future Labor Director (*Arbeitsdirektor*). Dr.-Ing. Jochen Eickholt acts as Segment Manager for the Gas and Power segment (Generation and Industrial Applications).

#### 1.2.1.4 Statutory auditors

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Germany with a business address at Arnulfstraße 59, 80636 Munich, Germany ("EY") are the independent auditors of the Company.

### 1.2.2 What is the key financial information regarding the issuer?

The audited combined financial statements of Siemens Energy as of and for the fiscal years ended September 30, 2019, 2018 and 2017 (the "**Audited Combined Financial Statements**") were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**") and have been audited in accordance with Section 317 of the German Commercial Code (*Handelsgesetzbuch*) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany (*IDW*)) by EY, who issued an unqualified independent auditor's report thereon. The unaudited condensed combined interim financial statements of Siemens Energy as of and for the nine-month period ended June 30, 2020 were prepared in accordance with IFRS on interim financial reporting (IAS 34) (the "**Unaudited Condensed Combined Interim Financial Statements**"). The Audited Combined Financial Statements and the Unaudited Condensed Combined Interim Financial Statements (together, the "**Combined Financial Statements**") present the combined group of entities and business activities comprising the Siemens Energy business in the fiscal years ended September 30, 2019, 2018 and 2017 and in the nine-month period ended June 30, 2020. During these periods, Siemens Energy did not conduct business operations as an independent group. Furthermore, investors should note that financial information regarding our SGRE segment has been exclusively taken or derived from the Combined Financial Statements or from our accounting records or internal management reporting systems and does not necessarily correspond to financial information publicly reported by SGRE S.A.

In the summary of the Prospectus, where financial information is labeled "audited" in tables, this information was taken from the Audited Combined Financial Statements. The label "unaudited" is used in tables in the summary of the Prospectus to indicate financial information that was taken from the Unaudited Condensed Combined Interim Financial Statements, or from our accounting records or internal management reporting systems or has been calculated based on figures from the above-mentioned sources. Figures have been commercially rounded to whole numbers. Because of rounding, figures shown in the tables below do not necessarily add up exactly to the respective totals or subtotals presented and aggregated percentages may not exactly equal 100%. Financial information presented in parentheses denotes the negative of such number presented. In respect of financial information set out below, a dash ("—") signifies that the relevant figure is not available or equals zero, while a zero ("0") or nil signifies that the relevant figure is available but has been rounded to zero.



### 1.2.2.1 Key financial information from the Combined Statements of Income

(in € million)	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited, unless otherwise indicated)			(unaudited)	
Revenue .....	28,797	28,023	30,086	19,828	20,503
Nominal revenue growth (unaudited) .....	2.8%	(6.9)%	— <sup>1)</sup>	(3.3)%	— <sup>1)</sup>
Income (loss) before income taxes .....	317	151	1,309	(1,672)	270
Net income (loss) .....	282	645	960	(1,469)	202

1) Not available. The Audited Combined Financial Statements do not contain comparable figures for the fiscal year ended September 30, 2016, and the Unaudited Condensed Combined Interim Financial Statements do not contain comparable figures for the nine-month period ended June 30, 2019.

### 1.2.2.2 Key financial information from the Combined Statements of Financial Position

(in € million)	As of September 30,			As of June 30,
	2019	2018	2017	2020
	(audited, unless otherwise indicated)			(unaudited)
Total assets .....	45,041	45,763	47,290	45,424
Total equity <sup>1)</sup> .....	13,089	10,701	11,318	16,250
Adjusted (Net Cash) / Net Debt (unaudited) <sup>2)</sup> ....	2,169	4,342	3,388	(803)

1) Includes non-controlling interest.

2) Adjusted (Net Cash) / Net Debt is defined as total debt less total liquidity plus provisions for pensions and similar obligations. Total debt is defined as short-term debt and current maturities of long-term debt plus long-term debt plus payables to Siemens Group from financing activities. Total liquidity is defined as cash and cash equivalents plus receivables from Siemens Group from financing activities.

### 1.2.2.3 Key financial information from the Combined Statements of Cash Flows

(in € million)	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited)			(unaudited)	
Cash flows from operating activities .....	1,694	844	686	561	(585)
Cash flows from investing activities .....	(797)	(429)	(835)	(653)	(503)
Cash flows from financing activities .....	(1,597)	330	1,890	674	(395)

### 1.2.2.4 Key Performance Indicators and Alternative Performance Measures

(in € million, other than percentages and ratios)	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(unaudited, unless otherwise indicated)			(unaudited)	
Adjusted EBITA <sup>1)</sup> .....	1,064	905	2,028	(1,211)	857
Adjusted EBITA Margin <sup>2)</sup> .....	3.7%	3.2%	6.7%	(6.1)%	4.2%
Adjusted EBITA before Special Items <sup>3)</sup> .....	1,517	1,456	2,174	(87)	994
Adjusted EBITA Margin before Special Items <sup>2)</sup> ...	5.3%	5.2%	7.2%	(0.4)%	4.8%
Free Cash Flow <sup>4)</sup> .....	876*	80*	(121)*	18	(1,099)
Cash Conversion Rate <sup>5)</sup> .....	0.8	0.1	(0.1)	(0.0)	(1.3)

\* Audited.

1) Adjusted EBITA of Siemens Energy Group is calculated as earnings before financing interest, income taxes, amortization expenses related to intangible assets acquired in business combinations and goodwill impairments. Financing interest excluded from Adjusted EBITA is any interest income or expense other than financial result from operations (i.e., interest income related to receivables from customers, from cash allocated to the segments and interest expenses on payables to suppliers).

- 2) Adjusted EBITA Margin is calculated by dividing Adjusted EBITA by total revenue. Adjusted EBITA Margin before Special Items is calculated by dividing Adjusted EBITA before Special Items by total revenue.
- 3) Calculated as Adjusted EBITA before Special Items. Special Items are defined as (i) restructuring costs that refer to personnel measures leading to severance charges, mainly related to the Gas and Power segment, as well as integration costs that refer to the SGRE segment only and are related mainly to the merger of Gamesa and Siemens Wind Power into SGRE S.A. and, to a lesser extent, to the acquisition of assets from Servin; (ii) stand-alone costs that relate to the preparation of our separation from Siemens Group and the formation of Siemens Energy as an independent enterprise. Stand-alone costs relate to the carve-out and Spin-Off of Siemens Energy and include, amongst others, costs for IT applications, external service providers, costs related to the listing, and personnel related costs and (iii) major asset impairments and write-downs related to Siemens Energy Group strategic portfolio decisions.
- 4) Free Cash Flow is calculated as the difference of the line items cash flows from operating activities and additions to intangible assets and property, plant and equipment in our Combined Statements of Cash Flows.
- 5) Cash Conversion Rate is defined as Free Cash Flow divided by Adjusted EBITA on Siemens Energy Group level.

### 1.2.3 What are the key risks that are specific to the issuer?

An investment in the Company's shares is subject to a number of risks, some of which are presented in this section and under section "1.3.3 *What are the key risks that are specific to the securities?*" of this summary. The occurrence of any of the following, individually or together, could materially adversely affect the Siemens Energy Group's business, financial position, results of operations, reputation and prospects. If any of these risks were to materialize, investors could lose all or part of their investments.

The following risks are key risks specific to the Company:

- The energy market is subject to disruptive developments, such as the trend towards decarbonization, and we may be too slow or even fail in adapting our business model and product portfolio.
- We may fail to comply with environmental, social and governance (ESG) standards and expectations which could adversely impact our business and reputation. At the same time, compliance with certain ESG standards may pose additional challenges to our business.
- Our industries and business operations are subject to various risks relating to global or local outbreaks of infectious diseases and other public health crises. In particular, we are affected from the fallout of the outbreak of the recent Coronavirus pandemic.
- Competition and lower market prices could negatively affect our business, financial position and results of operations.
- We may not be able to successfully implement our strategies; in particular we may fail to successfully complete cost savings and other reorganization programs, benefit from the disruptive trends in global energy markets and increase the share of our service business.
- We may be unable to successfully develop and launch a portfolio of competitive and technologically-advanced products, services and solutions, and our research and development efforts may be unsuccessful. Furthermore, the pace of technological change may result in the economic life cycle of certain of our products being shorter than anticipated.
- Operational failures in our value chain processes and quality issues could negatively affect our business and reputation, and result in claims, penalties and additional costs.
- We are dependent on the availability of certain materials, parts and components, and any disruptions in the supply chain may result in additional costs or loss of revenues.
- Our project business is subject to several risks, including execution risks, cost overruns, quality and political risks.
- In connection with existing and potential future reorganization and cost savings measures, we may incur substantial restructuring expenses and cash outflows. We may not be able to realize expected cost savings or we may fail to adjust our organizational and manufacturing footprint in a timely manner or at all, and such reorganizations may not yield the targeted benefits or may damage our reputation.
- We may have to write down inventories or other assets, which could adversely affect our financial position and result in loss of profitability.
- Goodwill and other intangible assets represent a significant portion of our total assets, which could be significantly reduced if we had to recognize impairments.
- Our business and the businesses of our customers and suppliers require access to significant credit and guarantee lines and other financing instruments. Our business activities could be negatively affected if we are unable to meet our capital requirements in the future, for example in weak financial market environments, as a result of a significant deterioration of our credit standing or of a breach of a credit facility agreement, or if access to capital becomes more expensive. Our business activities could be similarly negatively affected if our customers or suppliers do not have access to financing on economically viable terms.
- Our Gas and Power segment and, to a lesser extent, our SGRE segment may lose business opportunities and face a negative perception of our stand-alone position following our separation from the Siemens Group. Further, as a stand-alone group, we may not be able to satisfy financial or technical requirements under public procurement laws.

## **1.3 Key information on the securities**

### **1.3.1 What are the main features of the securities?**

The Shares are ordinary registered shares with no par value (*Stückaktien*), each such share with a notional par value of € 1 in the share capital and with full dividend rights as from October 1, 2019, with the ISIN DE000ENER6Y0. All shares of the Company are shares of the same class. Each of the shares of the Company entitles the shareholder to one vote at the general shareholders' meeting of the Company. There are no restrictions on voting rights. Voting rights are the same for all of the Company's shares. The Company's shares are freely transferable in accordance with the legal requirements for registered shares and no consent obligation applies in case of their transfer. The Shares will be entitled to a share of any liquidation proceeds or insolvency surpluses at the ratio of their notional share in the share capital. The Company's ability and intention to pay dividends in the future will depend on its financial position, results of operations, capital requirements, investment alternatives and other factors. The Company can provide no assurance that it will pay dividends in future years.

The Company did not pay any dividends in the past. Subject to a statutory minimum dividend of up to approximately € 29 million in case sufficient distributable profit is reported in the Company's audited unconsolidated financial statements for the fiscal year 2020 prepared in accordance with the requirements of German commercial law applicable to corporations, the Company will not make a dividend payment for the fiscal year 2020. With respect to the following fiscal years, the Company intends to propose a dividend whose distribution volume is 40% to 60% of the Group's net income attributable to shareholders of Siemens Energy AG as shown in the consolidated financial statements of the Company prepared in accordance with IFRS of the respective prior fiscal year. For this purpose, the Group's net income may be adjusted for extraordinary non-cash effects. Generally, it is intended to fund the dividend payout out of the available Free Cash Flow taking into account dividend payments received from SGRE S.A.

### **1.3.2 Where will the securities be traded?**

The Company will apply for admission of the Shares to trading on the regulated market of the FSE with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard). The Shares are expected to be admitted to trading on the FSE on September 25, 2020. Public trading in the Shares is expected to commence on September 28, 2020.

### **1.3.3 What are the key risks that are specific to the securities?**

The following risk is a key risk specific to the Shares:

- Substantial sales of the Company's Shares may occur in connection with the Spin-Off, which could cause the price of the Shares to decline; such sales may also occur at a later stage. Furthermore, Siemens intends to significantly reduce its shareholding in the Company within twelve to 18 months after the Spin-Off.

## **1.4 Key information on the admission to trading on a regulated market**

### **1.4.1 Under which conditions and timetable can I invest in this security?**

Immediately following Spin-Off Completion, the New Shares will be transferred to the shareholders of Siemens AG. On September 28, 2020, each shareholder of Siemens AG shall receive:

- for every two (2) no-par value registered shares of Siemens AG (ISIN DE0007236101 / German Securities Identification Number (WKN) 723 610) that it holds on the evening of September 25, 2020, taking into account any stock exchange transactions still outstanding
- one (1) no-par value registered Share of the Company (ISIN DE000ENER6Y0 / WKN ENER6Y).

The shares can be bought and sold on the FSE following their admission to trading on the FSE expected to occur on September 28, 2020.

### **1.4.2 Who is the person asking for admission to trading?**

The Company will apply for the admission to trading. Application will be made together with Deutsche Bank Aktiengesellschaft, a stock corporation with its registered seat in Frankfurt am Main, Germany, incorporated in and operating under the laws of Germany, acting on behalf of the Listing Agents (as defined under "1.4.3.2 Listing agreement" below), for the purpose of the admission to trading.

### **1.4.3 Why is this prospectus being produced?**

The purpose of the Prospectus is to admit the Shares to trading on the FSE.

#### **1.4.3.1 No proceeds; costs borne by Siemens AG**

Neither the Company nor Siemens AG will receive proceeds in connection with the Spin-Off.

In connection with the Listing, Siemens Energy will bear costs of approximately € 2.0 million; the remaining costs associated with the Spin-Off and Listing are assumed by Siemens.

#### *1.4.3.2 Listing agreement*

The Company, Siemens AG as well as BNP PARIBAS, Merrill Lynch International (BofA Securities), COMMERZBANK Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Deutsche Bank Aktiengesellschaft, Goldman Sachs Bank Europe SE and J.P. Morgan Securities plc, acting as lead financial advisors and listing agents (the "**Listing Agents**") and Joh. Berenberg, Gossler & Co. KG, HSBC Trinkaus & Burkhardt AG and Jefferies International Limited (the "**Co-Advisors**" together with the Listing Agents, the "**Banks**") entered into a listing agreement dated September 6, 2020 (the "**Listing Agreement**") in connection with the Spin-Off and the Listing. In the Listing Agreement, the Company and Siemens AG agreed to indemnify the Banks against certain liability obligations that may arise in connection with the Spin-Off and the Listing. Moreover, the Company agreed to refrain from issuing new shares or taking similar actions during the period commencing on the date of the Listing Agreement and ending 180 days after the first day of trading of the Company's Shares on the FSE. The Listing Agreement also provides that the obligations of the Banks to facilitate the Listing are subject to the satisfaction of certain conditions, including, for example, the receipt of customary confirmations and legal opinions satisfactory to the requirements of the Banks.

In addition, Siemens AG and the Company have entered into a settlement agreement with Deutsche Bank Aktiengesellschaft pursuant to which Deutsche Bank Aktiengesellschaft will act as trustee within the meaning of Sections 125 sentence 1 and 71 para. 1 sentence 1 of the German Transformation Act (*Umwandlungsgesetz*).

#### *1.4.3.3 Material conflicts of interest pertaining to the Listing*

Pursuant to the Listing Agreement, the Banks will receive a commission following Spin-Off Completion. In addition, COMMERZBANK Aktiengesellschaft and J.P. Morgan Securities plc have been appointed to act as designated sponsor for the Shares. The Company therefore assumes that the Banks have an interest in the successful completion of the transaction.

The current members of the executive board of the Company (as well as other executives of Siemens Energy) have been granted a Spin-Off incentive, *i.e.*, a transaction bonus if certain target values for the effects of the Spin-Off or the market value are achieved upon Spin-Off Completion and within the first 120 days after Spin-Off Completion, based on the average volume-weighted price of the Shares of the Company.

After Spin-Off Completion, six members (including three union representatives) of the Company's supervisory board are expected to remain executive board members or supervisory board members or employees of Siemens AG.

Siemens AG has an interest in the Spin-Off as it serves the purpose of disposing of a majority shareholding in and deconsolidating Siemens Energy.

The Listing Agents or their affiliates act as lenders to the Company, primarily under a facility agreement. Furthermore, the Banks or certain of their respective affiliates have performed, and are likely to perform in the future, certain advisory or other services for Siemens Energy or for Siemens AG or certain of their subsidiaries in their capacity as financial institutions, in particular advisory services in connection with financing transactions, for which they have received, and are likely to receive in the future, customary fees and expenses.

\* \* \*

## 2 ZUSAMMENFASSUNG DES PROSPEKTS

### (GERMAN TRANSLATION OF THE SUMMARY OF THE PROSPECTUS)

#### 2.1 Einleitung mit Warnhinweisen

Dieser Prospekt (der **"Prospekt"**) bezieht sich auf die Zulassung zum regulierten Markt an der Frankfurter Wertpapierbörse (die **"FWB"**) mit gleichzeitiger Zulassung zum Teilbereich des regulierten Marktes mit weiteren Zulassungsfolgepflichten (Prime Standard) an der FWB (die **"Börsenzulassung"**) von 326.990.337 existierenden (die **"Existierenden Aktien"**) und 399.654.856 neuen (die **"Neuen Aktien"**) auf den Namen lautenden Stückaktien ohne Nennbetrag (die Existierenden Aktien und die Neuen Aktien, die **"Aktien"**) der Siemens Energy AG, München, Deutschland (die **"Gesellschaft"**). Jede Aktie hat einen rechnerischen Anteil am Grundkapital von € 1 und ist ab dem 1. Oktober 2019 voll dividendenberechtigt. Nach der Ausgabe der Neuen Aktien, entsprechen die Aktien dem gesamten Grundkapital der Gesellschaft. Die Neuen Aktien werden im Zusammenhang mit einer Abspaltung zur Aufnahme nach dem Umwandlungsgesetz ausgegeben (die **"Abspaltung"**). Im Rahmen der Abspaltung überträgt die Siemens Aktiengesellschaft, Berlin und München, Deutschland (**"Siemens AG"** zusammen mit ihren konsolidierten Tochtergesellschaften, **"Siemens"** oder der **"Siemens-Konzern"**), als übertragender Rechtsträger Anteile an Gesellschaften, die direkt und indirekt das Gas und Power-Geschäft von Siemens betreiben, sowie ihre mittelbare Beteiligung von ca. 67% an der Siemens Gamesa Renewable Energy, S.A., Zamudio, Spanien (**"SGRE S.A."**, zusammen mit ihren konsolidierten Tochterunternehmen, **"SGRE"**) an die Gesellschaft als übernehmenden Rechtsträger. Als Gegenleistung für die abgespaltenen Anteile erhalten die Aktionäre der Siemens AG die Neuen Aktien entsprechend ihrer Beteiligung an der Siemens AG.

In diesem Prospekt beziehen sich die Begriffe **"Siemens Energy-Gruppe"**, die **"Gruppe"**, **"Siemens Energy"**, **"wir"**, **"uns"** oder **"unsere"** auf die kombinierte Gruppe von Gesellschaften und Geschäftsaktivitäten, die das Siemens-Energy-Geschäft umfasst, wobei die Gesellschaft ab dem Vollzug der Abspaltung (**"Abspaltungsvollzug"**) als oberste Holdinggesellschaft fungiert.

Die Internationale Wertpapierkennnummer (*International Securities Identification Number, ISIN*) der Aktien ist DE000ENER6Y0. Die Gesellschaft ist unter ihrer Geschäftsadresse Otto-Hahn-Ring 6, 81739 München, Deutschland, telefonisch unter +49 89 636-00 oder über ihre Webseite [www.siemens-energy.com](http://www.siemens-energy.com) erreichbar. Die Rechtsträgerkennung (*Legal Entity Identifier, LEI*) der Gesellschaft ist 5299005CHJZ14D4FDJ62.

Die Gesellschaft und die Deutsche Bank Aktiengesellschaft, eine Aktiengesellschaft mit Sitz in Frankfurt am Main, Deutschland, und der Geschäftsanschrift Taunusanlage 12, 60325 Frankfurt am Main, Deutschland (Telefon: +49 69 910-00; Webseite: [www.db.com](http://www.db.com); LEI: 7LTFWFZYICNSX8D621K86) werden die Zulassung der Aktien zum Handel am regulierten Markt an der FWB mit gleichzeitiger Zulassung zum Börsenhandel zum Teilbereich des regulierten Marktes mit weiteren Zulassungsfolgepflichten (*Prime Standard*) an der FWB beantragen.

Dieser Prospekt vom 7. September 2020 wurde von der Bundesanstalt für Finanzdienstleistungsaufsicht (die **"BaFin"**) am 7. September 2020 gebilligt. Die BaFin ist erreichbar unter Marie-Curie-Str. 24-28, 60439 Frankfurt am Main, Deutschland, telefonisch unter +49 228 4108-0 oder über ihre Webseite [www.bafin.de](http://www.bafin.de).

*Diese Zusammenfassung sollte als Einleitung zu diesem Prospekt verstanden werden. Bei jeder Entscheidung, in die Aktien der Gesellschaft zu investieren, sollte sich der Anleger auf den Prospekt als Ganzes stützen. Die Anleger können ihr investiertes Kapital ganz oder teilweise verlieren.*

*Für den Fall, dass vor einem Gericht Ansprüche aufgrund der in einem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger nach nationalem Recht die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben. Zivilrechtlich haften nur diejenigen Personen, die die Zusammenfassung samt etwaiger Übersetzungen vorgelegt und übermittelt haben, und dies auch nur für den Fall, dass die Zusammenfassung, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, irreführend, unrichtig oder widersprüchlich ist oder dass sie, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, nicht die Basisinformationen vermittelt, die in Bezug auf Anlagen in die betreffenden Wertpapiere für die Anleger eine Entscheidungshilfe darstellen würden.*

#### 2.2 Basisinformationen über die Emittentin

##### 2.2.1 Wer ist die Emittentin der Wertpapiere?

Die Gesellschaft ist eine Aktiengesellschaft nach deutschem Recht. Die Gesellschaft hat ihren Sitz in München, Deutschland. Die Gesellschaft ist im Handelsregister des Amtsgerichts München unter HRB 252581 eingetragen. Die Rechtsträgerkennung (*Legal Entity Identifier, LEI*) der Gesellschaft ist 5299005CHJZ14D4FDJ62.

##### 2.2.1.1 Haupttätigkeiten

Wir sind ein Pure-Play-Unternehmen, das entlang der gesamten Wertschöpfungskette für Energietechnologie und -dienstleistungen mit einem umfassenden und differenzierten Produkt-, Lösungs- und Dienstleistungsangebot tätig ist. Unsere umfangreiche Technologiebasis, die sowohl brennstoffeffiziente



konventionelle als auch erneuerbare Energien umfasst, befähigt uns dazu, den steigenden Energiebedarf zu decken und gleichzeitig die Bemühungen zur Reduzierung von Treibhausgasen zu unterstützen. Wir bieten unseren Kunden zudem digitale Geschäfts- und intelligente Dienstleistungsmodelle an. Wir sehen uns gut positioniert, um die Energiewende hin zu dekarbonisierten Energietechnologien zu gestalten und durch unsere globale Präsenz weltweit umgehend auf Kundenbedürfnisse zu reagieren.

Die Gesellschaft ist die Holdinggesellschaft der Siemens Energy-Gruppe und nimmt übergreifende Aufgaben und Konzernfunktionen für die Gruppe wahr. Wir erwirtschafteten Umsatzerlöse von € 28.797 Mio. im zum 30. September 2019 endenden Geschäftsjahr und € 19.828 Mio. im zum 30. Juni 2020 endenden Neunmonatszeitraum, sowie ein Angepasstes EBITA von € 1.064 Mio. im zum 30. September 2019 endenden Geschäftsjahr und € (1.211) Mio. im zum 30. Juni 2020 endenden Neunmonatszeitraum.

Unsere Geschäftstätigkeit gliedert sich in zwei Berichtssegmente, Gas and Power und Siemens Gamesa Renewable Energy:

- *Gas and Power* – Unser Gas and Power Segment bietet eine große Bandbreite an Produkten, Lösungen und Dienstleistungen auf den Gebieten der Energieübertragung und der konventionellen zentralen und dezentralen Energieerzeugung neben industriellen Anwendungen für die Öl- und Gasindustrie sowie für industrielle Prozessanwendungen. Darüber hinaus entwickelt und vermarktet das Gas and Power Segment neue Technologien im Bereich der Dekarbonisierung. Das Gas and Power Segment erwirtschaftete Gesamtumsatzerlöse von € 18.709 Mio. im zum 30. September 2019 endenden Geschäftsjahr und € 13.326 Mio. im zum 30. Juni 2020 endenden Neunmonatszeitraum, sowie ein Angepasstes EBITA von € 589 Mio. im zum 30. September 2019 endenden Geschäftsjahr und € (539) Mio. im zum 30. Juni 2020 endenden Neunmonatszeitraum. Die Geschäftstätigkeiten des Gas and Power Segments sind in drei Divisionen aufgeteilt: Transmission, Generation und Industrial Applications, die durch unsere Other Operations komplementiert werden.
  - *Transmission* – Unsere Division Transmission bietet ein breites Portfolio von Produkten, Systemen, Lösungen und Dienstleistungen an, die auf die wichtigsten Markttrends Digitalisierung, Dekarbonisierung, Netzstabilität und Elektrifizierung ausgerichtet sind. Das Produktportfolio umfasst luft- und gasisolierte Schaltanlagen, Transformatoren, digitalisierte Produkte und andere Produkte wie Stromdurchführungen (d.h. elektrische Bauteile, die Hochspannungsleiter isolieren, die Strom durch ein Metallgehäuse oder ein Gebäude führen). Die Division Transmission bietet ihre Produkte (einzeln oder als Teil maßgeschneiderter Systeme und Lösungen) sowie Dienstleistungen im Zusammenhang mit der Energieübertragung auf Hoch- (dazu gehören Ultra-, Extra- und Hochspannungsebenen) und, in geringerem Umfang, auf Mittel- und Niederspannungsebene als Teil von Produktbündeln oder Lösungen an.
  - *Generation* – Unsere Division Generation bietet ein breites Portfolio an Produkten, Lösungen und Dienstleistungen für die zentrale und dezentrale Energieerzeugung. Das Produktportfolio umfasst Gas- und Dampfturbinen, Generatoren und Gasmotoren sowie Leittechnik und elektrische Systeme. Die Produkte werden einzeln verkauft oder als Teil von Lösungen angeboten. Ein umfassendes Dienstleistungsangebot, das Leistungsverbesserungen, Wartungsdienste, Kundens Schulungen und professionelle Beratung umfasst, ergänzt unser Produkt- und Lösungsgeschäfte.
  - *Industrial Applications* – Unsere Division Industrial Applications bietet ein breites Portfolio von Produkten, integrierten Systemen, Lösungen und Dienstleistungen für eine Vielzahl von Marktsegmenten entlang nahezu der gesamten Wertschöpfungskette der Öl- und Gasindustrie und verschiedener Prozessindustrien an. Unser breites Portfolio umfasst Lösungen für rotierende Anlagen, integrierte Antriebsstrangsysteme, Elektrifizierungsautomatisierung und digitale Lösungen für die On- und Offshore-Industrie, die Schiffbauindustrie und die Papier-/Faserindustrie und Wasseraufbereitungslösungen. Unsere Division Industrial Applications bietet auch Dienstleistungen für die Öl- und Gasindustrie und für Kunden aus dem Bereich der dezentralen Stromerzeugung, einschließlich anderer Industriezweige wie Lebensmittel- und Getränkeindustrie, Bergbau/Zement- und Metallindustrie, Industrieparks und Kommunen.
  - *Other Operations* – Unsere Other Operations beinhalten unser New Energy Business und bestimmte at-equity-Beteiligungen. Unser New Energy Business komplementiert unser Portfolio indem es neue Technologien im Bereich der dekarbonisierten Energiesysteme entwickelt. Der Schwerpunkt des New Energy Business ist es, die grüne Wasserstoffwirtschaft zu ermöglichen und die Dekarbonisierung voranzutreiben, z.B. durch die Entwicklung von "power-to-x"-Technologien, die Strom aus erneuerbaren Energien für die Produktion CO<sub>2</sub>-armer synthetischer Energiequellen (Kraftstoffe) nutzen.
- *Siemens Gamesa Renewable Energy* – Unser SGRE Segment konzentriert sich auf die Förderung, das Design, die Entwicklung, die Herstellung und die Lieferung von Produkten, Anlagen und technologisch fortgeschrittenen Dienstleistungen im Bereich der erneuerbaren Energien mit Schwerpunkt auf Windparks und erbringt auch Dienstleistungen einschließlich Management, Betrieb und Wartung. SGRE prüft auch Möglichkeiten in angrenzenden Geschäftsfeldern der erneuerbaren Energien, die in vielen Fällen ebenfalls mit dem Windturbinengeschäft verbunden sind. Diese Aktivitäten machen jedoch nur einen kleinen Bruchteil der gegenwärtigen Geschäftstätigkeit der SGRE aus. Das SGRE Segment erwirtschaftete Gesamtumsatzerlöse von € 10.227 Mio. im zum 30. September 2019 endenden Geschäftsjahr und € 6.615 Mio. im zum 30. Juni 2020 endenden Neunmonatszeitraum, sowie ein

Angepasstes EBITA von € 481 Mio. im zum 30. September 2019 endenden Geschäftsjahr und € (631) Mio. im zum 30. Juni 2020 endenden Neunmonatszeitraum. Die Aktien der SGRE S.A. sind an den spanischen Börsen von Madrid, Barcelona, Valencia und Bilbao notiert und im spanischen Index IBEX-35 enthalten. Siemens Energy hält rund 67% der Anteile an SGRE S.A. Das SGRE Segment umfasst die Geschäftsbereiche Onshore Wind Power, Offshore Wind Power und Service:

- *Onshore Wind Power* – Mit fast 40 Jahren Erfahrung bietet unser Geschäftsbereich Onshore Wind Power Konstruktions-, Fertigungs- und Errichtungslösungen für Windturbinen für den globalen Onshore-Markt an, die sich hauptsächlich auf Getriebetechnologie einschließlich Plattformen konzentrieren, die an regionale und lokale Bedürfnisse angepasst werden können.
- *Offshore Wind Power* – Unser Geschäftsbereich Offshore Wind Power bietet seinen Kunden fast drei Jahrzehnte Erfahrung in der Konstruktion, Fertigung und Errichtung von Offshore-Windturbinen mit Schwerpunkt auf getriebelose Technologie.
- *Service* – Unser Geschäftsbereich Service bietet ein umfassendes und flexibles Portfolio für die Wartung und Optimierung von Windturbinen und bietet einen ganzheitlichen, lebenslangen Betreuungsservice. Für die Windturbinen der SGRE, aber auch zunehmend für Anlagen Dritter, wird ein komplettes Asset Management sowie technische Unterstützung angeboten.

#### 2.2.1.2 Hauptanteilseigner

Zum Datum des Prospekts werden alle Existierenden Aktien, die derzeit sämtliche Aktien der Gesellschaft darstellen, direkt oder indirekt von der Siemens AG gehalten, so dass die Gesellschaft von der Siemens AG beherrscht wird.

Nach dem Abspaltungsvollzug werden die Siemens AG und der Siemens Pension-Trust e.V. zunächst 35,1% bzw. 9,9% der Aktien der Gesellschaft halten, wobei es sich um die Existierenden Aktien handelt. Die Neuen Aktien, die dann 55% der Aktien der Gesellschaft ausmachen, werden an die Aktionäre der Siemens AG übertragen. Die Anzahl der Neuen Aktien, die dem einzelnen Aktionär der Siemens AG zustehen, entspricht dessen prozentualen Anteil an den Aktien der Siemens AG unmittelbar vor dem Abspaltungsvollzug.

Um zu verhindern, dass die Siemens AG die Gesellschaft nach dem Abspaltungsvollzug beherrscht, haben die Gesellschaft und die Siemens AG einen Entherrschungsvertrag abgeschlossen, der unter anderem die Ausübung der Stimmrechte aus den Existierenden Aktien beschränkt. Im Entherrschungsvertrag verpflichtet sich Siemens gegenüber der Gesellschaft unter anderem, dass es maximal drei von Siemens abhängige Anteilseignervertreter im Aufsichtsrat der Gesellschaft geben wird, z.B. Mitglieder des Vorstands der Siemens AG. Für die Zwecke des Entherrschungsvertrags führt die Mitgliedschaft im Aufsichtsrat der Siemens AG allein nicht zu einer Abhängigkeit dieser Person von Siemens. Dementsprechend gelten Gewerkschaftsvertreter, die sowohl dem Aufsichtsrat der Siemens AG als auch dem Aufsichtsrat der Gesellschaft angehören, gemäß dem Entherrschungsvertrag als von Siemens unabhängig, obwohl ihre Doppelmandate zu Interessenkonflikten führen können (siehe "2.4.3.3 Wesentliche Interessenkonflikte in Bezug auf die Börsenzulassung").

#### 2.2.1.3 Vorstand

Der Vorstand der Gesellschaft besteht aus vier Mitgliedern. Dr.-Ing. Christian Bruch ist Vorstandsvorsitzender (Chief Executive Officer, CEO) der Gesellschaft. Frau Maria Ferraro ist die Finanzvorständin (Chief Financial Officer, CFO) der Gesellschaft. Herr Tim Oliver Holt ist Segment Manager des Gas and Power Segments (Transmission) und des SGRE Segments sowie der zukünftige Arbeitsdirektor. Dr.-Ing. Jochen Eickholt ist Segment Manager des Gas and Power Segments (Generation und Industrial Applications).

#### 2.2.1.4 Abschlussprüfer

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Deutschland, mit Geschäftsanschrift in der Arnulfstraße 59, 80636 München, Deutschland ("EY") ist der unabhängige Abschlussprüfer der Gesellschaft.

#### 2.2.2 Welches sind die wesentlichen Finanzinformationen der Emittentin?

Der geprüfte kombinierte Abschluss von Siemens Energy für die zum 30. September 2019, 2018 und 2017 endenden Geschäftsjahre (der "**Geprüfte Kombinierte Abschluss**") wurde in Übereinstimmung mit den International Financial Reporting Standards, wie sie in der Europäischen Union anzuwenden sind ("**IFRS**"), erstellt und wurde in Übereinstimmung mit § 317 HGB unter Beachtung der vom Institut der Wirtschaftsprüfer (IDW) festgestellten deutschen Grundsätze ordnungsmäßiger Abschlussprüfung von EY geprüft, EY hat diesen Abschluss mit einem uneingeschränkten Bestätigungsvermerk des unabhängigen Abschlussprüfers versehen. Der ungeprüfte verkürzte kombinierte Zwischenabschluss von Siemens Energy für den zum 30. Juni 2020 endenden Neunmonatszeitraum wurde in Übereinstimmung mit IFRS für Zwischenberichterstattung (IAS 34) erstellt (der "**Ungeprüfte Verkürzte Kombinierte Zwischenabschluss**"). Der Geprüfte Kombinierte Abschluss und der Ungeprüfte Verkürzte Kombinierte Zwischenabschluss (zusammen die "**Kombinierten Abschlüsse**") stellen die kombinierte Gruppe von Gesellschaften und Geschäftsaktivitäten dar, die dem Siemens-Energy-Geschäft für die zum 30. September 2019, 2018 und 2017 endenden Geschäftsjahre sowie für den zum 30. Juni 2020 endenden Neunmonatszeitraum zugeordnet waren. In diesen Zeiträumen hat Siemens Energy keine Geschäftstätigkeit als eigenständiger Konzern ausgeübt. Darüber hinaus sollten Anleger beachten, dass



Finanzinformationen bezüglich unseres SGRE Segments ausschließlich aus den Kombinierten Abschlüssen oder aus unserer Buchhaltung oder aus dem internen Berichtswesen entnommen oder abgeleitet wurden und nicht notwendigerweise mit den von der SGRE S.A. öffentlich berichteten Finanzinformationen übereinstimmen.

Wo die Finanzinformationen in dieser Zusammenfassung des Prospekts in Tabellen als "geprüft" bezeichnet werden, wurden diese Informationen dem Geprüften Kombinierten Abschluss entnommen. Mit der Kennzeichnung "ungeprüft" werden in den Tabellen in dieser Zusammenfassung des Prospekts Finanzinformationen bezeichnet, die aus dem Ungeprüften Verkürzten Kombinierten Zwischenabschluss, unserer Buchhaltung oder dem internen Berichtswesen stammen oder auf Grundlage von Zahlen aus den vorgenannten Quellen berechnet wurden. Die Zahlen wurden kaufmännisch auf ganze Zahlen gerundet. Aufgrund der Rundungen addieren sich die in den folgenden Tabellen angegebenen Zahlen nicht unbedingt genau zu den jeweiligen dargestellten Summen oder Zwischensummen, und die addierten Prozentsätze entsprechen möglicherweise nicht genau 100%. Finanzinformationen in Klammern bezeichnen das Negativ dieser Zahl. In Bezug auf die unten aufgeführten Finanzinformationen bedeutet ein Bindestrich ("—"), dass die relevante Zahl nicht verfügbar oder gleich Null ist, während eine Null ("0") bedeutet, dass die relevante Zahl verfügbar ist, aber auf Null gerundet wurde.

#### 2.2.2.1 Wesentliche Finanzinformationen aus den kombinierten Gewinn- und Verlustrechnungen

(in € Mio.)	Für das zum 30. September endende Geschäftsjahr			Für den zum 30. Juni endenden Neunmonatszeitraum	
	2019	2018	2017	2020	2019
	(geprüft, sofern nicht anders angegeben)			(ungeprüft)	
Umsatzerlöse .....	28.797	28.023	30.086	19.828	20.503
Nominales Umsatzwachstum (ungeprüft) .....	2,8%	(6,9)%	— <sup>1)</sup>	(3,3)%	— <sup>1)</sup>
Gewinn/Verlust vor Ertragsteuern .....	317	151	1.309	(1.672)	270
Gewinn/Verlust nach Steuern .....	282	645	960	(1.469)	202

1) Nicht verfügbar. Der Geprüfte Kombinierte Abschluss enthält keine Vergleichszahlen für das Geschäftsjahr, das zum 30. September 2016 endete; der Ungeprüfte Verkürzte Kombinierte Zwischenabschluss enthält keine Vergleichszahlen für den Neunmonatszeitraum, der zum 30. Juni 2019 endete.

#### 2.2.2.2 Wesentliche Finanzinformationen aus den kombinierten Bilanzen

(in € Mio.)	Zum 30. September			Zum 30. Juni
	2019	2018	2017	2020
	(geprüft, sofern nicht anders angegeben)			(ungeprüft)
Summe Aktiva .....	45.041	45.763	47.290	45.424
Summe Eigenkapital <sup>1)</sup> .....	13.089	10.701	11.318	16.250
Angepasste (Nettoliiquidität) / Nettoverschuldung (ungeprüft) <sup>2)</sup> .....	2.169	4.342	3.388	(803)

1) Enthält nicht-beherrschende Anteile.

2) Die Angepasste (Nettoliiquidität) / Nettoverschuldung ist definiert als Summe Finanzschulden abzüglich Summe Liquidität und zuzüglich Rückstellungen für Pensionen und ähnliche Verpflichtungen. Die Summe Finanzschulden ist definiert als kurzfristige Finanzschulden und kurzfristig fällige Anteile langfristiger Finanzschulden zuzüglich langfristiger Finanzschulden und zuzüglich Verbindlichkeiten gegenüber dem Siemens-Konzern aus Finanzierungsaktivitäten. Die Summe Liquidität ist definiert als Zahlungsmittel und Zahlungsmitteläquivalente zuzüglich Forderungen gegenüber dem Siemens-Konzern aus Finanzierungsaktivitäten.

#### 2.2.2.3 Wesentliche Finanzinformationen aus den kombinierten Kapitalflussrechnungen

(in € Mio.)	Für das zum 30. September endende Geschäftsjahr			Für den zum 30. Juni endenden Neunmonatszeitraum	
	2019	2018	2017	2020	2019
	(geprüft)			(ungeprüft)	
Cashflows aus betrieblicher Tätigkeit .....	1.694	844	686	561	(585)
Cashflows aus Investitionstätigkeit .....	(797)	(429)	(835)	(653)	(503)
Cashflows aus Finanzierungstätigkeit .....	(1.597)	330	1.890	674	(395)

## 2.2.2.4 Wesentliche Leistungskennzahlen und alternative Leistungskennzahlen

	Für das zum 30. September endende Geschäftsjahr			Für den zum 30. Juni endenden Neunmonatszeitraum	
	2019	2018	2017	2020	2019
(in € Mio., sofern nicht Prozentangaben und Ratios)	(ungeprüft, sofern nicht anders angegeben)			(ungeprüft)	
Angepasstes EBITA <sup>1)</sup> . . . . .	1.064	905	2.028	(1.211)	857
Angepasste EBITA Marge <sup>2)</sup> . . . . .	3,7%	3,2%	6,7%	(6,1)%	4,2%
Angepasstes EBITA vor Sondereffekten <sup>3)</sup> . . . . .	1.517	1.456	2.174	(87)	994
Angepasste EBITA Marge vor Sondereffekten <sup>2)</sup> . . . . .	5,3%	5,2%	7,2%	(0,4)%	4,8%
Free Cash Flow <sup>4)</sup> . . . . .	876*	80*	(121)*	18	(1.099)
Cash Conversion Rate <sup>5)</sup> . . . . .	0,8	0,1	(0,1)	(0,0)	(1,3)

\* Geprüft.

- 1) Das Angepasste EBITA der Siemens Energy-Gruppe wird berechnet als Ergebnis vor Finanzierungszinsen, Ertragsteuern, Abschreibungen auf immaterielle Vermögenswerte, die im Rahmen von Unternehmenszusammenschlüssen übernommen wurden, sowie Wertminderungen von Geschäfts- oder Firmenwerten. Finanzierungszinsen, die vom Angepassten EBITA ausgenommen sind, beinhalten jedwede Zinserträge oder Zinsaufwendungen mit Ausnahme des Finanzergebnisses aus operativer Geschäftstätigkeit (d.h., Zinserträge im Zusammenhang mit Forderungen gegenüber Kunden, aus den Segmenten zugewiesenen Barmitteln und Zinsaufwendungen auf Verbindlichkeiten gegenüber Lieferanten).
- 2) Die Angepasste EBITA Marge wird berechnet als Angepasstes EBITA geteilt durch die gesamten Umsatzerlöse. Die Angepasste EBITA Marge vor Sondereffekten wird berechnet als Angepasstes EBITA vor Sondereffekten geteilt durch die gesamten Umsatzerlöse.
- 3) Berechnet als Angepasstes EBITA vor Sondereffekten. Sondereffekte sind definiert als (i) Restrukturierungskosten im Zusammenhang mit Personalmaßnahmen, hauptsächlich im Segment Gas and Power sowie Integrationskosten, die nur im Segment SGRE anfallen und hauptsächlich im Zusammenhang mit der Fusion von Gamesa und Siemens Wind Power zu SGRE S.A. stehen, sowie, zu einem geringeren Anteil, mit dem Erwerb von Vermögensgegenständen von Senvion, (ii) Stand-alone-Kosten, die sich aus der Vorbereitung unserer Trennung vom Siemens-Konzern und der Gründung von Siemens Energy als eigenständiges Unternehmen ergeben. Stand-alone-Kosten beziehen sich auf die Ausgliederung und Abspaltung von Siemens Energy und umfassen unter anderem Kosten für IT-Anwendungen, externe Dienstleister, Kosten im Zusammenhang mit der Börsennotierung und personalbezogene Kosten, sowie (iii) wesentliche Wertminderungen von Vermögenswerten und Abschreibungen im Zusammenhang mit strategischen Portfolioentscheidungen der Siemens Energy-Gruppe.
- 4) Der Free Cash Flow wird berechnet als Differenz der Posten Cashflow aus betrieblicher Tätigkeit und Zugänge zu immateriellen Vermögenswerten und Sachanlagen in unserer Kombinierten Kapitalflussrechnung.
- 5) Die Cash Conversion Rate ist definiert als Free Cash Flow geteilt durch das Angepasste EBITA für die Siemens Energy-Gruppe.

### 2.2.3 Welches sind die zentralen Risiken, die für die Emittentin spezifisch sind?

Eine Investition in die Aktien der Gesellschaft unterliegt einer Reihe von Risiken, von denen einige in diesem Abschnitt und unter Abschnitt "2.3.3 Welches sind die zentralen Risiken, die für die Wertpapiere spezifisch sind?" dieser Zusammenfassung dargestellt werden. Das Auftreten der folgenden Risiken könnte, allein oder zusammen, die Geschäfts-, Finanz- und Ertragslage, den Ruf sowie die Aussichten der Siemens Energy-Gruppe erheblich nachteilig beeinträchtigen. Wenn sich eines oder mehrere der genannten Risiken verwirklichen sollten, könnten Anleger ihre Investition ganz oder teilweise verlieren.

Die folgenden Risiken sind zentrale Risiken, die für die Gesellschaft spezifisch sind:

- Der Energiemarkt unterliegt disruptiven Elementen, wie zum Beispiel dem Trend zu Dekarbonisierung, und wir könnten zu langsam oder sogar gar nicht in der Lage sein, unser Geschäftsmodell und Produktportfolio entsprechend anzupassen.
- Wir könnten möglicherweise nicht in der Lage sein, die Umwelt-, Sozial- und Unternehmensführungsstandards und -erwartungen (environmental, social and governance (ESG)) zu erfüllen, was sich negativ auf unsere Geschäftslage und unseren Ruf auswirken könnte. Gleichzeitig kann die Einhaltung von bestimmten ESG-Standards eine zusätzliche Herausforderung für unsere Geschäftstätigkeit darstellen.
- Unsere Industrien und Geschäftstätigkeiten sind verschiedenen Risiken in Bezug auf globale oder lokale Ausbrüche von ansteckenden Krankheiten und anderen Krisen für die öffentliche Gesundheit ausgesetzt. Insbesondere sind wir von den Folgen des Ausbruchs der jüngsten Coronavirus-Pandemie betroffen.
- Wettbewerb und niedrigere Marktpreise könnten unsere Geschäfts-, Finanz- und Ertragslage negativ beeinflussen.
- Wir sind möglicherweise nicht in der Lage, unsere Strategien erfolgreich umzusetzen, insbesondere könnte es sein, dass es uns nicht gelingt, Kosteneinsparungs- und andere Reorganisationsprogramme erfolgreich abzuschließen von den disruptiven Trends der globalen Energiemärkte zu profitieren und den Anteil unseres Servicegeschäfts zu erhöhen.
- Wir sind möglicherweise nicht in der Lage, erfolgreich ein Portfolio wettbewerbsfähiger und technologisch fortgeschrittener Produkte, Dienstleistungen und Lösungen zu entwickeln und

einzuführen, und unser Forschungs- und Entwicklungsaufwand könnte erfolglos sein. Darüber hinaus kann das Tempo des technologischen Wandels dazu führen, dass der wirtschaftliche Lebenszyklus einiger unserer Produkte kürzer ist als erwartet.

- Betriebliche Störungen in unseren Wertschöpfungsprozessen und Qualitätsprobleme könnten sich negativ auf unser Geschäft und unsere Reputation auswirken und könnten zu Forderungen, Strafen und zusätzlichen Kosten führen.
- Wir sind von der Verfügbarkeit von gewissen Materialien, Teilen und Komponenten abhängig und jegliche Störung der Lieferkette könnte zu zusätzlichen Kosten oder Umsatzverlusten führen.
- Unser Projektgeschäft ist verschiedenen Risiken, einschließlich Ausführungsrisiken, Kostenüberschreitungen und Qualitäts- und politischen Risiken, ausgesetzt.
- Im Zusammenhang mit bestehenden und potentiellen zukünftigen Reorganisations- und Kosteneinsparungsmaßnahmen können uns erhebliche Restrukturierungsaufwendungen und Mittelabflüsse entstehen. Wir könnten möglicherweise nicht in der Lage sein, die erwarteten Kosteneinsparungen zu realisieren oder unsere organisatorische und produktionstechnische Präsenz rechtzeitig oder überhaupt anzupassen. Solche Reorganisationen bringen möglicherweise nicht den angestrebten Nutzen oder könnten unseren Ruf schädigen.
- Wir müssen möglicherweise Vorräte oder andere Vermögenswerte abschreiben, was sich negativ auf unsere finanzielle Position auswirken und zu Profitabilitätsverlusten führen könnte.
- Der Firmenwert (*Goodwill*) und andere immaterielle Vermögenswerte machen einen beträchtlichen Teil unseres Gesamtvermögens aus, das erheblich reduziert werden könnte, wenn wir Wertminderungen verbuchen müssten.
- Unser Geschäft und die Geschäfte unserer Kunden und Lieferanten erfordern den Zugang zu signifikanten Kredit- und Avalkreditlinien und anderen Finanzierungsinstrumenten. Unsere Geschäftsaktivitäten könnten negativ beeinflusst werden, wenn wir in Zukunft nicht in der Lage sind, unseren Kapitalbedarf zu decken, z.B. in einem schwachen Finanzmarktumfeld, als Folge einer erheblichen Verschlechterung unserer Bonität, als Folge der Verletzung einer Vereinbarung über eine Kreditfazilität oder wenn der Zugang zu Kapital teurer wird. Unsere Geschäftstätigkeiten könnten vergleichbar negativ betroffen sein, wenn unsere Kunden oder Lieferanten keinen Zugang zu Finanzierungen zu wirtschaftlich tragfähigen Bedingungen haben.
- Unser Gas and Power Segment und, in geringerem Maße, unser SGRE Segment könnten nach der Trennung vom Siemens-Konzern Geschäftschancen verlieren und eine negative Wahrnehmung ihrer eigenständigen Position erfahren. Darüber hinaus könnten wir als eigenständige Gruppe möglicherweise nicht in der Lage sein, die finanziellen oder technischen Anforderungen der Gesetze zum öffentlichen Beschaffungswesen zu erfüllen.

## **2.3 Basisinformationen über die Wertpapiere**

### **2.3.1 Welches sind die wichtigsten Merkmale der Wertpapiere?**

Die Aktien sind auf den Namen lautende Stückaktien ohne Nennbetrag, jeweils mit einem anteiligen Betrag am Grundkapital von € 1 und voller Gewinnanteilberechtigung ab dem 1. Oktober 2019, mit der ISIN DE000ENER6Y0. Alle Aktien der Gesellschaft sind Aktien derselben Gattung. Jede Aktie der Gesellschaft gewährt in der Hauptversammlung der Gesellschaft eine Stimme. Es bestehen keine Beschränkungen des Stimmrechts. Sämtliche Aktien der Gesellschaft verfügen über die gleichen Stimmrechte. Die Aktien der Gesellschaft sind gemäß der für die Übertragung von Namensaktien geltenden rechtlichen Anforderungen frei übertragbar, und im Falle ihrer Übertragung besteht keine Zustimmungspflicht. Die Aktien haben Anspruch auf einen Anteil am Liquidationserlös oder Insolvenzüberschuss im Verhältnis ihres rechnerischen Anteils am Grundkapital. Die Fähigkeit und Absicht der Gesellschaft, in der Zukunft Dividenden zu zahlen, wird von der Finanz- und Ertragslage der Gesellschaft, den Kapitalanforderungen, Anlagealternativen und anderen Faktoren abhängen. Die Gesellschaft kann keine Gewähr dafür bieten, dass sie in künftigen Jahren Dividenden zahlen wird.

Die Gesellschaft hat in der Vergangenheit keine Dividenden gezahlt. Vorbehaltlich einer gesetzlichen Mindestdividende von bis zu ungefähr € 29 Mio. für den Fall, dass in dem geprüften nicht konsolidierten Jahresabschluss der Gesellschaft für das Geschäftsjahr 2020, der nach den deutschen, für Kapitalgesellschaften geltenden handelsrechtlichen Vorschriften erstellt wurde, ein ausreichender ausschüttungsfähiger Gewinn ausgewiesen wird, wird die Gesellschaft für das Geschäftsjahr 2020 keine Dividendenzahlung vornehmen. Für die folgenden Geschäftsjahre beabsichtigt die Gesellschaft, eine Dividende vorzuschlagen, deren Ausschüttungsvolumen 40% bis 60% des Gewinns nach Steuern entspricht, der auf die Aktionäre der Siemens Energy AG entfällt, wie er sich aus dem nach IFRS erstellten Konzernabschluss der Gesellschaft für das jeweils vorangegangene Geschäftsjahr ergibt. Zu diesem Zweck darf dieses Konzernergebnis um außerordentliche, nicht zahlungswirksame Effekte bereinigt werden. Grundsätzlich ist es beabsichtigt, die Dividendenausschüttung aus dem Free Cash Flow unter Berücksichtigung der von SGRE S.A. erhaltenen Dividendenzahlungen zu finanzieren.

### 2.3.2 Wo werden die Wertpapiere gehandelt?

Die Gesellschaft wird die Zulassung der Aktien zum Handel am regulierten Markt an der FWB mit gleichzeitiger Zulassung zum Börsenhandel zum Teilbereich des regulierten Marktes mit weiteren Zulassungsfolgepflichten (Prime Standard) an der FWB beantragen. Voraussichtlich am 25. September 2020 werden die Aktien zum Handel an der FWB zugelassen. Der öffentliche Handel mit den Aktien wird voraussichtlich am 28. September 2020 aufgenommen.

### 2.3.3 Welches sind die zentralen Risiken, die für die Wertpapiere spezifisch sind?

Das folgende Risiko ist ein wesentliches Risiko bezogen auf die Aktien:

- Im Zusammenhang mit der Abspaltung könnten erhebliche Verkäufe der Aktien der Gesellschaft erfolgen, die zu Aktienkursverlusten führen könnten; solche Verkäufe sind auch in der Folgezeit möglich. Zudem beabsichtigt Siemens, seine Beteiligung an der Gesellschaft innerhalb von zwölf bis 18 Monaten nach der Abspaltung erheblich zu reduzieren.

## 2.4 Basisinformationen über die Zulassung zum Handel an einem geregelten Markt

### 2.4.1 Zu welchen Konditionen und nach welchem Zeitplan kann ich in dieses Wertpapier investieren?

Die Neuen Aktien werden unmittelbar nach dem Abspaltungsvollzug an die Aktionäre der Siemens AG übertragen. Am 28. September 2020 erhält jeder Aktionär der Siemens AG:

- für jeweils zwei (2) auf den Namen lautende Stückaktien der Siemens AG (ISIN DE0007236101 / WKN 723 610), die er am Abend des 25. September 2020 unter Berücksichtigung aller noch ausstehender Börsengeschäfte hält,
- eine (1) auf den Namen lautende Stückaktie der Gesellschaft (ISIN DE000ENER6Y0 / WKN ENER6Y).

Die Aktien können nach ihrer Zulassung zum Handel an der FWB, die voraussichtlich am 28. September 2020 erfolgen wird, an der FWB gekauft und verkauft werden.

### 2.4.2 Wer ist die die Zulassung zum Handel beantragende Person?

Die Gesellschaft wird die Zulassung zum Handel beantragen. Der Antrag wird zusammen mit der Deutschen Bank Aktiengesellschaft, eine Aktiengesellschaft mit Sitz in Frankfurt am Main, Deutschland, eingetragen und tätig nach deutschem Recht, die im Namen der Listing Agents (wie unter "2.4.3.2 Börsenzulassungsvertrag (Listing Agreement)" unten definiert) handelt, zum Zweck der Zulassung zum Handel gestellt werden.

### 2.4.3 Weshalb wird dieser Prospekt erstellt?

Der Zweck des Prospekts ist es, die Aktien zum Handel an der FWB zuzulassen.

#### 2.4.3.1 Keine Erlöse; Kostenübernahme durch die Siemens AG

Weder die Gesellschaft noch die Siemens AG werden im Zusammenhang mit der Abspaltung Erlöse erzielen.

Im Zusammenhang mit der Börsenzulassung wird Siemens Energy Kosten in Höhe von ca. € 2,0 Mio. tragen; die restlichen Kosten im Zusammenhang mit der Abspaltung und der Börsenzulassung werden von Siemens übernommen.

#### 2.4.3.2 Börsenzulassungsvertrag (Listing Agreement)

Die Gesellschaft, die Siemens AG sowie BNP PARIBAS, Merrill Lynch International (BofA Securities), COMMERZBANK Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Deutsche Bank Aktiengesellschaft, Goldman Sachs Bank Europe SE und J.P. Morgan Securities plc, die als Lead Financial Advisors und Listing Agents fungieren (die "**Listing Agents**") und Joh. Berenberg, Gossler & Co. KG, HSBC Trinkaus & Burkhardt AG und Jefferies International Limited (die "**Co-Advisors**" zusammen mit den Listing Agents, die "**Banken**"), haben am 6. September 2020 im Zusammenhang mit der Abspaltung und der Börsenzulassung einen Börsenzulassungsvertrag (*Listing Agreement*) (der "**Börsenzulassungsvertrag**") abgeschlossen. In dem Börsenzulassungsvertrag haben sich die Gesellschaft und die Siemens AG verpflichtet, die Banken von bestimmten Haftungsverpflichtungen freizustellen, die im Zusammenhang mit der Abspaltung und der Börsenzulassung entstehen können. Darüber hinaus hat sich die Gesellschaft verpflichtet, in dem Zeitraum zwischen dem Datum des Börsenzulassungsvertrags und dem 180. Tag nach dem ersten Handelstag der Aktien der Gesellschaft an der FWB, keine neuen Aktien auszugeben oder Maßnahmen mit ähnlicher Wirkung vorzunehmen. Der Börsenzulassungsvertrag sieht auch vor, dass die Verpflichtungen der Banken zur Herbeiführung der Börsenzulassung von der Erfüllung bestimmter Bedingungen abhängig sind, wie z.B. dem Erhalt üblicher Bestätigungen und Rechtsgutachten, die den Anforderungen der Banken entsprechen.

Darüber hinaus haben die Siemens AG und die Gesellschaft einen Abwicklungsvertrag mit der Deutsche Bank Aktiengesellschaft abgeschlossen, wonach die Deutsche Bank Aktiengesellschaft als Treuhänderin im Sinne der §§ 125 Satz 1 und 71 Abs. 1 Satz 1 des Umwandlungsgesetzes fungiert.

#### *2.4.3.3 Wesentliche Interessenkonflikte in Bezug auf die Börsenzulassung*

Gemäß dem Börsenzulassungsvertrag erhalten die Banken nach dem Abspaltungsvollzug eine Provision. Darüber hinaus wurden COMMERZBANK Aktiengesellschaft und J.P. Morgan Securities plc als Designated Sponsor für die Aktien ernannt. Die Gesellschaft geht daher davon aus, dass die Banken ein Interesse an einem erfolgreichen Abschluss der Transaktion haben.

Den derzeitigen Mitgliedern des Vorstands der Gesellschaft (sowie weiteren Führungskräften von Siemens Energy) wurde die Gewährung eines Spin-Off Incentives, also eines Transaktionsbonus zugesagt wenn bei Abspaltungsvollzug sowie innerhalb der ersten 120 Tage nach Abspaltungsvollzug auf der Grundlage des durchschnittlichen volumengewichteten Kurses der Aktien der Gesellschaft bestimmte Zielwerte für die Effekte der Abspaltung bzw. den Marktwert erreicht werden.

Nach dem Abspaltungsvollzug werden voraussichtlich sechs Mitglieder (darunter drei Gewerkschaftsvertreter) des Aufsichtsrats der Gesellschaft weiterhin Vorstandsmitglieder oder Aufsichtsratsmitglieder oder Angestellte der Siemens AG bleiben.

Die Siemens AG hat ein Interesse an der Abspaltung, da sie der Veräußerung einer Mehrheitsbeteiligung an und der Dekonsolidierung von Siemens Energy dient.

Die Listing Agents oder ihre verbundenen Unternehmen fungieren als Kreditgeber der Gesellschaft, hauptsächlich im Rahmen eines Kreditvertrags. Darüber hinaus haben die Banken oder bestimmte ihrer jeweiligen verbundenen Unternehmen bestimmte Beratungs- oder sonstige Dienstleistungen für Siemens Energy oder für die Siemens AG oder bestimmte ihrer Tochtergesellschaften in ihrer Eigenschaft als Finanzinstitute erbracht und werden dies wahrscheinlich auch in Zukunft tun, insbesondere Beratungsleistungen im Zusammenhang mit Finanzierungsgeschäften, für die sie marktübliche Gebühren und Aufwendungen erhalten haben und wahrscheinlich auch in Zukunft erhalten werden.

\* \* \*



## 3 RISK FACTORS

*In considering whether to invest in the shares (the “Shares”) of Siemens Energy AG (hereinafter also the “Company”), investors should consider carefully the following risks, in addition to the other information in this prospectus (the “Prospectus”). In this Prospectus, references to the “Siemens Energy Group”, the “Group”, “Siemens Energy”, “we”, “us” or “our” are references to the combined group of entities and business activities comprising the Siemens Energy business, with the Company acting as the ultimate holding company as from the completion of the spin-off for absorption (Abspaltung zur Aufnahme) under the German Transformation Act (Umwandlungsgesetz) (the “Spin-Off”, and its completion, the “Spin-Off Completion”). The risk factors featured in the Prospectus are limited to risks which are specific to Siemens Energy or the shares in the Company and which are material for taking an informed investment decision. The materiality of the risk factors has been assessed based on the probability of their occurrence and the expected magnitude of their negative impact. The risk factors are presented in categories depending on their nature. In each category the two most material risk factors are mentioned first according to the assessment based on the probability of their occurrence and the expected magnitude of their negative impact. The risks mentioned may materialize individually or cumulatively.*

### 3.1 Risks Related to Our Industry

#### 3.1.1 The energy market is subject to disruptive developments, such as the trend towards decarbonization, and we may be too slow or even fail in adapting our business model and product portfolio.

The products, solutions and services offered by our Gas and Power segment’s Generation and Industrial Applications divisions serve, to a significant extent, conventional power generation using fossil fuels such as oil, gas and coal. Fossil power generation is currently under pressure due to the prevailing trend towards more sustainable power generation using renewable energy sources (also referred to as “renewables”) or carbon-neutral fuels. To a certain extent, this holds also true for nuclear power generation. This trend is impacted by several factors beyond our control, in particular by government intervention, public and private initiatives, the efficiency and cost of renewable energy technologies, as well as selectiveness of and restrictions for investors and lenders and changing consumer preferences in energy consumption. Most of these interventions and initiatives are directed to limit global climate change. The transition pathways towards more sustainable power generation can vary by country or region.

There is a risk that the demand for fossil power plants and related infrastructure including highly efficient gas turbines will be lower than we expect due to a faster than expected transition towards renewables. In other words, there is a risk that accelerated growth in new installations of solar and wind power due to their declining levelized cost of energy could result in decreasing demand for conventional power generation in some regions of the world. Such transition may be driven by, among others, regulation, market design favoring renewable power generation or less policies aimed at supporting investments into new firm power generation capacities based on fossil or carbon-neutral fuel. Also, a faster than expected development of competitive energy storage solutions could accelerate the change towards renewables by offsetting their disadvantage of not being able to respond flexibly to varying energy demands. Decarbonization requirements might result in increased costs for the oil & gas industry, limited access to financing and could have an adverse impact on the overall demand for oil and natural gas. As a result, this may translate into lower investment volumes, in particular for oil & gas greenfield projects, thereby negatively affecting our industrial applications business. In addition, the trend towards decarbonization might force us to review our strategy, our organizational set-up, our portfolio and footprint.

If these developments result in fewer orders for new power plants, oil & gas products or solutions, or other industrial applications, our service business might be affected insofar as there

are fewer opportunities to conclude new service contracts related to orders for new power plants, equipment and solutions. Our service backlog may be affected if customers decide to decommission conventional power plants, other assets or to cancel or postpone modernizations. Our maintenance service business may be affected through a reduced number of full-load hours of the conventional power plants or installed oil & gas assets due to less dispatch and our customers could seek to renegotiate their long-term service contracts, which may result in less volume or less favorable conditions for us.

In addition, within renewables, we are offering wind power applications through our SGRE segment (which comprises Siemens Gamesa Renewable Energy S.A., Zamudio, Spain, ("**SGRE S.A.**") and its direct and indirect subsidiaries ("**SGRE**")) but we have only limited products and services related to solar power generation or other renewable technologies in our portfolio. If the solar market or other renewable fields develop more dynamically than expected this may have a material adverse effect on our business (see "*3.1.8 The wind power industry faces structural market changes, in particular declining subsidy levels, and there can be no guarantee that Siemens Gamesa Renewable Energy will succeed in addressing the resulting challenges.*"). Also in this case, fewer orders could affect our service business.

Similarly, we are offering only limited products and services for nuclear power applications. Should this market develop more dynamically than expected, we may miss business opportunities.

Furthermore, we are offering our customers various pathways to transform their existing fleet of fossil fuel-based power generation technology into a less carbon-intensive one. Depending on governmental policy support and regulatory implementation, such markets may pick up earlier or later than expected. In addition, the trend towards decentralization may adversely impact markets for centralized power generation, including gas power plants and related power grids, e.g., high-voltage substations. If we are too slow or if we fail to adapt our business model and our product portfolio to specific regional demand in time or at all, this may have a material adverse effect on our business, financial position and results of operations.

**3.1.2 We may fail to comply with environmental, social and governance (ESG) standards and expectations which could adversely impact our business and reputation. At the same time, compliance with certain ESG standards may pose additional challenges to our business.**

We must increasingly meet environmental, social and governance ("**ESG**") standards and expectations regarding environmental concerns (e.g., climate change and sustainability), social concerns (e.g., diversity and human rights), and corporate governance concerns (e.g., employee relations when making business and investment decisions). We may not always be able to identify and adequately assess the relevant concerns, which may result in failure to meet ESG standards and expectations of stakeholders or the public, which could adversely impact our reputation. At the same time, compliance with certain ESG standards, in particular environmental standards, may pose challenges to our business and lead to additional costs in our business.

In the wider context of ESG, there is a risk of insufficient funding or procurement of other financing instruments and other financial services such as financing, securities, hedging instruments or insurance provided by banks, insurance companies and other financial institutions for specific projects or our whole business operations due to financial institutions' internal, industry-wide or policy-driven prerequisites for all dimensions of ESG. Examples are the new 'lending criteria' of the European Investment Bank ("**EIB**") or the European Union's (the "**EU**") taxonomy for sustainable activities (see "*3.3.4 Our business and the businesses of our customers and suppliers require access to significant credit and guarantee lines and other financing instruments. Our business activities could be negatively affected if we are unable to meet our capital requirements in the future, for example in weak financial market environments, as a result of a significant deterioration of our credit standing or of a breach of a credit facility agreement, or if access to capital becomes more expensive. Our business activities could be*").



*similarly negatively affected if our customers or suppliers do not have access to financing on economically viable terms."* below).

Our ability to realize projects in the energy industry, whether conventional or renewable, may be negatively impacted by ESG standards. For example, we may be contributing technology for new coal-fired power plants in Indonesia and we have been and may continue to be confronted with protests against our participation in coal, oil and gas, nuclear or renewable projects from climate, environmental or other civil groups which, in particular if such protests receive extensive media coverage, could have an impact on the willingness of important stakeholders to contribute or support such projects, which may have a material adverse effect on our business, financial position, reputation and results of operations.

**3.1.3 Our industries and business operations are subject to various risks relating to global or local outbreaks of infectious diseases and other public health crises. In particular, we are affected from the fallout of the outbreak of the recent Coronavirus pandemic.**

We are a globally active Group and, as such, directly and, through our customers and suppliers, indirectly exposed to various risks arising out of or in relation to global and local spreads of infectious diseases, such as the recent outbreak of the Coronavirus pandemic ("**COVID-19**"), or other forms of public health crises. Risks stem not only from the immediate effect of such crises but also from any measures aimed at limiting their impact, including, but not limited to, restrictions on travel, imposition of quarantines, prolonged closures of workplaces, curfews or other social distancing measures, including the social impact of such measures. Such measures may be required by public health laws, imposed by public authorities on international, national or local level, required under best practices in our industries or implemented under our own or our customers' or suppliers' environmental, health and safety ("**EHS**") standards. COVID-19 has already resulted in lockdowns and various levels of restrictions of movement being imposed globally, including China, Germany, Italy, France, the United States of America ("**United States**" or "**U.S.**") and other countries where we sell our products, system solutions and services. The restrictions include curtailing travel, closure of schools, prohibitions of mass gatherings and mandatory remote working. The extent to which global and local economies, the industries in which we are active in, our business operations and the business operation of our customers are affected by public health crises depends on a number of factors. These factors include, but are not limited to, the spread of diseases and the duration of outbreaks, timing, adequacy and effectiveness of countermeasures imposed by public health laws or public authorities at international, national or local level and the level of civil compliance with such measures. There can be no guarantee that such measures, or a combination thereof, are effective means to combat such an outbreak and the implications resulting therefrom. A continuing public health crisis due to the inefficiency of relevant measures as well as the effects of the countermeasures themselves may have material adverse effects on our business, financial position and results of operations.

In particular, we are subject to the following risks relating to such crises:

- the spread of infectious diseases among our workforce may adversely interrupt, and even result in a shutdown of our production, our project sites, internal functions, and service and sales activities, particularly in the case of a high sickness rate or quarantines, which has resulted and could result in a loss of productivity. Social distancing according to public health laws or our EHS standards in factories, offices and sites has already led and may lead to inefficiencies or cost increases. Under such laws and standards, we may be required to temporarily suspend our activities, in particular the execution of our projects, which could materially adversely affect our internal processes and supply chains. On risks relating to EHS standards, see also "*3.4.6 We are subject to environmental, health and safety as well as other regulatory requirements and risks, as a result of which we may incur significant costs, liabilities and obligations.*";
- similar risks affecting key suppliers and restrictions to the free transfer of goods and supplies on which we depend have already led and may lead to supply chain disruptions and result in

shutdowns on our side, and we may not be able to fulfil our obligations towards our customers in a timely manner (see also *"3.2.4 We are dependent on the availability of certain materials, parts and components, and any disruptions in the supply chain may result in additional costs or loss of revenues."*). Our resulting inability to perform our contractual obligations may subject us to claims of non-performance or damages;

- in addition to these risks, the imposition of travel restrictions may also adversely affect our businesses, especially because we run global operations. For example, our service and project businesses rely on our and our project partners' and contractors' ability to send personnel on-site and to provide installation and service capacities, the lack of which could result, e.g., in service outages. The impact of public health crises and countermeasures in connection with COVID-19 have already had and may continue to have detrimental effects on the execution of our projects (see also *"3.2.6 Our project business is subject to several risks, including execution risks, cost overruns, quality and political risks."*) and may also cause our customers to defer investments or payments, which may lead to a lower order intake and deferred or lower revenue recognition and cash flow;
- the impact of public health crises such as COVID-19 could have severe effects on global and national economies and even lead to a prolonged recession and an increased global debt level, adversely affecting demand for our offerings;
- certain global and national initiatives and governments have called for post-COVID-19 stimulus packages to combat impending recession with a focus on accelerating the shift towards a more sustainable energy production through directed investments. If such stimulus packages were adopted, this could impair the prospects of industries such as the oil & gas industry and, consequently, adversely affect demand for certain offerings of our Gas and Power segment (see also *"3.1.1 The energy market is subject to disruptive developments, such as the trend towards decarbonization, and we may be too slow or even fail in adapting our business model and product portfolio."*);
- the fallout from COVID-19 may lead to a tougher business environment and has prompted corporations to draw-down liquidity from banks and issue financing requests, resulting in substantial strain on banks' balance sheets and regulatory indicators and metrics. In addition, capital markets financing and other funding sources have become highly volatile and expensive. Such effects could increase financing costs and re-financing risks for us, our customers and suppliers and may result in customers deferring or canceling planned investments, leading to less demand for our offering, or could also lead to requests for the renegotiation of contracts or for deferrals of payments by our customers. Our customers or suppliers may also face financial difficulties or even insolvencies and banks themselves may face liquidity and refinancing challenges that could result in limited access to or increasing costs to obtain financing products and other financial services (see also *"3.3.4 Our business and the businesses of our customers and suppliers require access to significant credit and guarantee lines and other financing instruments. Our business activities could be negatively affected if we are unable to meet our capital requirements in the future, for example in weak financial market environments, as a result of a significant deterioration of our credit standing or of a breach of a credit facility agreement, or if access to capital becomes more expensive. Our business activities could be similarly negatively affected if our customers or suppliers do not have access to financing on economically viable terms."*).

Global or local spreads of infectious diseases and measures aimed at limiting their impact could have a material adverse effect on our business, financial position and results of operations and such effects would be greater if various risks, including potential quarantines, suspensions of business operations, travel restrictions and their general effects on the business environments took effect simultaneously.

As of the date of this Prospectus, there is significant uncertainty relating to the severity of the near- and long-term adverse impact of COVID-19 on the global economy and the global financial markets, and we are unable to accurately predict the near-term or long-term impact of COVID-19 on our business.

#### **3.1.4 Competition and lower market prices could negatively affect our business, financial position and results of operations.**

The worldwide markets for our products, solutions and services are highly competitive. Factors such as pricing, product and service quality, product development and introduction time, customer relationships, financing terms and the ability to quickly adapt to shifts in market demands play an important role in our highly competitive market environments. For example, more recently, governments in some of our SGRE segment's key markets are moving away from fixed support regimes for renewable energy generation towards market-based auction models where a number of competing developers are submitting bids for projects, with awards being made based on the lowest entry price and the lowest level of incentives required for the project. We face strong established competitors and rising competitors from emerging markets, where many competitors have developed their offerings locally and are now expanding globally, and competitors from new industries such as digital industries, which may offer more advanced products or solutions or have a better cost structure. Some industry fields in which we operate are undergoing consolidation, which may result in stronger competitors or a change in our relative market position. Decreasing demand for our offerings as a result of a weaker market position could lead to increases in inventory of finished or work-in-progress goods or unexpected price erosion.

Globally, contractors, which offer turnkey power plant solutions using components from different suppliers to optimize costs, contribute to price decreases. Similarly, customers who are facing increasingly fierce competition (e.g., from the renewable energy industry or new price determination processes such as auctions) often pass on the price pressure to their original equipment manufacturer ("OEM") suppliers such as the Group. Reduced demand for our products might also lead to additional overcapacities of OEM suppliers putting additional pressure on profitability. In our service business, we face competition from major established players and non-OEM suppliers targeting, in particular, our turbine service business, which is a major source of profitable revenue. This risk is further exacerbated by the fact that we grant the non-exclusive right to certain companies to manufacture, sell and service certain of our products in specific territories, or to use certain of our intellectual property or design tools to develop their own product. These agreements are based on the assumption that it is beneficial to us if we are active in these markets via a partner. Should we subsequently decide to directly serve the respective market, we may be forced to compete with our partner. In our Transmission division, emerging Asian competitors pose the greatest challenges as they continuously enter new markets and increase their competitiveness through market consolidation. Our SGRE segment may in the future face additional competition from Chinese manufacturers that may decide to enter global wind turbine markets, which may result in price decreases and a loss of market share for our SGRE segment.

Some of these developments may prompt us to revise our strategy and product portfolio and there can be no assurance that such revisions yield the targeted results. If the Group is unable to compete effectively against its competitors or achieve satisfactory prices in negotiations with customers, this could have a material adverse effect on our business, financial position and results of operations.

#### **3.1.5 Adverse changes of certain external economic factors may negatively affect our business, financial position and results of operations.**

If the macroeconomic conditions of the economies in which we operate deteriorate, our business may be negatively affected. For example, an actual or expected deterioration of macroeconomic conditions could lead to our customers modifying, delaying or canceling plans to purchase our products, solutions and services, or they may fail to follow through on purchases or contracts already executed. For the same reasons, the prices that are achievable for our products, solutions and services may decline to a greater extent than we currently anticipate. In addition, it may become more difficult for our customers to obtain financing, including project financing and securities. Furthermore, we are active in oil & gas projects, grid-related projects and power generation projects, including wind power projects. The projects business typically requires substantial investments, for which our customers generally need to obtain financing, including

project financing, securities or other financing. Our customers' financing may also involve external financing from international investors and lenders as well as the availability of export credit agencies' ("ECAs") support. The availability and terms of financing for our customers, including in particular, interest rates for such financing have already partially deteriorated in light of the COVID-19 outbreak and may continue to do so. The availability of credit support by ECAs generally has a significant influence on whether and when customers and their lending banks will proceed with the development of such projects and thus utilizing our products, solutions and services. In particular, large projects may become increasingly difficult to finance and subject to stricter requirements. In addition, customers could request to move agreed payment dates, which could negatively impact our financial position. Additionally, customers may increasingly request more business models focusing on operational expenditure where we receive payments distributed over a timeframe of several years while the majority of our cost arise up front, which would add strain to our balance sheet.

If macroeconomic conditions deteriorate, including an adverse development of financing conditions and reduced credit support for our customers, we could face reduced demand for our offering, which could in particular affect our project business and have a material adverse effect on our business, financial position and results of operations.

### **3.1.6 Political instability, international conflicts or new trade barriers may have a negative effect on our business, financial position and results of operations.**

Our business prospects and the execution of projects awarded to us may be negatively affected by political instability or international conflicts. For example, we may be forced to reorganize, reduce or terminate business operations in geographical areas where our employees, partners or subcontractors would otherwise be subject to unacceptable economic or personal risks, e.g., due to ongoing or threatened civil unrest, terror attacks or war. Some of our current and planned projects and service activities are in regions, which are exposed to a higher risk in this respect, e.g., in Libya, Iraq and other countries. Furthermore, our business prospects or the execution of our order backlog may be negatively affected by changes in the political and economic framework, e.g., due to trade wars, punitive tariffs, sanctions, protectionist measures, boycotts or economic weakness of economies or industries.

In 2018, Siemens signed the memorandum of understanding with the Ministry of Electricity in Iraq to implement the five-year "Iraq Roadmap", including the expansion of transmission and distribution networks. In 2019, we signed an implementation agreement with the Iraqi Government to start the execution of this roadmap. The first phase of the roadmap includes contracts valued around € 700 million. Project execution, and thus recognition of any revenues from this project, is still subject to a number of conditions precedent. Factors which may result in nonfulfillment of these conditions precedent include government intervention, terrorist activity, violent conflicts, regional instability, including armed conflicts between Iran and the United States and increasing tensions between Iraq and the United States. For example, on January 5, 2020, the President of the United States threatened to impose sanctions on Iraq if the Iraqi government forces U.S. troops to withdraw from the country on unfriendly terms. If the U.S. administration pursues such action it is unclear at this time what specific measures, if any, might be adopted or implemented. Since 2018, the United States have granted a series of waivers to Iraq to continue purchasing electricity and natural gas from Iran. If the U.S. administration decides to not renew these waivers or imposes some form of sanctions or other restrictive measures concerning Iraq, or if regional instability and violent conflicts in the region escalate, it could have negative implications for our local business and prevent us from executing our contracts in Iraq which could have a material adverse effect on our results of operations.

Our inability to perform our contractual obligations may subject us to claims for non-performance or damages. We may not be able to exploit new business opportunities, which may result in the loss of revenue. Furthermore, a cessation or reduction of our business may enable our competitors to take over business from us, and there can be no assurance that we will be able to win back such business or opportunities if the relevant sanctions are lifted.

As we are a globally operating group, the imposition of new barriers to free trade would negatively impact production costs and productivity along our value chains. In addition, new barriers to trade may reduce the level of investment activity and cause supply chain disruptions (see also “3.2.4 We are dependent on the availability of certain materials, parts and components, and any disruptions in the supply chain may result in additional costs or loss of revenues.”), which could severely affect our business. We believe a key risk in this regard is the simmering U.S.-China trade conflict which may escalate into a global trade war. In the U.S.-China trade conflict, each country has recently imposed tariffs on the other country's products. As we have significant business in the U.S. and in China, we are exposed to potential new trade barriers which may impede our business with China and the U.S. Also, our operations outside China and the U.S. could be affected due to potential supply chain disruptions as a consequence of such a trade conflict. In particular, several components for our SGRE segment's products are manufactured in China and the U.S.-China trade conflict may have a negative impact on our SGRE segment's business including interruptions of its product manufacturing processes, delays in delivering its products, claims for damages and our SGRE segment may not be able to replace its Chinese suppliers in time or at economically reasonable costs. Our SGRE segment may also find it increasingly difficult to sell its products that are subject to additional tariffs in the Chinese market at a competitive price or at all. Furthermore, the consequences of the United Kingdom (“UK”) withdrawing from the EU (so-called “Brexit”) remain unclear. Although the UK ceased to be an EU member on January 31, 2020, the trading relationship is expected to remain the same until December 31, 2020. Negotiations determining the conditions of the future trading relationship between the EU and the UK are currently ongoing. If the EU and the UK fail to conclude a trading framework which provides for trading terms substantially similar to the current terms, this may materially adversely affect our business operations and results.

The realization of any significant adverse political developments, in particular with regard to continued sanctions relief for Iraq and trade relationships between economic powers, could have a material adverse effect on our business, financial position and results of operations.

**3.1.7 Some of our customers may be affected by long-term low oil prices or long-term low demand for oil and gas which could result in a reduced demand for certain of our offerings which in turn could negatively affect our profitability.**

Demand for certain of our products, systems solutions and services, in particular for elements of our Gas and Power segment, is to a certain degree affected by oil and gas prices and demand for oil and gas. Since oil and gas prices are set on a commodity basis, spot market and futures market prices and their volatility, as well as storage capacities, impact the business activities of our customers from relevant industries and their investment behavior. Historically, prices for crude oil, refined products, natural gas and petrochemical products have fluctuated widely in response to changes in many factors over which we do not and will not have control and which are difficult to predict. On the one hand, in the event of long-term low or volatile oil and gas prices or when such prices are expected to be low for a longer period in the future, our customers whose activities in the oil & gas industry primarily depend on profitability may postpone investments, affecting demand for certain parts of our offerings such as compressors, industrial gas turbines, subsea products or other oil & gas products and solutions. Customers might also seek to renegotiate their contracts, which may lead to disadvantageous contract terms for us, as has happened to a certain degree in the past. Long-term low oil prices may eventually lead to partial or full defaults on payments from our customers, as has happened to a certain degree in the past during longer periods of low oil and gas prices. On the other hand, long-term high prices for oil and gas could cause an overall economic recession.

Certain countries that are heavily dependent on income from oil and gas may curtail investments in capital intensive oil and gas, as well as power generation and transmission projects during periods of long-term low or expected low demand for oil and gas due to insufficient funds, which in turn could lead to less demand for certain of our Gas and Power segment's products, solutions and services.



Furthermore, we may be unable to adjust our personnel and functional footprint to adapt to demand swings caused by changes in oil and gas prices and/or changes in oil and gas demand fast enough, which may result in under- or overcapacities (see also “3.2.11 *In connection with existing and potential future reorganization and cost savings measures, we may incur substantial restructuring expenses and cash outflows. We may not be able to realize expected cost savings or we may fail to adjust our organizational and manufacturing footprint in a timely manner or at all, and such reorganizations may not yield the targeted benefits or may damage our reputation.*”).

Long-term low or volatile oil and gas prices may put pressure on power generation from renewables in the SGRE segment and on the growth of our green hydrogen business due to lower power generation costs for fossil fuel-based generation, which may prompt our customers to revisit planned projects.

Longer periods of low demand for our products, solutions and services from markets affected by oil and gas prices and demand for oil and gas could eventually result in us having to record asset impairments in our Gas and Power segment.

Any significant adverse developments, including sustained low prices and volatility, in oil and gas markets could reduce customers’ demand for the Group’s products, particularly in our Gas and Power segment, which could have a material adverse impact on our business, financial position and results of operations.

**3.1.8 The wind power industry faces structural market changes, in particular declining subsidy levels, and there can be no guarantee that Siemens Gamesa Renewable Energy will succeed in addressing the resulting challenges.**

Our SGRE segment is active in the wind power industry, providing products, solutions and services for onshore and offshore wind power plants. Historically, this industry has benefitted from various direct and indirect subsidies aimed at facilitating wind energy production, e.g., economically favorable feed-in tariffs. In recent years, in most of our SGRE segment’s markets, governments have already reduced or withdrawn direct subsidies for wind power and in the United States, production tax credits (another form of support) generated by wind energy will be completely phased out for projects commencing construction after 2020. Similar support schemes may continue to be significantly reduced or phased out entirely in other jurisdictions in the future. Further, the expansion of onshore and offshore wind power plants and renewables is also dependent on adequate development in other adjacent areas such as national infrastructure (such as transmission networks) (see also “3.4.3 *The markets in which we and our customers operate are subject to several regulatory requirements which are subject to change.*”). In addition, demand for wind power equipment is affected by the cost of wind-generated electricity compared to the cost of electricity generated from other sources of energy, including not only renewable sources (principally solar and hydroelectric power), but also gas, coal and nuclear-fueled power generation. With a drive in many countries for diversification of energy sources, modern biomass, geothermal, tidal and biofuels, as well as nuclear power, all compete for governmental support and a prioritized focus. Even though the levelized cost of wind-generated electricity is decreasing as wind turbine design, production and installation continue to make improvements in cost, efficiency, output and capacity factor (number of full-load hours), competitiveness of wind power technology against other renewable and conventional power generation technologies might deteriorate due to technological advances, declining carbon prices or declining fossil commodity prices.

Furthermore, our SGRE segment experiences competitive pressure among wind turbine manufacturers, which have themselves contributed significantly to a reduction of prices for wind turbine generators and may result in additional price pressure. Competition in the wind power industry has intensified due to factors such as the expansion of existing industry participants in new markets and increasing pressure from Asian manufacturers who strive to improve the quality and reliability of their technologies and move out of their local markets. In particular in certain markets (mostly emerging markets) in which customers’ access to capital is restricted, successfully

marketing SGRE products may be challenging, because certain customers in these markets are more focused on price per megawatt than on the levelized cost of energy (full-cycle cost) or similar parameters. In these cases, the customers' pressure on pricing of capital expenditures rather than efficiency may affect our SGRE segment's competitiveness. In addition, market entry by certain large industrial groups, including those previously not engaged in the wind power sector, as well as the continuous consolidation of the industry, which is leading to greater market power and economies of scale by certain players, who are able to offer greater costs of energy-savings to customers, also pose new competition risks.

If SGRE does not succeed at navigating the structural market changes brought on by, among others, reduction in subsidies and additional competition, this could have a material adverse effect on our business, financial position and results of operations.

### **3.1.9 Extreme weather conditions due to climate change may have a negative effect on our business.**

Climate change is leading to warmer weather and more extreme weather conditions. Therefore, climate change could affect our business and have a significant impact on Siemens Energy, most likely in the medium- and long-term. Longer and warmer seasons or extreme cold could materially affect the operations of our customers and limit the attractiveness of our products. Severe weather, such as fires, hurricanes, high winds and seas, blizzards and extreme temperatures may cause evacuation of personnel, curtailment of services and suspension of operations, inability to deliver materials to job sites in accordance with contract schedules, loss of or damage to equipment and facilities, supply chain disruption and reduced productivity. For example, our SGRE segment had to adjust its profitability target in January 2020 following unforeseen costs in a low triple-digit million euro amount relating to five onshore projects (1.1 GW) in northern Europe, mainly Norway, caused by adverse road conditions and the unusual early arrival of winter weather, which delayed project execution substantially.

## **3.2 Risks Related to Our Business**

### **3.2.1 We may not be able to successfully implement our strategies; in particular we may fail to successfully complete cost savings and other reorganization programs, benefit from the disruptive trends in global energy markets and increase the share of our service business.**

Our future operational performance and financial position depends to a significant degree on the success of the strategic and operational measures we plan to implement or are currently implementing. In particular, our strategy comprises the following elements:

- We have already initiated various reorganization and cost savings programs that we will continue to pursue. In addition, we are currently evaluating further potential options to improve our profitability, such as project excellence measures, streamlining of our portfolio, footprint adjustments as well as re-sizing of functions. There is a risk that we may incur substantial costs and cash outflows when implementing such programs and there can be no guarantee that they will yield the targeted benefits (see also *"3.2.11 In connection with existing and potential future reorganization and cost savings measures, we may incur substantial restructuring expenses and cash outflows. We may not be able to realize expected cost savings or we may fail to adjust our organizational and manufacturing footprint in a timely manner or at all, and such reorganizations may not yield the targeted benefits or may damage our reputation."*).
- We seek to benefit from the disruptive trends in global energy markets, namely demand growth, decarbonization, decentralization and digitalization and there can be no guarantee that we will be able to adapt our business model in time or at all (see also *"3.1.1 The energy market is subject to disruptive developments, such as the trend towards decarbonization, and we may be too slow or even fail in adapting our business model and product portfolio."*). While we aim to focus our research and development spending on growing market segments and products that we expect to offer a sustainable competitive advantage, there can be no



guarantee that our research and development spending will deliver the targeted economic benefits (see also “3.2.2 We may be unable to successfully develop and launch a portfolio of competitive and technologically-advanced products, services and solutions, and our research and development efforts may be unsuccessful. Furthermore, the pace of technological change may result in the economic life cycle of certain of our products being shorter than anticipated.”). There is also a risk that such shift in focus in our research and development spending will lead to a decline of our competitive position in our traditional core portfolio.

- We seek to grow the share of our service business in our business mix, which has typically higher margins than the products, systems and solutions businesses. Should we fail to increase such share, we may fail to achieve our profitability improvement targets. There is a risk that a reduction in operating hours of the equipment provided by our Generation and Industrial Applications divisions may lead to lower service and modernization demand from our customers (see also “3.1.1 The energy market is subject to disruptive developments, such as the trend towards decarbonization, and we may be too slow or even fail in adapting our business model and product portfolio.”). We may face more competition in our service business as digital technologies and additive manufacturing continue to allow competitors to service our installed base at a competitive cost/price level. For the SGRE segment’s service business, there is a risk that wind farm operators will service their own fleet themselves or engage third-party service providers (see also “3.1.4 Competition and lower market prices could negatively affect our business, financial position and results of operations.”).
- We have set ourselves certain goals to optimize the allocation of our resources, streamline our portfolio and increase our performance. Among others, we seek to further reduce non-conformance costs in our project and product business (see also “3.2.6 Our project business is subject to several risks, including execution risks, cost overruns, quality and political risks.” and “3.2.3 Operational failures in our value chain processes and quality issues could negatively affect our business and reputation, and result in claims, penalties and additional costs.”). We are also targeting an improvement in our cash conversion rate (i.e., free cash flow divided by adjusted EBITA), including by stricter working capital management, reducing costs resulting from organizational complexity, footprint adjustments and strict return criteria for capital expenditure and acquisitions. We are planning to reduce complexity and risks in our solution businesses by limiting our exposure in Engineering, Procurement and Construction (“EPC”) activities. There is a risk that this may lead to a lower pull-through of products and have a negative bearing on capacity utilization in our factories.
- Our SGRE segment is in the process of realigning its strategy to the current market environment and is implementing corresponding programs to improve profitability.

The achievement of targeted improvements of our performance depends not only on the successful implementation of such measures but also on other developments, for example in relation to the market environment, including market prices for our products, solutions and services and cost increases, including costs for raw materials and components, which may be beyond our control (see also “3.2.4 We are dependent on the availability of certain materials, parts and components, and any disruptions in the supply chain may result in additional costs or loss of revenues.”). Furthermore, the assumptions underlying our planning could prove to be incorrect or may need to be revised in the future. In any such case, our strategy may not yield the targeted improvements.

### **3.2.2 We may be unable to successfully develop and launch a portfolio of competitive and technologically-advanced products, services and solutions, and our research and development efforts may be unsuccessful. Furthermore, the pace of technological change may result in the economic life cycle of certain of our products being shorter than anticipated.**

We may not be successful in developing a portfolio of technologically-advanced products, services and solutions within the expected timeframe or at all, or at prices that allow our new

developments to be competitive when compared to similar products, services and solutions available in the market.

As evidenced by recently introduced digital offerings, such as the Sensformer and Sensgear applications of our Transmission division, Omnivise digital services for applications of our Gas and Power segment's divisions, the Topsides 4.0 and Pipelines 4.0 solutions offered by our Industrial Applications division, we are constantly investing time and money in the digitization of our portfolio. However, such investments may not translate into profitable business, or we may be too slow or less successful than our industry peers, or new digital players who could become new competitors, in the field of digital offerings related to our products.

The markets in which we operate experience rapid and significant changes due to the introduction of innovative and disruptive technologies. Our operating results have in the past depended and will continue to depend to a significant extent on our ability to meet the evolving needs of current and prospective customers, our ability to anticipate and adapt to changes in our markets and to optimize our cost base accordingly. Optimizing the levelized cost of energy of its products and its cost base is particularly important for our SGRE segment as many of its products are subject to significant price pressure. Furthermore, in the area of electric energy storage, we face the risk that competitors' energy storage solutions are more cost effective than our own. In addition, storage solutions may in the future reduce demand for peaker applications of our gas turbine product lines. Even if we succeed in developing innovative technologies, our competitors may be able to commercialize similar technologies faster or more successfully than us. Introducing new products and technologies requires a significant commitment to research and development, which in return requires expenditure of considerable financial resources that may not always lead to successful new developments. Our results of operations may suffer if we invest in the development of technologies that may not operate or may not be integrated as expected. Technologies may not be accepted in the marketplace as anticipated. In addition, our products, solutions or systems may fail to be introduced into the market in a timely manner, particularly when compared to our competitors, or even become obsolete, negatively impacting our results of operations. For example, there can be no assurance that the new gas turbine class that we are currently developing will enable us to compete against the offerings of our competitors with top-of-the-market efficiency levels, which are a key selling point for our customers. Since our service revenues depend to a large extent on our installed base of rotating equipment, fewer than expected operating hours or lower sales of rotating equipment, such as turbines, may erode the base of our future service revenues. In addition, our SGRE segment's onshore product competitiveness could suffer if its portfolio optimization plans encounter delays or its products may fail to meet market expectations. Furthermore, in anticipation of EU legislation potentially restricting or banning the use of Sulphur hexafluoride ("SF<sub>6</sub>"), a greenhouse gas ("GHG") commonly used in gas-insulated switchgear, we have developed an SF<sub>6</sub>-free gas-insulated switchgear using compressed synthetic air. Demand for our innovative switchgear solution has already picked up following a restriction or ban of SF<sub>6</sub>. However, some of our competitors have opted to develop alternatives using other gases, which may prove more successful than our technology.

Sector coupling and "power-to-x" technologies expand our field of activity in sectors beyond power generation, e.g., for green synthetic fuels (so-called "e-fuels"). It remains a risk that these markets do not materialize to a relevant size and we may not be able to recoup our investments. Furthermore, we may not be able to acquire the required technical competence, to successfully develop projects and operate facilities for such solutions and technologies or to achieve competitive cost levels.

Moreover, the pace of technological change may result in the economic life cycle of certain of our products, in particular wind turbine models, being shorter than anticipated. For example, these structural market changes put pressure on the established business model of wind turbine providers such as our SGRE segment, and SGRE may fail to adapt its business model in time or at all.

We routinely apply for new patents and actively manage our intellectual property (“IP”) portfolio in an effort to secure proprietary technologies. However, our patents and other IP may not prevent competitors from independently developing or selling products and services that are similar to, or virtually duplicates of, ours. In addition, we have been pursuing a more selective strategy in recent years when filing for new patents, which is aimed at reducing costs while at the same time adequately protecting our innovations. This approach resulted in an increase in the efforts required to defend against third-party IP rights and other measures to mitigate risks relating to IP rights. If we fail to strike an adequate balance between cost reduction and an adequate level of protection, we might not have the portfolio of IP rights required to be competitive. This risk is further exacerbated by our activities in the area of additive manufacturing.

**3.2.3 Operational failures in our value chain processes and quality issues could negatively affect our business and reputation, and result in claims, penalties and additional costs.**

Our value chains comprise all steps in the product life cycle, from research and development to supply chain management, production, marketing, sales and services. Failures in our value chain processes could, among other things, result in quality, product safety or occupational safety issues. Such risks are particularly present in our engineering, production and manufacturing facilities, which are located all over the world and have a high degree of organizational and technological complexity.

Certain products that we sold in the past had, and may in the future have, quality issues resulting from the design or manufacture of these products or the commissioning of these products or the software integrated into them. In case of software, quality issues may also manifest themselves in terms of vulnerability to cyberattacks or other forms of disruptions (see “3.2.5 We depend on the continuous efficient performance of our information technology systems, which may be subject to cyberattacks and other disruptions. In addition, we sell products and systems with digital capabilities and offer digital solutions, which may be vulnerable to such attacks or disruptions. Any such attack or disruption may adversely affect our business operation, compromise the confidentiality and integrity of data, and may result in administrative sanctions, civil liability and adversely affect our reputation.”). A failure or malfunction of one of our products may extend to other products, or affect whole production facilities or plants, resulting in consequential damages significantly exceeding the value of the failing or malfunctioning product and might cause bodily harm. These risks are particularly relevant in the area of gas turbines, steam turbines, generators, auxiliary items and compressors, including the required spare parts for such products, or the transmission product business. In connection with the introduction of new technology or of main components for wind turbines, e.g., blades and bearings, this risk is particularly pronounced. For example, quality problems related to gas turbine parts could affect an entire product line of gas turbines which may already be installed or planned to be installed at customer sites. This could result in, e.g., a shutdown of power plants, delays in project commissioning, significant costs for fixing the quality problem and replacing or repairing defect parts. For example, in a few instances customers alleged that a certain type of bushings, which is no longer manufactured by us, had failed due to quality issues. Although our investigations did not reveal defects, we have settled a number of cases in which customers pursued legal action against us, and it cannot be ruled out that further customers pursue claims against us in relation to these bushings. As an example, with respect to our SGRE segment, failures of wind turbine generators could impact, and have already impacted, parts of our entire wind power plants. Similarly, and related to new technologies, the electrolyzer technology (such as the Proton Exchange Membrane (PEM) technology) is still in an early phase of implementation and, because operational data is rare, the lifetime of relevant products, systems and solutions cannot be reliably predicted. It is also possible that, due to technological problems, certain components in the existing fleet may not reach the expected lifetime, and the profitability in current or future projects may deteriorate.

In addition, if we fail to meet agreed specifications, technical requirements or guarantees for our products, solutions or services, particularly in the context of contract bids or under existing contracts relating to certain technical performance parameters, we may incur additional costs (including significant non-conformance costs) and face claims for specific performance and damages. Any such cases could, in addition, have particularly detrimental consequences for our reputation.

There is no guarantee that our quality assurance measures will be effective enough to detect and adequately respond to every quality assurance issue in a timely manner or at all. Even if such measures work as intended, responding to quality issues may result in significant additional costs if quality issues arise that affect the installed fleet or sold new units of a product line. For example, as reliability of rotating equipment is particularly critical in the power generation and the oil & gas industry, any quality issue arising in connection with our rotating equipment could have significant effects on electricity generation and oil & gas production or processing, result in personal injury, property damage and environmental impairments, and lead to claims for damages, including consequential damages, or could negatively affect our reputation, specifically if we have to issue product warnings or similar communication to our customers or to the public.

Depending on our footprint strategy, we may also face quality issues due to outsourcing of the production of key components and there may be cases in which our suppliers do not comply with our technical specifications or quality management systems.

If the Group were to be subject to any claims, liabilities, fines or other adverse actions by customers or governments (e.g., claims based on warranty, guarantee or product liability), this could expose us to reputational damage, significant additional costs and negatively affect the performance of new projects and, therefore, have a material adverse effect on our business, financial position and results of operations.

#### **3.2.4 We are dependent on the availability of certain materials, parts and components, and any disruptions in the supply chain may result in additional costs or loss of revenues.**

The financial performance of our operating units depends on reliable and effective supply chain management for components, sub-assemblies and materials. Capacity constraints and supply shortages resulting from ineffective supply chain management may lead to production bottlenecks, delivery delays and additional costs. We also rely on third parties to supply us with parts, components and services. Using third parties to manufacture, assemble and test our products may reduce our control over manufacturing yields, quality assurance, product delivery schedules and costs. Unanticipated increases in the price of components or raw materials due to market shortages or other reasons could also adversely affect performance.

Although we work closely with our suppliers to avoid supply-related problems, there can be no assurance that we will not encounter supply problems. Especially where we use single-source or a small number of suppliers for critical components, including, after Spin-Off Completion, from Siemens Aktiengesellschaft, Munich and Berlin, Germany ("**Siemens AG**") or its direct and indirect subsidiaries (together with Siemens AG, the "**Siemens Group**" or "**Siemens**"), any business or relationship interruptions could harm our operations or increase our operating costs. For example, Siemens will continue to supply key components and software for control systems which are used in several of our products and solutions and which cannot be replaced with readily available third-party components. Shortages and delays could materially harm our businesses. These and similar market dynamics may also make it more difficult for us to find alternative sources of supply at reasonable costs or at all. Moreover, in the past, we have experienced supply chain constraints regarding blades and vanes required for the operation of our turbines. Due to the expected low demand for turbines and the accompanying price pressure, our suppliers may seek customers from other industries and, thus, the overall number of our potential suppliers may be reduced. Such constraints can, for example, lead to delays or the inability to deliver spare parts. This in turn may affect our ability to perform our contractual obligations, which may subject us to claims of non-performance or damages.

In addition, many of the parts we require for the manufacturing of our products need to undergo a qualification process, which may take longer than expected, for example, as a result of the increasing complexity of our turbine blades, vanes and electrolyzers. We may also experience delays in launching new technology components into the market, resulting in potential loss of upgrade revenues.

Furthermore, we are exposed to the risk of delays and interruptions in the supply chain because of catastrophic events, including adverse weather conditions, fire or pandemics or epidemics, such as COVID-19. The latter has resulted in the temporary closure of some of our sites. In addition, cyber incidents or suppliers' financial difficulties or insolvencies can cause supply chain disruptions, particularly if we are unable to identify alternative sources of supply or means of transportation in a timely manner or at all. Interruptions in the supply chain may lead to consequential risks, which are particularly relevant for the execution of large projects. The need to seek alternative sources of supply may also arise if our competitors acquire critical suppliers.

The realization of any such planning miscalculations, disruptions or other unexpected developments within the supply chain could significantly increase costs and have a material adverse effect on our business, financial position and results of operations.

**3.2.5 We depend on the continuous efficient performance of our information technology systems, which may be subject to cyberattacks and other disruptions. In addition, we sell products and systems with digital capabilities and offer digital solutions, which may be vulnerable to such attacks or disruptions. Any such attack or disruption may adversely affect our business operation, compromise the confidentiality and integrity of data, and may result in administrative sanctions, civil liability and adversely affect our reputation.**

Information technologies ("IT") are deeply integrated into our business portfolio, and we depend on their uninterrupted and efficient functioning. In addition, we rely on third-party IT service providers. We observe a global increase of cybersecurity threats and higher levels of professionalism in cybercrime, which pose a risk to the security of products, systems and networks and the confidentiality, availability and integrity of our data. Our IT environment could be compromised, e.g., by attacks on our own or our IT service providers' networks that may also include cloud services, social engineering, data manipulations in critical applications and a loss of critical resources. In the past, successful cyberattacks on industrial companies were conducted using social engineering which resulted in the loss of significant financial funds or the facilitation of money laundering, e.g., by payment frauds or the manipulation of master data. There can be no assurance that our own or our IT service providers' measures aimed at safeguarding the uninterrupted and efficient functioning of IT will address these threats under all circumstances. Any such attack or disruption may adversely affect our business operations. Risks from cyberattacks on our products and services can have particularly serious consequences because they are often part of critical infrastructure whose limited functionality or total failure can have far-reaching consequences.

In addition, there is a risk that confidential or private information, including third-party information, may be leaked, stolen or manipulated or compromised in other ways, including due to any of the events mentioned above. Leakage or theft of information about our IP rights could affect our competitive position and results of operations. If confidential or private information is compromised, we may also be subject to contractual penalties or claims for damages (see also *"3.2.3 Operational failures in our value chain processes and quality issues could negatively affect our business and reputation, and result in claims, penalties and additional costs."*), administrative fines or other sanctions under secrecy, confidentiality, or data protection laws and regulations.

Cyberattacks and other disruptions could also result in deliberate improper access, and use, of our sites or systems, as well as production downtimes and supply shortages, with potential adverse effects on our reputation, our competitiveness and results of operations.

Furthermore, we sell products and systems with digital capabilities and offer digital solutions, e.g., for remote operation of assets or onsite operations such as instrumentation & controls for



power plants. We frequently partner with early stage companies, such as start ups, to provide cybersecurity offerings and may be exposed to risks relating to the long-term viability of such companies, in particular where we have sold products to customers with multi-year contracts. If such products, systems and solutions are compromised or disrupted, including due to any of the events described above, we may be held liable by our customers for damages, including consequential damages and may also suffer damage to our reputation.

These risks are further exacerbated by the fact that our potential attackers are increasingly sophisticated and often supported by organized crime or even nation-states engaged in economic espionage or even sabotage.

If the Group were to suffer losses due to IT system failures, the leakage or theft of data, inadequate IT system protection or insufficiently integrated IT systems, this could have a material adverse effect on our business, financial position and results of operations.

### **3.2.6 Our project business is subject to several risks, including execution risks, cost overruns, quality and political risks.**

We regularly engage in large and complex projects which may be worth, or even exceed a value of, several hundred million euros and whose execution may take several years. Such projects are awarded on a competitive bidding basis and in many cases, we are responsible for the design and construction of an entire turnkey plant project, including wind power plants. Some of these contracts are inherently risky because we may assume substantially all risks associated with completing a project and meeting post-completion warranty obligations. For example, we have to satisfy increasingly complex technical and regulatory requirements and we face the risk that we do not fully consider all such requirements in our offer. This is particularly true in projects with untested or new technology that have never been executed before, or when we bid for projects in countries where we have no or only limited experience from previous projects. The profit margins realized on fixed-priced contracts may vary from original estimates as a result of changes in costs and productivity over the contracts' terms.

In certain cases, we bear the risk of unanticipated project modifications, shortage of key personnel, quality problems (which, for example, resulted in very significant non-conformance costs in the fiscal year 2019), financial difficulties of our customers and/or significant partners, cost overruns or contractual penalties caused by unexpected technological or technical problems, unforeseen developments at the project sites, unforeseen changes or difficulties in the regulatory or political environment, performance problems relating to our suppliers, subcontractors and consortium partners, or logistical difficulties. For example, when executing large projects, we are often required to form a consortium with other parties and customers regularly require that we accept joint and several liability for our consortium partners. Should such partners fail to deliver on their part of the project, we could be held liable for expenses or other costs, including damages. Disagreements with our customers or our consortium partners regarding allocation of additional project costs and responsibilities (e.g., for delays and disruptions during a project), can be time-consuming, expensive and may absorb significant management capacities. Our project business may also be negatively affected by various effects of COVID-19 (see "3.1.3 Our industries and business operations are subject to various risks relating to global or local outbreaks of infectious diseases and other public health crises. In particular, we are affected from the fallout of the outbreak of the recent Coronavirus pandemic.").

In connection with a contract for the construction of the "Olkiluoto 3" nuclear power plant in Finland for Teollisuuden Voima Oyj (TVO), Siemens AG will continue to be externally liable vis-à-vis TVO and Siemens AG's consortium partners. Due to a significant delay of the project, TVO will likely raise delay claims against the consortium or may pursue termination of the contract, potentially triggering additional significant claims from TVO. As between Siemens AG and Siemens Energy, Siemens Energy will be responsible for the execution of the project. Siemens AG has agreed to cover certain potential claims of TVO, to the extent these claims exceed

€ 83 million. However, in certain cases Siemens Energy may have to first satisfy such claims vis-à-vis TVO and may only be able to obtain relief from Siemens AG following legal proceedings against Siemens AG's consortium partners. As a result, Siemens Energy may not be able to obtain the aforementioned relief in time or in full, which could have a significant financial impact on Siemens Energy. Apart from the foregoing, Siemens Energy will be entitled to all benefits and bear all risks associated with the project execution and Siemens AG's position as a party to the consortium agreement, including risks related to warranty, availability, delays or non-completion of the project. Any of these risks, if they materialize, may result in substantial losses.

Some of our multi-year contracts also contain demanding installation and maintenance requirements in addition to other performance criteria relating to timing, unit cost and compliance with government regulations, which, if not satisfied, could subject us to substantial contractual penalties, damages, non-payment and contract interruption, suspension or termination. There can be no assurance that contracts and projects, in particular those with long-term duration and fixed-priced calculation, can be completed profitably. Where projects fail or are delayed, we may face claims for penalties or damages from our partners or customers. For example, our SGRE segment was forced to adjust its profitability target in January 2020 following unforeseen costs in a low triple-digit million euro amount relating to five onshore projects (1.1 GW) in northern Europe, mainly Norway, caused by adverse road conditions and the unusual early arrival of winter weather, which delayed project execution substantially. In the case of transmission projects, customers may have to pay penalties or damages to power plant operators for delays or interruptions of grid connections and seek to recoup such damage payment from us. In power plant projects, damages to power plant operators due to delays may also include penalties or damages from regulators, investors or customers, with whom operators have signed power purchase agreements.

When developing new projects, we regularly incur upfront investments that may be lost if the project does not materialize as planned or at all. In order to successfully develop new projects, we require project development and investments specialists whose internal training is time-consuming, while experienced experts are in short supply on the labor market.

The materialization of any such project-specific risks, planning miscalculations or other unexpected delays or disruptions could lead to significant increases in project costs, negatively affect the performance of projects and could have a material adverse effect on our business, financial position and results of operations.

### **3.2.7 Customers may be successful in negotiating or renegotiating terms and conditions in their contracts that are disadvantageous for us, leading to lower revenues and profitability.**

Many of our customers are large companies with considerable bargaining power. These, or other customers, may from time to time be able to negotiate terms and conditions in their contracts that are disadvantageous for us, which could lead to lower revenues and margins. For existing contracts, such customers may request renegotiations or may terminate their contracts. Wherever our customers' ability to generate profits with the products and services we provide is negatively affected, we have in the past encountered, and may in the future encounter, pressure to renegotiate existing or future contracts. This is particularly relevant for long-term service programs where our customers may consider enforcing contractual scope reductions and/or changes in the operating profiles and commercial terms, or, alternatively, abandon or shut-down existing plants and terminate the long-term programs entirely. Customers may also choose not to renew long-term programs (e.g., with respect to maintenance and other services) or seek early termination, for example, to allow a competitor to service our products at a lower price. For example, lower and more fluctuating demand for centrally produced energy negatively impacts some of our long-standing customers. Further circumstances which may prompt renegotiations include higher prices for carbon-dioxide certificates, increasing shares of renewables, as well as continuously low spot market prices for electricity. Less operating hours of our installed fleet could reduce the need for service activities, which may materially adversely impact our service backlog volume and profitability. Renegotiations or cancellations by our customers could



therefore significantly reduce the revenue and profit we are able to realize from our order backlog.

In addition, the separation from Siemens contemplates the transfer of certain contracts to Siemens Energy. As such transfer in most cases requires the consent of the counterparty, counterparties may use the consent requirement as leverage to enter into renegotiations.

**3.2.8 We face risks relating to potential acquisitions, including difficulties regarding the integration of the acquired business, and divestitures. Similar risks exist in connection to entering into or exiting from joint ventures with partners.**

From time to time, in order to execute our strategy, we may divest our activities in some business areas and strengthen others through portfolio measures, including mergers and acquisitions. With the same objective, we may enter into or exit from joint ventures with partners.

With respect to divestitures, we may not be able to divest some of our activities as planned, and the divestitures we do carry out could have a negative impact on our business situation, financial position, results of operations and reputation. In addition, in the event of divestitures, acquirers may successfully bring claims against us, e.g., based on alleged violations of representations and warranties.

Mergers and acquisitions are inherently risky because of difficulties that may arise when integrating personnel, operations, technologies and products. There can be no assurance that any of the businesses we acquire can be integrated successfully and on schedule, that they will perform as anticipated once integrated, or that any potentially anticipated synergies can actually be realized. Moreover, we may be unable to retain key personnel and key customers of the acquired businesses. We may also assume material unknown risks and liabilities if we fail to accurately assess these prior to the acquisition, and there can be no assurance that we will have recourse claims against the sellers of the acquired business. Acquisitions may be capital intensive and tie up valuable management resources. Furthermore, there can be no assurance that we will be able to identify suitable targets or complete acquisitions on favorable terms or at all.

In addition, we may incur significant transaction costs, administrative costs, tax and other expenditures in connection with these transactions, including costs related to integration of acquired businesses. Furthermore, portfolio measures may result in additional financing needs and adversely affect our capital structure. Acquisitions can lead to substantial additions to intangible assets, including goodwill, in our statements of financial position. If we were to encounter continuing adverse business developments or if the acquired businesses were to perform worse than expected, then these intangible assets, including goodwill, may have to be impaired, which could adversely affect our business situation, financial position and results of operations (see also *"3.3.2 Goodwill and other intangible assets represent a significant portion of our total assets, which could be significantly reduced if we had to recognize impairments."*). For example, our SGRE segment incurred significant integration costs of € 109 million, € 90 million and € 103 million in the fiscal years 2019, 2018 and 2017, respectively, after the merger of Gamesa and Siemens' wind power business that led to the formation of SGRE S.A. In the nine-month period ended June 30, 2020, our SGRE segment incurred € 116 million integration costs in connection with the merger and also with the integration of selected European Senvion assets acquired in the second quarter of the fiscal year 2020, and further integration costs are expected.

**3.2.9 We may be unable to hire or retain enough qualified staff for key competence areas and the current number of our staff may be insufficient to adequately address the challenges we face, in particular in exceptional circumstances.**

Competition for diverse and highly qualified personnel remains intense in the industries and regions in which we operate. We have an ongoing need for highly skilled employees and a need to enhance the diversity of our workforce. Our future success depends in part on our continued ability to identify, assess, hire, integrate, develop and retain engineers, digital talents, experienced legal personnel, and other qualified personnel on all levels. Our conventional energy activities may reduce our appeal to the personnel we seek to hire. We may lose highly qualified

employees and key personnel and the risk of losing key personnel and their know-how to competitors may increase due to the Spin-Off or in case of any future reorganization plans and the individually perceived uncertainties going along with such plans.

Some of our employees are highly specialized and are difficult to replace. We are in the process of implementing a number of core corporate functions as a stand-alone business (see “3.5.2 *We may face difficulties in satisfying certain treasury and finance requirements as well as performing certain services and functions that historically were provided by the Siemens Group.*” below) and the current number of our staff may be insufficient to adequately address the challenges we face, in particular in exceptional circumstances.

**3.2.10 We are dependent on good relationships with our workforce. Strikes or other labor-related conflicts as well as rising wages or indirect labor costs could have a material adverse effect on our business.**

Personnel expenses represent a significant cost factor for the Group. Most of our staff at the German locations, and to a lesser extent elsewhere in the world, is covered by collective bargaining agreements. Although we believe that we have good relationships with our workforce, works councils and unions, there is no assurance that when existing collective bargaining agreements expire, new agreements will be concluded on terms that are satisfactory to us. It also cannot be ruled out that agreements will only be reached following strikes or similar actions. If production is affected over a longer period of time by labor disputes, this could have a material adverse impact on our business, financial position and results of operations. The relationship with our employees may also be negatively affected by the disruptive trends in the energy industry that require changes in our strategy and may require us to adjust our portfolio and manufacturing footprint and thus to reduce our workforce. In our operations in emerging markets, labor costs may continue to increase as a result of wage inflation in these countries and rising unrest among low-paid people. Indirect labor costs could increase, for example due to continued inflation of medical costs.

**3.2.11 In connection with existing and potential future reorganization and cost savings measures, we may incur substantial restructuring expenses and cash outflows. We may not be able to realize expected cost savings or we may fail to adjust our organizational and manufacturing footprint in a timely manner or at all, and such reorganizations may not yield the targeted benefits or may damage our reputation.**

The markets in which we operate as a global supplier of technology for the energy and electricity sectors are subject to disruptive developments which have required us to adjust our organizational and manufacturing footprint, including cost-out savings, to adapt to changing market conditions, in particular market upswings or downswings and may require us to make such adjustments in the future. Our business prospects could be materially adversely affected if we are unable to make such adjustments in time or at all. Further reorganizations and productivity programs may be required to adapt to a changing product portfolio or customer basis or to price pressure in the market.

The implementation of potential reorganization programs in response to downswings or such changes may from time to time require the reduction of personnel in some functional areas or reorganization of manufacturing sites and may require us to incur significant restructuring expenses (e.g., severance payments) that affect our results of operations. For example, in our Gas and Power segment, various reorganization, performance enhancement and cost savings programs were initiated in prior years, some of which are still ongoing, initiated in succession to preceding measures, which were substantially completed. Such programs have resulted in substantial restructuring costs from personnel-related measures leading to severance charges in our Gas and Power segment totaling € 247 million, € 375 million and € 43 million in the fiscal years ended September 30, 2019, 2018 and 2017, respectively, and to € 31 million in the nine-month period ended June 30, 2020. In our SGRE segment, reorganization, performance enhancement and cost savings programs were initiated, some of which are also still ongoing, resulting in restructuring costs totaling € 32 million, € 86 million and nil in the fiscal years ended

September 30, 2019, 2018 and 2017, respectively, and to € 41 million in the nine-month period ended June 30, 2020.

Any reorganization measure may lead to significant cash outflows, including due to severance charges. In addition, our ability to adapt our footprint or re-size our support functions quickly may be limited due to labor law restrictions, in particular when compared to certain competitors.

Furthermore, reorganization, performance enhancement and cost savings measures may not yield the targeted results.

The implementation of potential future measures may also result in substantial restructuring expenses and cash outflows, which could end up being higher than planned, and the implementation may take longer than originally expected or ultimately fail, e.g., due to regulatory requirements varying from country to country.

In our Gas and Power segment, we evaluate the implementation of further potential restructuring and optimization measures. For this purpose, the evaluation process is ongoing focusing on shaping the exact scope and parameters, in particular for footprint optimization and project execution for footprint consolidation, re-sizing of functions and integration of previous acquisitions, and further measures needed to achieve profitability targets. No resolution has been made yet on future measures and these measures are, *inter alia*, subject to consultation with employee representatives. For the implementation of measures forming part of our existing restructuring programs and potential further restructuring and optimization measures with the targeted global cost savings, we believe that restructuring costs will amount cumulatively to a mid to high triple digit euro million amount for fiscal years 2020 to 2023. Furthermore, at the time the evaluation process related to the further potential restructuring and optimization measures crystallizes further, potentially in the near future already, this may lead to significantly higher expenses and also to further restructuring measures associated with further expenses. The increase of expenses associated with restructuring and optimization measures may not necessarily correspond with additional savings in all instances.

In our SGRE segment, we also evaluate the implementation of further potential restructuring and optimization programs. Within its new "LEAP" program, our SGRE segment plans to maintain its focus on productivity, asset management and operational excellence. As part of that, our SGRE segment will be constantly analyzing footprint optimization measures and also fixed costs, including selling and general administrative expenses, among others, need to be optimized to reach target profitability levels. For example, our SGRE segment has recently announced a restructuring plan in India which will have an impact in the fiscal year 2021. In addition, our SGRE segment is still investing in integration activities out of the merger that led to the formation of SGRE S.A. in fields such as IT or in integration of acquired European Servion assets, among others. In our SGRE segment, we expect to incur integration and restructuring costs in the fiscal years 2021 to 2023 of up to a mid triple digit million euro amount, the majority of these costs are expected to be attributable to potential restructuring measures currently under evaluation. The integration measures may mainly relate to IT projects, and may also include potential measures in connection with the integration of European Servion assets, while the potential restructuring measures may primarily relate to turnaround efforts regarding the onshore business. Both integration and restructuring costs are expected to be substantially incurred by the end of the fiscal year 2022.

Failure to implement potential reorganization measures, including productivity programs, in response to downswings could result in overcapacities, while failure to implement such measures in response to upswings may result in loss of businesses. We may also lose key personnel if we prove unable to adapt to changing market conditions. Strikes and disputes with unions and works councils may result in negative media coverage and delivery problems. Additionally, public criticism related to a reorganization might negatively impact our reputation. Even if we succeed to implement potential reorganization measures as we see fit, there can be no assurance that they will yield the targeted cost savings.

In addition, in certain countries, a part of our investment requirements for developing and expanding our capacity and our product portfolio, in particular with respect to innovative concepts, is sometimes covered by public aid, such as subsidies, loans at favorable conditions or tax reductions or exemptions. If we were to close certain manufacturing plants or business lines, we may have to repay in full or in part public aid received in the past, which can be substantial.

If we are unable to successfully implement planned potential reorganization, performance enhancement or cost savings measures or if these do not result in the planned savings, this could have a material adverse effect on our business, financial position and results of operations.

**3.2.12 We hold certain minority stakes in different companies in which we have only limited influence, and whose mandatory periodic valuation may require us to recognize impairments.**

We hold certain minority stakes in companies, including in the context of joint ventures or other cooperations and partnerships. Examples include our participations in RWG (Repair&Overhauls) Limited, UK, Maschinenfabrik Reinhausen GmbH, Germany, Voith Hydro Holding GmbH & Co. KG, Germany, and EthosEnergy Group Limited, UK. In such cases, we have only limited influence on the organization and business success of the entities concerned. Thus, our ability to exploit the strategic potential of such joint ventures, cooperations, partnerships and investments may be impaired if we were unable to agree with our partners and co-shareholders on a common strategy and its implementation. Our interests may also conflict with the interests of other shareholders in such entities, and we may be prevented from achieving our own goals, for example due to the governance structure and rights allocation within the entity and the applicable partnership agreements. Any such conflicts may also give rise to claims, which can be costly and time consuming and have a negative effect on the future performance of the joint venture or entity. In case the entity underperforms, we may have to contribute additional, unexpected funds to enable the continued operations of the entity or to service financial or other debts of the entity, while we may still not be able to significantly influence the management and operations of the participation due to our minority stake.

Our at-equity investments must be revalued as at the respective reporting dates. Any factors negatively influencing the financial position and results of operations of our at-equity investments and other investments could negatively affect the earnings contributions of such investments or may result in impairments. For example, in the fiscal year ended September 30, 2018, Siemens Energy recognized an impairment loss of € 154 million related to an at-equity investment presented in our Gas and Power segment. With a view to our at-equity investment in Siemens Ltd., India ("**Siemens India**"), which is a listed company, an obligation to write-down the value of this investment may be triggered by a decline in its publicly quoted share price that may be lower than the carrying amount of the investment (see "*3.5.10 In certain countries, carve-outs may be deferred or even fail or Siemens will retain parts of the Siemens Gas and Power business. In these countries, limited access to the local markets, established facilities, research and development resources may have an adverse impact on our business prospects and operations. In addition, contractual agreements may require us to purchase the local business after termination of the contract, which may result in significant cash outflows.*"). In addition, our business situation, financial position and results of operations could also be adversely affected in connection with loans, guarantees or non-compliance with financial covenants related to these investments.

If the Group is unable to successfully engage with fellow joint ventures and partners it may not be able to fully realize the strategic potential of such joint ventures and partnerships and this may have a material adverse effect on our business, financial position and results of operations.

**3.2.13 Local content and local standard requirements may negatively impact our business and place additional strains on our operations. Non-compliance may result in claims for penalties, damages or in termination of contracts.**

Some countries, e.g., Australia, Brazil, China, India, Saudi Arabia or Russia, prescribe minimum local content requirements by statute. Such legislation may, among other things, require us to

purchase from local suppliers, recruit local staff, including executive staff, set up local manufacturing facilities, or otherwise make direct investments in the relevant market. Furthermore, a large portion of the world's oil and gas reserves are controlled by state-owned oil companies. State-owned oil companies may require us to meet local content requirements or other local standards, such as conducting our operations through joint ventures with local partners, which could be difficult or undesirable for us. Similar obligations may be imposed on us by state-owned or state-affiliated energy companies outside of the oil sector. Further, we could also be forced to transfer business or technology into local majority holdings in order to access certain markets. A failure to meet local content requirements and other local standards may adversely impact our operations in such countries. This may result in inefficiencies, higher risks resulting from increased complexities, lack of transparency, claims for penalties or damages or in termination of contracts or reduced profitability. If we have to work with local suppliers or other contractors, we may have difficulties ensuring proper production quality, e.g., due to limited choice of contractors, a preferred vendor list or contractual stipulations. Any unforeseen change or reinforcements of local content or local standard requirements may result in additional costs or investment requirements in order to comply with such regulations.

If additional local content and local standard regulations are implemented, or if existing regulations are enhanced, or if we fail to comply with the regulations, which could increase the Group's costs and have a material adverse effect on our business, financial position and results of operations.

### **3.3 Financial Risks**

#### **3.3.1 We may have to write down inventories or other assets, which could adversely affect our financial position and result in loss of profitability.**

We may have built up, or in the future may build up, inventories (both "work-in-progress" and finished goods) that cannot be sold or only sold at lower-than-calculated prices, either because there is insufficient demand from the market (e.g., due to an overall economic recession or technological obsolescence) or intense competition. This may require us to write down the carrying value of such inventory, negatively impacting our profit and financial position. For example, in the third quarter of the fiscal year 2020, our Gas and Power segment had to recognize inventory write-downs of € 225 million, related to a strategic portfolio decision on certain small gas turbine platforms due to a change in addressing segments of the industrial application market. Our SGRE segment recognized a write-down of inventories in an amount of € 102 million in this nine-month period ended June 30, 2020, as a result of the deterioration of the Indian market and the corresponding restructuring plan.

The risk of write-downs is particularly present in the case of goods with longer lead times and where we are unable to quickly adapt our supply chain (e.g., deliveries received for parts and components) to the current load situation. This risk is further exacerbated by the decreasing market demand for gas turbines which has led to an increase in the inventory of gas turbines. Impairment charges may also have to be recognized in respect of developed products and associated production lines, plants, real estate, production tooling and other assets. Furthermore, we have in the past manufactured products in anticipation of orders which failed to materialize. In some of these instances, we were required to write down the resulting inventory and there can be no guarantee that we will be able to avoid such cases in the future.

#### **3.3.2 Goodwill and other intangible assets represent a significant portion of our total assets, which could be significantly reduced if we had to recognize impairments.**

Goodwill, as presented in our Combined Financial Statements, comprises the goodwill attributable to the SGRE segment, as well as goodwill attributable to the Gas and Power segment. As of June 30, 2020 and September 30, 2019, the carrying value of goodwill amounted to € 9,593 million and € 9,815 million, or 21.1% and 21.8% of our total assets as presented in our Combined Statements of Financial Position, primarily related to the acquisition of Dresser Rand and the merger that led to the formation of SGRE S.A. Other intangible assets also



represent a significant share of total assets. As of June 30, 2020 and September 30, 2019, the carrying value of other intangible assets amounted to € 4,016 million and € 4,743 million, or 8.8% and 10.5% of our total assets as presented in our Combined Statements of Financial Position. An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount which is the higher of: the fair value less cost of disposal; and the value in use. Impairment losses may result from, among other things, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations and a variety of other factors. For example, in the third quarter of the fiscal year 2020, we recognized impairments of intangible assets related to small gas turbine platforms due to a change in addressing segments of the industrial application market in the Gas and Power segment in an amount of € 476 million. In our SGRE segment, we recognized an impairment of intangible assets in an amount of € 82 million in the nine-month period ended June 30, 2020, as a result of the deterioration of the Indian market and the corresponding restructuring plan. Any of the aforementioned factors may cause an impairment of goodwill and other intangible assets if they have a lasting negative impact on our business. The amount of any quantified impairment must be expensed immediately as a charge to our results of operations. Therefore, depending on future circumstances, it cannot be ruled out that we may not realize the full value of our goodwill or other intangible assets. Any determination of impairment of goodwill or other intangible assets could have a material adverse effect on our business, financial condition, results of operations, and, in addition, may significantly deteriorate the confidence of important stakeholders.

**3.3.3 We are exposed to credit risks and may need to write off or write down receivables if our contractual partners are unable to meet their obligations.**

Credit risk is defined as an unexpected loss in financial instruments if the contractual partner fails to discharge its obligations in full and on time or if the value of collateral declines. We may incur losses if the credit quality of our contractual partners deteriorates or if they default on, or fall behind schedule with, their payment obligations to us. We are in particular exposed to credit risks relating to trade receivables arising from our ordinary course of business, *i.e.*, trade receivables from the sale of goods and services. This may also be the case if we are unable to sell trade receivables due to a changing macroeconomic environment. A decision to write down or write off claims against contractual partners involves management judgment and review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts on a portfolio basis. The write-off or write-down of our receivables may have a material adverse effect on our business, financial position and results of operations.

**3.3.4 Our business and the businesses of our customers and suppliers require access to significant credit and guarantee lines and other financing instruments. Our business activities could be negatively affected if we are unable to meet our capital requirements in the future, for example in weak financial market environments, as a result of a significant deterioration of our credit standing or of a breach of a credit facility agreement, or if access to capital becomes more expensive. Our business activities could be similarly negatively affected if our customers or suppliers do not have access to financing on economically viable terms.**

Since the energy industry is subject to considerable technological change, our future capital requirements for the development and industrialization of new products, future acquisitions, investments and necessary reorganization measures may be significant. Reflective of our substantial project business, our working capital levels have in the past, and are expected to be in the future, volatile.

Our ability to obtain debt financing, guarantees or derivative or hedging lines from financial institutions at commercially acceptable terms, including volume and costs, could depend on several factors, some of which are beyond our control, such as general economic conditions, the availability of credit from financial institutions, market interest rates and global and EU

monetary policy and financial markets regulation. In addition, deterioration in our business results, financial position or credit ratings of Siemens Energy AG and/or SGRE S.A. could lead to higher financing and hedging costs, to reduced availability of credit, hedging and guarantee lines, reduced access to capital markets, other commercially unfavorable terms or an acceleration of loans or provision of security.

Furthermore, our SGRE segment and the other Siemens Energy Group companies will be treated as a so-called "single borrower unit" (*Kreditnehmereinheit*) under the large exposure regulation for banks under the German Banking Act (*Kreditwesengesetz*). Any indebtedness taken on by our SGRE segment may, therefore, limit the ability of Siemens Energy as a whole to borrow funds, having access to hedging lines and obtaining guarantees and vice versa. Absent sufficient future cash flows and available financing and other credit lines, such as guarantees and derivative lines, we may not be able to adequately finance our normal business activities and to realize new investments or acquisitions or continue our daily operations, which could in turn have a material adverse effect on our growth prospects, our competitive position and our business, financial position and results of operations.

We concluded a syndicated facility agreement with a multi-currency revolving credit facility of € 3 billion in July 2020. SGRE S.A. concluded, among other things, a syndicated multi-currency revolving facility and loan agreement with a term loan tranche of € 0.5 billion and a revolving credit line tranche of € 2.0 billion in May 2018, which was amended and extended in December 2019. The revolving credit facilities are for general business purposes. During the term of the facility agreements, we must comply with the obligations, covenants and restrictions set out therein. In the event of a breach of certain contractual obligations, or the non-fulfillment of a repayment obligation, or, via a cross-acceleration provision relating to other financial indebtedness incurred by us, exceeding a certain threshold amount, there is a risk that the lenders terminate the facility agreement for cause. In the event of such termination, the outstanding amounts would be immediately due for repayment, which could have a material adverse effect on our business, financial position and results of operations. Similar risks may apply depending on the individually agreed terms of local credit facility agreements. In the event of a breach of certain contractual obligations or the non-fulfillment of payment obligations under credit facility agreements, these agreements may be terminated and the financial institutions will not grant further credit, including guarantees. Derivative, hedging lines and other financial instruments may contain cross-default clauses that allow termination. Upon termination of certain of these agreements, market value compensation may have to be paid.

Our business activities could be similarly negatively affected if our customers or suppliers do not have access to financing on economically viable terms or if they or their lenders rate our ability to execute capital intensive turnkey projects worse due to a deterioration of our financial position, results of operation or credit ratings. This risk may be further exacerbated as the business activities of Siemens Energy focus exclusively on energy market segments. Prior to our separation from Siemens, we benefitted from the strong credit ratings of Siemens AG, e.g., as the principal of parent company guarantees. In the future, such support by Siemens will no longer be available to us for new projects. Siemens Energy AG and SGRE S.A. have received investment grade ratings. However, the ratings of Siemens Energy AG and SGRE S.A. are lower than the rating of Siemens AG, and it remains to be seen to what extent such lower credit ratings will be a competitive disadvantage. This risk could be further exacerbated if Siemens Energy AG's or SGRE S.A.'s creditworthiness were to deteriorate. Without investment grade rating, we could face significant challenges in winning new contracts, substantially increasing financing and hedging costs and refinancing risks as well as substantially decreasing availability of credit lines, e.g., for financing, guarantee and hedging purposes.

Further, development of and bidding for large projects, in particular of the Gas and Power segment's Generation division and of the SGRE segment, may require arrangement of co-financings of respective projects, e.g., by means of providing development loans, structured debt financings and/or equity investments. We face the risk that we may not be able to provide such financings either directly or indirectly via the involvement of third parties which may negatively impact our ability to successfully bid for such projects. While we have concluded a

preferred financing agreement with Siemens under which Siemens, as first priority partner, is willing to offer, under certain conditions, debt and commercial financing as well as, up to a defined maximum amount, equity financing for Gas and Power customers and their projects (including power plant projects) at arm's length through its financial services operations, this agreement may be terminated by either party. Termination may be affected for, among other reasons, if (i) Siemens' directly or indirectly holds less than 25% of the shares and/or voting rights in the Company (excluding shares directly or indirectly held by Siemens Pension-Trust e.V. or any other entity holding or managing plan assets under or in connection with Siemens Group's benefit plans) or (ii) another shareholder, either individually or acting in concert with others, holds 25% or more of the shares and/or voting rights in the Company or exercises control over the Company, in both cases, (i) and (ii), with a phase-out period of 36 months from the receipt of an effective termination notice. In the case of a termination pursuant to item (i), however, the receipt of a termination notice during the first three years of the term of the preferred financing agreement results in the 36-month phase notice period commencing on the third anniversary of the Spin-Off Completion. SGRE also concluded a preferred financing agreement with nearly comparable terms with Siemens. If (i) the preferred financing agreements are terminated, (ii) not properly implemented by the parties or (iii) there is need for financing support beyond the scope contemplated in the preferred financing agreements, we may not be able to set up our own capabilities in the required scope to provide financing for customers or may only be able to procure external financing from other sources at potentially increased costs when compared with the conditions of the preferred financing agreements. Insofar as projects depend on adequate financing capabilities, we may lose revenue or only achieve lower profits.

Siemens Energy makes use of different national ECAs, which support and promote national exports by providing risk coverage for lenders and exporters. In order to benefit from ECAs' support, we have to comply with their terms and conditions. Failure to comply with the terms and conditions of the ECA's cover decision may result in the loss of the respective project-specific ECA cover and in combination with an indemnification event this could result in reclaims from the ECA or lenders. If these ECAs change their terms and conditions and regulations or the respective national government or entities with regulatory power change the basis for the mode of operation of the respective ECAs, this may impact Siemens Energy and our customers' and lenders' ability to benefit from ECA support and could thus negatively impact the demand for our offerings.

With respect to ESG, increasingly strict financial institutions' internal, industry-wide or policy-driven prerequisites for all dimensions of ESG may negatively impact Siemens Energy's capabilities to procure funding, securities, hedging instruments, insurance or other financial services from banks, insurance companies and other financial institutions. In particular, with regard to sustainable financing, the EIB announced in November 2019 that it will end financing for fossil fuel energy projects from the end of 2021, and that its future financing will focus on accelerating clean energy innovation, energy efficiency and renewable energy. In addition, the EIB stated that it would align all financing activities with the goals of the Paris Agreement from the end of 2020. Furthermore, the EU's taxonomy for sustainable activities includes an action plan for financing of sustainable growth, which is aimed at facilitating certain sustainable investments. If, based on such sustainability policies or other policies related to different dimensions of ESG, banks were to refuse to provide financing to, or issue guarantees for, Siemens Energy or ECAs providing support and respective risk coverage, this could have a negative impact on the availability of attractive financing for Siemens Energy's business. Such policies may also limit our customers' ability to obtain attractive financing, which may result in a lower demand for our offering. Similarly, internal ESG guidelines may prevent certain investors from providing equity financing to us.

Furthermore, financial institutions increasingly demand representations in financing contracts with regard to compliance with sanctions or other export control measures. Failure to comply with sanctions and other control regimes may adversely impact our financing ability. We believe these risks are particularly relevant with a view to our oil & gas and conventional generation activities and will make the financing for such projects more difficult.

**3.3.5 We are exposed to currency fluctuation risks in various countries that could materially adversely affect our profitability and cause fluctuations in cash flow and reported earnings as well as our equity.**

Due to the global scale of our business and the high level of regionalization of many of our businesses, our results of operations are affected to a significant extent by foreign exchange rate movements. There are transactional risks which arise when we and our subsidiaries execute transactions in a currency other than our or our subsidiary's respective functional currency. The largest project execution, engineering, production and research and development hubs of our business are in Germany, the U.S., the UK, Spain, Denmark and China while our sales are global. This means that while income is generated in various currencies, costs are predominately denominated in euro, U.S. dollar, British Pound, Danish Krone and Renminbi.

Foreign currency exposure is partly balanced by purchasing of goods, commodities and services in the respective currencies as well as production and other contributions along the value chain in local markets. We seek to manage the transaction exposure resulting from contractual commitments as well as planned transactions in foreign currencies in a way that at least 75% but no more than 100% of the net foreign exchange exposure is hedged. If applicable, for such hedging transactions hedge accounting is used to reduce earnings volatility. However, changes in currency exchange rates generally cannot be predicted and cannot always be hedged on economically reasonable terms, and there can be no assurance that our hedging and other risk mitigation strategies will always be successful in mitigating currency risks. If we are unable to match sales revenues received in foreign currencies with costs paid in the same currency, our results of operations may be impacted by currency exchange rate fluctuations. In case of unfavorable exchange rate fluctuations, we may be able to offer our products only at comparatively higher prices or lower profit margins. This currency-related competitive disadvantage can lead to a decline in revenue or a lower profit margin for Siemens Energy. Firm bids and offers in a currency other than the respective functional currency of the concerned Siemens Energy Company may create a currency risk, which are generally not hedged. There is also the risk that currency conversion restrictions or cross-border money transfer prohibitions, either by administrative orders or due to banks' policies, occur that may prevent us from converting or transferring funds for a certain period of time or at all. Discrepancies between the maturity and cash flow profiles of hedging instruments and underlying transactions may result in volatility of cash flows, e.g., from cash settlements with banks when hedges expire prior to the underlying transaction due to local hedge limitations, e.g., in case of non deliverable forwards in Brazil. This and any negative effects from currency exchange rate exposure could have a material adverse effect on our business, financial position and results of operations.

We are also exposed to foreign exchange translation risks through the translation of our foreign subsidiaries financial statements into the euro for the preparation of our consolidated financial statements. Due to the foregoing, changes in exchange rates between our local currencies and the euro could lead to significant changes in our financial position from period to period.

**3.3.6 We have assumed significant pension liabilities, and we are unwinding and establishing employee participation programs, the actual costs incurred in connection with the resulting liabilities may substantially exceed our current estimates.**

Pension benefits are granted to a large portion of the employees of Siemens Energy. These obligations have been grouped in different pension plans depending on the legal, economic and tax environment of the relevant countries. For a major part, the pension schemes are designed as defined benefit plans, either funded in the form of external plan assets (so-called "pension plan assets") or unfunded. The provisions for pensions and similar obligations may be affected by changes in actuarial assumptions, including the life expectancy, the discount rate, as well as by movements in financial markets.

Actual developments may differ from assumptions, e.g., due to changing market and economic conditions, thereby resulting in an increase or decrease in the actual obligations. Significant fluctuations in the financial markets or a change in the portfolio mix of plan assets can result in significant increases or decreases in the attributable fair value of plan assets over time. This

applies particularly to equity securities. Also, changes in the valuation assumptions of pension obligations can affect the defined benefit obligation. For example, a change in discount rates, in particular, may result in changes in the defined benefit obligation. A one-half percentage point increase in the assumed discount rates would have led to a decrease in the defined benefit obligations of € 209 million for the fiscal year ending September 30, 2019. A reduction of one half percentage point of the assumed discount rates would have led to an increase of the defined benefit obligation of € 246 million for the fiscal year ending September 30, 2019.

As of June 30, 2020, we had defined benefit obligations of € 3,380 million. The fair value of plan assets amounted to € 2,315 million. Including the increasing effect of asset ceiling of € 1 million, this led to a net defined benefit balance of € 1,067 million as of June 30, 2020. As of June 30, 2020, provisions for pensions and similar obligations in our Combined Statements of Financial Position amounted to € 1,095 million. Plans with net assets were recognized in other assets with an amount of € 29 million as of June 30, 2020. A significant increase in the underfunding may have a negative effect on our capital structure and rating, and thus may tighten refinancing options and increase costs.

We may face the risk of increasing cash outflows if local pension regulations require higher funding levels or change otherwise.

Furthermore, the legal conditions governing our pension obligations are subject to changes in applicable legislation or case law. We may incur new or more extensive pension obligations in the future due to changes in such legislation and case law, or changes may negatively impact previous calculations with respect to our pension obligations. Moreover, future amendments to accounting standards may affect our pension obligations.

Finally, many of our employees participate in employee participation programs established and maintained by Siemens. In connection with the Spin-Off, we will be unwinding these programs for our employees by, among other things, making cash payments to relevant employees. The payout amount is generally based on the publicly quoted price of the shares in Siemens on the transaction date. The higher the quoted share price the higher the amount that must be paid out to relevant employees. Accordingly, if the share price levels exceed current assumptions, actual costs could be significantly higher than currently expected. Furthermore, we will be establishing employee participation programs similar to those in which our employees participated when we were a part of Siemens Group. The costs for these programs may significantly exceed current expectations.

### **3.3.7 Our profit forecasts as well as our other profitability and revenue targets could differ materially from our actual results of operations.**

We currently expect:

- our Group's Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021 to range from (1)% to 1% and 3% to 5%, respectively,
- our Segment's Adjusted EBITA Margin before Special Items for the Gas and Power Segment in the fiscal years 2020 and 2021 to range from 0% to 2% and 3.5% to 5.5%, respectively, and
- our Segment's Adjusted EBITA Margin before Special Items for the SGRE Segment in the fiscal years 2020 and 2021 to range from (3)% to (1)% and 3% to 5%, respectively.

For the purpose of these forecasts, we assumed:

- our Group's Revenue Growth Rate in the fiscal years 2020 and 2021 to range from (5)% to (2)% and 2% to 12%, respectively,
- our Segment's Revenue Growth Rate for the Gas and Power Segment in the fiscal years 2020 and 2021 to range from (5)% to (3)% and 2% to 11%, respectively, and
- our Segment's Revenue Growth Rate for the SGRE Segment in the fiscal years 2020 and 2021 to range from (7)% to (2)% and 3% to 12%, respectively.



For the fiscal year 2023, we target our Adjusted EBITA Margin before Special Items in a range from 6.5% to 8.5%. For the fiscal year 2023, we target Adjusted EBITA Margin before Special Items for our Gas and Power segment in a range from 6% to 8% and for our SGRE segment in a range from 8% to 10%. In the mid-term, we target an Adjusted EBITA Margin of at least 8% and our revenue to grow over a rolling three year average in a range from 0% to 3% (excluding portfolio and currency effects).

The Company's executive board (the "**Executive Board**") has based the profit forecast as well as the other profitability and revenue targets on a number of assumptions, which are inherently subject to significant business, operational, economic and other risks and many of which are outside of our control. Accordingly, such assumptions may change or may not materialize at all. Should one or more of the assumptions underlying the profit forecast as well as the other profitability and revenue targets prove to be incorrect, our actual results of operations for the respective future period(s) could differ materially. As a result, investors should not place undue reliance on them.

### **3.4 Compliance, Regulatory, Legal and Tax Risks**

#### **3.4.1 We are subject to risks from disputes and administrative, legal and arbitration proceedings which could result in penalties, damages and loss of reputation.**

Siemens Energy is, and potentially will be in the future, involved in several administrative, legal and arbitration proceedings in various jurisdictions. Frequently encountered situations include claims from or against project partners and customers regarding delays and disruptions, non-performance as well as labor disputes, antitrust issues, product liability, warranty claims and IP rights. The significance and outcome of these proceedings can vary greatly, and many of these cases could have considerable negative consequences for us. These proceedings could result in Siemens Energy being subject to, e.g., payment of contractual penalties or damages (including punitive damages), equitable remedies or sanctions, fines or disgorgement of profit. In individual cases, legal disputes may also lead to formal or informal exclusion from tenders or the revocation or refusal to renew or grant business licenses or permits. Some of these legal disputes and proceedings could result in adverse decisions for Siemens Energy or decisions, assessments or requirements of regulatory authorities could deviate from our expectations, which may have material effects on our business activities as well as our financial position, results of operations and cash flows. High-profile proceedings can also divert management attention, result in significant litigation and arbitration costs as well as negative publicity, and harm our reputation. In some cases, our reputation may suffer regardless of the merits of the claim and the outcome of the proceedings. Moreover, Siemens Energy may incur losses relating to legal proceedings beyond the limits, or outside the coverage, of its insurance or exceeding any provisions made for losses related to legal proceedings.

As of the date of this Prospectus, Siemens Energy Group companies are party in the following material litigations:

- SGRE is currently involved in a customer claim regarding a commercial dispute relating to execution delays in a project. Towards the end of 2019, the customer alleged that SGRE has delayed the project and is claiming liquidated damages for the delays up to the contractual capped amount. In early 2020, SGRE successfully objected to (and was thus granted a court injunction against) the drawdown of bank guarantees by the customer. With respect to the relevant customer contract, SGRE rejects the claim. Currently, SGRE intends, and continues to make reasonable efforts, to reach an amicable solution with the customer during the course of 2020. However, it cannot be ruled out that the case will lead to litigation.

- In addition, SGRE is party to a number of license agreements, which afford SGRE IP rights (in particular, patents, trademarks and design rights). In a few individual cases, there have been disputes or disagreements resulting from the interpretation regarding the execution of the existing agreements or from the interpretation of the scope of use rights granted by third parties (including competitors) to SGRE regarding their respective IP rights, or with respect to alleged IP infringements. While some of those disputes in the past years have been finally solved by court in favor of SGRE, others are still awaiting a final resolution, or have not reached a court stage and still remain to be solved between the respective parties. On July 31, 2020, General Electric Company ("**GE**") filed intellectual property related lawsuits against SGRE entities with the District Court (*Landgericht*) in Düsseldorf, Germany, and before the U.S. International Trade Commission ("**ITC**") asserting a violation of two patents with regard to certain variable speed wind turbine generators and components. The German lawsuit seeks an injunction against SGRE, mainly in relation to the manufacturing, offering and marketing of the relevant wind turbine generators and components in Germany, and financial compensation for any (alleged) infringing action performed after July 15, 2020. The U.S. ITC complaint seeks an exclusion order against SGRE's importation of certain wind turbine equipment into the United States. Should the complainant be successful, the financial burden to SGRE could be significant. There is the risk that SGRE will not be able to complete projects or to win new projects for which the affected wind turbine generators or components are required in Germany and/or the United States, or will only be able to do so at a higher cost (e.g., if it had to resort to alternative generators or components). Furthermore, if GE's patents were found to be valid and infringed upon by SGRE, SGRE could be forced to obtain a license from GE. SGRE will be defending against GE's claims. In addition, SGRE has launched an opposition appeal before the European Patent Office in Munich, Germany, against the European patent which is the basis of the German lawsuit; a resolution on the appeal is still pending. It cannot be excluded that SGRE will be involved in further disputes of such kind in individual cases in the future.

With regard to certain legal disputes and proceedings related to our business in which Siemens Group is or will become a party, Siemens Energy bears the economic consequences although we are not or will not become a party due to legal requirements in disputes or due to the fact that underlying contractual arrangements have not been transferred to us. Pending proceedings of Siemens Group under which we bear the economic consequences include the following material litigations:

- In December 2016, the BorWin Offshore Consortium ("**BorWin**") established between Siemens AG and another company filed a lawsuit against TenneT Offshore 1. Beteiligungsgesellschaft mbH with the district court of Frankfurt am Main, Germany, asserting contractual claims of now approximately € 88 million. The lawsuit relates to the connection of the offshore wind power plants in the cluster 'Borwin' to the grid. TenneT Offshore 1. Beteiligungsgesellschaft mbH set off with counterclaims in the amount of approximately € 66 million. In January 2020, TenneT Offshore 1. Beteiligungsgesellschaft mbH filed further counterclaims against BorWin asserting, among others, the correction of defects with an alleged value of approximately € 61 million. BorWin disputes the set-off and is defending itself against all counterclaims.
- In December 2016, the Helwin Offshore Consortium ("**Helwin**") established between Siemens AG and another company filed a lawsuit against TenneT Offshore GmbH with the district court of Frankfurt am Main, Germany, asserting contractual claims of now approximately € 91 million. The lawsuit relates to the connection of the offshore wind power plants in the cluster 'HelWin' to the grid. TenneT Offshore GmbH set off with counterclaims in the amount of approximately € 55 million. In January 2020, TenneT Offshore GmbH filed further counterclaims against Helwin asserting, among others, the correction of defects with an alleged value of approximately € 78 million. Helwin disputes the set-off and is defending itself against all counterclaims.

- In December 2016, the Sylwin Offshore Consortium (“Sylwin”) established between Siemens AG and another company filed a lawsuit against TenneT Offshore 7. Beteiligungsgesellschaft mbH with the district court of Frankfurt am Main, Germany, asserting contractual claims of approximately € 90 million. The lawsuit relates to the connection of the offshore wind power plants in the cluster Sylwin to the grid. TenneT Offshore 7. Beteiligungsgesellschaft mbH set off with counterclaims in the amount of approximately € 72 million. In April 2020, TenneT Offshore 7. Beteiligungsgesellschaft mbH filed further counterclaims against the Consortium asserting, among others, the correction of defects with an alleged value of approximately € 75 million. Sylwin disputes the set-off and is defending itself against all counterclaims.

Conversely, we are, and may in the future become, a party to legal proceedings that relate to business operations that will remain with Siemens after our separation from Siemens. In some countries, the separation of Siemens Energy from Siemens Group was executed by way of a reverse carve-out, *i.e.*, the businesses within an existing regional company that shall remain with Siemens Group were transferred out of such regional company into a newly established Siemens Group legal entity, while the existing regional company became part of the Siemens Energy Group. As a result, legal proceedings against such regional company arising in connection with business activities that were previously conducted by such regional company and that do not pertain to the Siemens Energy business will remain with such regional company. Siemens Energy Group and Siemens Group have concluded agreements to allocate the resulting financial risks in accordance with the separation of the business activities. However, it cannot be excluded at this stage that, as a result of those legal proceedings, such regional company might also be (temporarily or permanently) barred from conducting certain or any business in the respective region, or even be dissolved. Such an outcome could also damage our reputation. We may not be able to fully recover any losses resulting from such legal proceedings under the risk allocation agreements with Siemens. This also applies to legal proceedings in Brazil among others resulting out of Siemens’ businesses transferred into newly established Siemens Group legal entities (such as Siemens Infraestrutura e Indústria Ltda., Siemens Mobility Ltda., Siemens Healthcare Diagnósticos S.A.). These legal proceedings remain with Siemens Energy’s subsidiary Siemens Ltda. in Brazil.

### **3.4.2 Our operations are subject to trade and economic sanctions, anti-bribery, anti-corruption, anti-money laundering and antitrust laws and regulations and the risk of fraud.**

We must comply with trade and economic sanctions, anti-bribery and anti-corruption laws and regulations in the jurisdictions in which we operate. In particular, our international operations expose us to potential liability under the United States Foreign Corrupt Practices Act 1977 (“FCPA”), the UK Bribery Act of 2010 and any applicable law, rule or regulation promulgated to implement the Organization for Economic Cooperation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, signed December 17, 1997, and other similar laws and regulations relating to anti-corruption. The FCPA and the UK Bribery Act 2010 prohibit us and our officers, directors, employees and business partners acting on our behalf, including agents, from corruptly offering, promising, authorizing or providing anything of value to a “foreign official” for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment. The UK Bribery Act also prohibits “commercial” bribery not involving government officials, and accepting bribes as well as facilitation payments. We are also subject to anti-money laundering laws and regulations, including the EU’s 5<sup>th</sup> Anti-Money Laundering Directive, and antitrust laws and regulations prohibiting collusive and other anti-competitive practices.

Our business involves close and continuous contact with representatives of national governments and other officials, and in particular officials who are in a position of awarding government contracts and who therefore come within the scope of anti-bribery and anti-corruption laws. Some of the countries in which we operate lack a legal system that is as developed as those of

other countries, and may be perceived to have higher levels of bribery or corruption, including illegal procurement practices. As we use subcontractors in many of our projects in such countries, we face the risk that such contractors may engage in fraudulent activity, corruption or bribery, or may circumvent or override our internal controls (see also *"3.4.4. Our risk management and internal controls may not prevent or detect compliance risks, which could result in investigations by authorities, fines, damage claims, payment claims, the termination of relationships with customers or suppliers and even governmental exclusion from businesses (blacklisting) as well as reputational damage. Further, our internal controls could fail to detect business risks in time or at all."*).

Our business also must be conducted in compliance with applicable economic and trade sanctions laws and regulations, such as those administered and enforced by the U.S. Department of Treasury's Office of Foreign Assets Control, the U.S. Department of State, the U.S. Department of Commerce, the German Ministry of Economic Affairs and Energy, the United Nations Security Council and other relevant sanctions authorities. Our global operations expose us to the risk of violating, or being accused of violating, economic and trade sanctions laws and regulations. In addition, rapidly changing export control rules and regulations regarding business activities in critical countries, especially export control rules and regulations existing in the United States, which have extraterritorial reach, may lead to a risk of inadvertently violating specific countries' export control regulations and laws. Our failure or alleged failure to comply with these laws and regulations may expose us to reputational harm as well as significant penalties, including criminal fines, imprisonment, civil fines, disgorgement of profits, injunctions and debarment from government contracts, as well as other remedial measures. For example, the investigations into a possible violation of export control laws in connection with gas turbines manufactured by us and, contrary to contractual agreements, delivered to and installed in Crimea by a third party, resulted in negative publicity. Additionally, the Hamburg public prosecutor initiated criminal proceedings against Siemens' employees in regard of alleged violations of the German Foreign Trade and Payments Act (*Außenwirtschaftsgesetz*). Although internal investigations have not revealed misconduct by Siemens employees, these public investigations are still ongoing and any potential outcomes may negatively affect our reputation.

Past examples of sanctions imposed by the U.S. adversely impacting our business include the interference with our business activities in Iran following the imposition of U.S. sanctions against the country in 2018. Even if we do not terminate our business operations entirely, we may be incentivized to suspend the execution of projects involving countries or persons subject to such sanctions. Moreover, the U.S. has granted waivers to Iraq for purchasing electricity and gas from Iran. If the U.S. administration decides to not renew these waivers or imposes some form of sanctions or other restrictive measures concerning Iraq, such actions could have negative implications for our business in Iraq (see *"3.1.6 Political instability, international conflicts or new trade barriers may have a negative effect on our business, financial position and results of operations."*).

In addition, such sanctions may impact us indirectly. For example, if our third-party service providers cease to render services to us in order to comply with sanctions applicable to them, banks may refuse to facilitate financial transactions or provide guarantees. Additionally, banks may not provide financing to our customers if they are sanctioned or may become sanctioned in the future. Sanctions-related risks are further exacerbated by the fact that compliance with sanctions of one country may constitute a violation of the anti-sanction legislation of another, potentially leading to civil or even criminal liability of us or our representatives. For example, the European Commission has adopted anti-boycott rules forbidding companies from the EU to comply with the 2018 U.S. sanctions targeting Iran.

If we or any party related to us is found to have acted in contravention of trade and economic sanctions, anti-bribery, anti-corruption, anti-money laundering or antitrust laws or to have engaged in fraudulent behavior, it would have a material adverse effect on our reputation, competitive position and, ultimately, our results of operations.

### 3.4.3 The markets in which we and our customers operate are subject to several regulatory requirements which are subject to change.

As a group with a global business, we are exposed to various product- and country-related regulations, laws and policies influencing our business activities and processes. Since we provide products and services to customers that are active in regulated energy markets, we are indirectly affected by the regulatory environment applicable to our customers. Changes in regulatory environments for us and our customers could adversely affect us and our customers, including by reducing demand for our products, increasing costs and reducing profit.

The regulatory environment relevant to our Generation and Industrial Applications divisions is currently significantly changing, in particular due to increased government intervention to limit climate change by shifting energy production towards the use of more sustainable sources, primarily renewables, and reducing emissions. On a country-by-country basis, the pace of this change varies, making our, and our customers', regulatory environment more complex and increasing uncertainty about the extent of future regulations and policies. Such changes could lead to certain of our or our customers' products, solutions and services becoming, subject to gradual phase-outs, unlawful if we fail to adapt to such changes, or becoming uneconomical. For example, in January 2020, Germany decided to accelerate the phase-out of coal as a source for primary energy generation. This decision may impact our service business for steam power plants or may increase public pressure to also adapt related businesses. Further countries in Europe and around the world have decided to exit coal power generation between 2025 and 2040 while others have decided to stop building new coal power plants beyond such plants already in construction, such as Poland. Moreover, more stringent emission thresholds, increased or additional carbon pricing regulation or the discontinuance or reduction of current promotions schemes, among other factors, may make certain forms of fossil power production less profitable. It cannot be ruled out that similar interventions may affect other business areas of our Generation division. For our Industrial Applications division, the business prospects may be negatively impacted by the introduction of new taxes on fossil fuels. Conversely, if government interventions or regulations promoting hydrogen use (directly or indirectly) do not materialize as expected, the business prospects of our New Energy Business may be negatively impacted.

The business of our Transmission division may be impacted by future EU legislation limiting or banning the use of SF<sub>6</sub> in gas-insulated switchgear. SF<sub>6</sub>-based gas-insulated switchgear contribute a significant portion of our Transmission division's revenues and profit, and there can be no assurance that our alternative solution is viable in the European market (see "3.2.2 *We may be unable to successfully develop and launch a portfolio of competitive and technologically-advanced products, services and solutions, and our research and development efforts may be unsuccessful.*"). A ban of SF<sub>6</sub> in the EU would also force us to shift production sites outside Europe to serve the unrestricted world market, which may adversely affect our reputation. In addition, the development and certification of, potentially, further SF<sub>6</sub>-free products and manufacturing of a parallel product line would entail significant efforts and expenses. Furthermore, demand for our Transmission products may suffer if the competent authorities decide to reduce the fees grid operators may charge under applicable network regulations. In addition, ongoing grid expansion projects may face resistance and be subject to legal actions seeking to stop or delay the completion of one or more projects and may result in overcapacities (see also "3.2.11 *In connection with existing and potential future reorganization and cost savings measures, we may incur substantial restructuring expenses and cash outflows. We may not be able to realize expected cost savings or we may fail to adjust our organizational and manufacturing footprint in a timely manner or at all, and such reorganizations may not yield the targeted benefits or may damage our reputation.*"). Our Transmission business is particularly sensitive to changes and the increase in standardization requirements concerning networks, which may result in costly design changes and additional testing efforts. Should we be unable to implement the required changes to our products and solutions in a timely manner, we risk losing market access in the affected business areas.

Our SGRE segment faces risks regarding the demand for its wind turbines due to regulatory and policy changes in many jurisdictions. Although the general perception is that the decarbonization



trend will have a positive effect on the electricity production from renewables, including wind energy, developers of wind power plants are dealing with the risk of industry specific policy changes and increasing regulation and, in part, activism, mostly in the form of demonstrations and protests, by the local population. These policy changes and regulations could be due to renewable energy targets, environmental considerations (e.g., noise, minimum distances to populated areas, bird protection), or technical requirements (e.g., regulations for grid connections), but may also result from other factors such as the access to land for project development, the overall permission process or subsidy rules. Such measures could significantly hinder the growth of the onshore and offshore wind turbine market.

Our SGRE segment may also face local content requirements which may adversely impact our operations in certain countries if such requirements were not met. In addition, various state support measures, such as fixed feed-in tariffs and tax breaks, to promote the wind energy market will be reduced or phased out, which may reduce SGRE's sales prices, revenues and profitability. For example, in China, feed-in tariffs for onshore wind energy are expected to cease to apply as of 2021.

In addition, the requirements for obtaining export credit insurances are becoming increasingly stringent, which may negatively affect Siemens Energy's export business if such insurances cannot be obtained or can only be obtained at an additional cost. This is particularly relevant for coal-fired power plants.

If there is a substantial adverse development in the regulatory and policy framework, this could increase the costs and decrease future customer demand and this, in turn, could have a material adverse effect on our competitive position and our business, financial position and results of operations.

**3.4.4 Our risk management and internal controls may not prevent or detect compliance risks, which could result in investigations by authorities, fines, damage claims, payment claims, the termination of relationships with customers or suppliers and even governmental exclusion from businesses (blacklisting) as well as reputational damage. Further, our internal controls could fail to detect business risks in time or at all.**

We operate in numerous countries with 89 thousand employees (in the fiscal year ended September 30, 2019, average, based on headcount), including certain countries with less stable political, legal and regulatory regimes as well as inconsistent enforcement of laws and regulations. In addition, some of our customers and suppliers operate in countries which have business environments, legal systems as well as political and cultural influences different from those which prevail in Western Europe. We have only limited influence over the day-to-day operations of our customers, suppliers and other partners. In particular, we have limited or no insight on how our customers use the products we supply. All these circumstances inherently create a risk that applicable legislation and regulations may be breached.

We have implemented a compliance system and organization, have established a code of conduct and are providing regular training in order to ensure compliance with all applicable laws, e.g., anti-corruption, anti-bribery, antitrust, fair competition, anti-money laundering, data privacy, human rights, sanctions and other forms of export control regimes, including customs regulations and other legislation such as data protection regulations, regulatory security requirements or capital markets laws. Nevertheless, our existing compliance processes, systems and controls may not be sufficient and our employees, customers, suppliers and other partners may not act in compliance with applicable statutory provisions and internal guidelines or process descriptions, for example, in procurement, production, proposals and sales. In particular, our projects are often undertaken in high-risk countries where we are required to work with local project partners, subcontractors or suppliers, which we may not always be able to analyze entirely and in all details. With regard to sanctions and other export control regimes, sanctioned parties may be indirectly involved, making it difficult to detect their involvement. The high pressure arising from a fast changing, more complex and aggressive business environment and aggressive target

setting may foster non-compliant behavior of our employees. We face the risk that, as a result of any violations of relevant laws and regulations, penalties, liabilities, fines or investigations may be imposed on us or that our business may be adversely affected. In addition, our compliance system and monitoring capabilities may not be sufficient to promptly detect current compliance issues, identify past violations or prevent damage from fraud or similar crimes in the Group, as has happened in the past in individual cases. Furthermore, changes in applicable laws and regulations, new guidance by competent authorities or interpretations of laws and regulations by the courts pose additional challenges for our compliance systems. For example, the judgement of the European Court of Justice of July 16, 2020, which annulled the EU-US Privacy Shield, could lead to additional costs for complying with new standards, or potential breaches of data privacy rules, which could result in fines, reputational damage or other negative consequences for us.

For example, our SGRE segment is currently investigating a number of possible compliance violations relating to its Indian subsidiary. To date, only violations of internal control regulations have been identified, and it is not yet clear whether there have been any further compliance violations and the extent of these violations. Regarding our Gas and Power segment, we have identified a business area that received, during a bidding process, confidential competitor and customer information, which may have negative consequences for us.

Inappropriate behavior or any compliance breaches could lead to legal proceedings against us, criminal, regulatory and/or other fines, sanctions, court orders affecting future conduct, forfeiture of profits, rescission of existing contracts, exclusion from certain businesses (so-called "blacklisting"), potential damages, loss of licenses and certifications or other restrictions, which, in turn, might limit our ability to pursue strategic projects and transactions that may be important for our business.

Furthermore, while we have established an internal control system based on internationally recognized industry standards, designed to help us achieve important business objectives and sustain and improve business performance, there can be no assurance that this system will effectively detect business risks in time or in all cases.

Involvement in potential non-compliance proceedings and investigations could harm our reputation and that of our management, lead to the loss of customers and have a negative impact on our brands and on our efforts to compete for new customers and new orders. Customers and/or third parties could also initiate legal proceedings against us for substantial financial sums.

If our risk management or internal controls are not successful at preventing or detecting such risks, we may be liable for fines, damage claims, payment claims and may suffer reputational damage and the termination of relationships with customers or suppliers, each of which could have a material adverse effect on our reputation, competitive position and our business, financial position and results of operations.

#### **3.4.5 We may be unable to adequately protect and defend our IP and know-how or may infringe on third-party IP rights.**

In close alignment with the product development process, we regularly apply for new patents and actively manage our IP portfolio to maintain and enhance our technological position and to support our business. There can be no assurance that the steps we take to obtain, preserve and protect our IP rights will be completely adequate. This risk is further exacerbated by the fact that we have been pursuing a more selective strategy in recent years when filing for new patents, which is aimed at reducing costs while at the same time adequately protecting our innovations.

Our IP rights may fail to provide us with significant competitive advantages, particularly in foreign jurisdictions where we have not invested in an IP portfolio or jurisdictions that do not have strong IP rights or do not enforce such rights rigorously. The weakening of protection of our trademarks, patents and other IP rights could also adversely affect our business. Some of our IP and know-how is not protected by registered IP rights, as we consider the disclosure of trade secrets connected with a registration to be more harmful for us than the risk of secrecy

violations. Therefore, we rely on trade secret protection and confidentiality agreements with our employees, but cannot guarantee that such measures will be effective to protect our know-how.

We are a party to a number of license agreements that afford us rights to IP that is necessary or useful to our business, including licenses granted by Siemens. Our success depends in part on the ability of us and our licensors to obtain, maintain and sufficiently enforce our IP rights, as well as licensed IP rights, we have commercialized. Without protection for the IP rights we have filed with the respective patent office and license, other companies might be able to offer substantially identical products, which could adversely affect sales of our products and, ultimately, of our competitive position. Also, there can be no assurance that we will be able to obtain or renew from third parties the licenses to IP rights we need in the future, and there is no assurance that such licenses can be obtained on reasonable terms.

Our products are proprietary developments but their basic designs sometimes resemble competing products. Although, we implemented processes designed to prevent that our products or parts thereof unintentionally infringe IP rights of third parties (in particular patents, trademarks and design rights), there can be no guarantee that our prevention mechanisms will detect infringements in time or at all. If we infringe third-party rights, we may be liable for damages as well as litigation costs and may have to withdraw goods already produced from the market or purchase a license to use such rights.

If protections for our IP prove inadequate, if we are unable to successfully defend and enforce our IP rights and confidentiality agreements, or if we infringe third-party IP rights, this may have a material adverse effect on our business, financial position and results of operations.

#### **3.4.6 We are subject to environmental, health and safety as well as other regulatory requirements and risks, as a result of which we may incur significant costs, liabilities and obligations.**

The majority of the industries in which we operate are highly regulated. For example, certain of our, or our suppliers', production processes require, and certain of our products contain, chemicals or other substances which are subject to various laws and regulations, and we have to adhere to stringent occupational health and safety laws and regulations not only in our production facilities but also, among others, on project sites and at customer locations. Current and future EHS and other governmental regulations, or changes thereto, may require us to change the way we run our operations and could result in significant increases in our operating or production costs. Furthermore, due to the high risk profile of some of our work we see the risk of potential EHS incidents as well as potential non-compliance with EHS regulations affecting Siemens Energy and our contractors or sub-suppliers, resulting for example in serious injuries, penalties, loss of reputation and internal or external investigations as well as project delays. Especially in emerging market environments with a less mature culture in relation to EHS there may be a risk of serious and/or fatal accidents.

In addition, while we have procedures in place to ensure compliance with applicable governmental regulations in the conduct of our business operations, violations of applicable governmental regulations either by us or by third parties that we contract with, including consortium partners, suppliers or service providers whose activities may be attributed to us, may not be fully excluded. Any such violations particularly expose us to the risk of liability, penalties, fines, reputational damage or loss of licenses or permits that are important to our business operations. We could also face liability for damage or remediation for environmental contamination at the facilities we own, lease, design or operate. This risk is further exacerbated by the fact that much of the real estate used by Siemens Energy was acquired when such real estate had already been in industrial use. Siemens Energy, thus, cannot guarantee that such real estate was always operated in line with EHS regulations, but may, nevertheless, be held responsible for the consequences of a failure to do so. With regard to certain environmental risks, we maintain liability insurance. We may incur environmental losses beyond the insurance limits, or outside the coverage, of such insurance, and such losses may have a material adverse effect on our business, financial position and results of operations. Risks in relation to EHS may

be exacerbated in cases where we are, either due to a lack of adequate and experienced contractors, preferences by our consortium partners or customers for specific contractors, forced to work with contractors with no or inadequate EHS experience on construction sites. In such cases, we may not be able to uphold our own EHS standard approach and practices. Furthermore, we may have to allocate additional resources or incur additional costs to align our EHS standard approach and practices with that of our contractors.

Furthermore, due to our global operations, we have a large number of employees in many different jurisdictions with different, sometimes conflicting, EHS standards, which makes compliance with these standards more complex. Furthermore, it cannot be excluded that in individual cases, certain employees may have insufficient knowledge about binding international and local requirements in this field. We may also be inadequately prepared to respond to unexpected regulatory enforcement actions. Increasingly, compliance and enforcement of EHS standard is becoming part of financing terms for projects, and we may fail to accurately interpret and apply these standards, which may jeopardize the financing of our projects.

#### **3.4.7 Our insurance coverage may not be sufficient and insurance premiums may increase.**

We maintain insurance coverage in relation to a number of risks associated with our business activities, including third-party (product) liability, property damage and business interruption, environmental damage, directors and officers liability, construction, transport and vehicle insurance. These insurance policies may not cover all losses or damages resulting from the materialization of any of the risks. There can moreover be no assurance that our insurance providers will continue to grant coverage on commercially acceptable terms or at all. In addition, there are risks left intentionally uninsured, and we, therefore, have no insurance against these events. Furthermore, agreed limits and other restrictions (e.g., exclusions) within the insurance coverage may prove to be too low or inadequate for compensating potential damages or losses, ultimately resulting in a gap in the insurance coverage. If we sustain damages for which there is no or insufficient insurance coverage, or if we have to pay higher insurance premiums or encounter restrictions on insurance coverage, this may have a material adverse effect on our business, financial position and results of operations. The risk of obtaining insurance coverage could become more costly given changing market conditions due to high profile cases in the recent past and the economic downturn.

#### **3.4.8 Our tax burden could increase due to changes in tax laws and regulations or their application or interpretation, as a result of current or future tax audits, or transfer pricing adjustments.**

We operate in nearly all countries of the world and therefore are subject to many different tax regulations. Our tax burden could increase due to changes in tax laws or their application or interpretation, or as a result of current or future tax audits. Changes in tax laws or regulations, tax treaties or any change in position by the relevant authorities regarding the application, administration and interpretation (including any form of administrative guidance or through the interpretation by courts) in any applicable jurisdiction, could result in higher tax expenses and increased tax payments (prospectively or retrospectively). Furthermore, these changes could particularly impact our tax receivables and tax liabilities as well as deferred tax assets and deferred tax liabilities. In addition, the uncertain legal environment in some regions could limit our ability to enforce our rights. As a globally operating organization, we conduct business in countries subject to complex tax rules, which may be interpreted in different ways. Furthermore, changes in fiscal regulations or in the interpretation of tax laws by the courts as well as future changes in interpretations or developments of tax regimes by the tax authorities may also have a material adverse effect on our business situation, financial condition, cash flows and results of operations.

We are regularly audited by tax authorities in various jurisdictions and we continuously identify and assess relevant risks, and an assessment of the relevant tax authorities could lead to additional tax burdens or other detrimental consequences. Siemens Gas and Power GmbH & Co. KG (to be renamed Siemens Energy Global GmbH & Co. KG, "SE Global GmbH & Co. KG") as well

as the German and other foreign subsidiaries belonging to the Siemens Energy Group are or will likely be subject to tax audits by the respective tax authorities on a regular basis. For instance, the Mexico division of our SGRE segment is subject to tax audits for the fiscal years 2013 and 2014. Additionally, the India division is subject to audits for the fiscal years 2010/2011 through 2017/2018 and a Philippine subsidiary is subject to a tax audit relating to the year 2018. Furthermore, some of the Siemens Energy Group entities are involved in pending tax disputes with local tax authorities in several jurisdictions. As a result of current or future tax audits or other reviews by the tax authorities or tax disputes, material additional taxes could be imposed on our Siemens Energy Group companies exceeding the provisions reflected in our financial statements. For instance, the original treatment of a tax-relevant matter in a tax return, tax assessment or otherwise could later be found incorrect, the validity of our tax groups for past and current periods could be challenged, and additional taxes, interest, penalty payments and/or social security payments could be assessed on any of our companies. Such (re-)assessment may be due to an interpretation or view of laws and/or facts by tax authorities in a manner deviating from our view and may in particular emerge as a result of tax audits or other review actions by the relevant tax authorities or tax disputes pending before the tax courts. For instance, several tax disputes of the Brazilian Siemens Energy Group companies are pending before the Brazilian tax courts. This could lead to a significant increase in our tax obligations, either as a result of the relevant tax payment being assessed directly against us or as the result of us becoming liable for the relevant tax as a secondary obligor due to the primary obligor's (such as, for example, an employee) failure to pay. Some companies of our Siemens Energy Group have been and are still significantly benefitting from a preferential tax treatment, such as the preferential tax status of certain of our Chinese subsidiaries which, under Chinese tax law, are classified as "high and new technology enterprise" (HNTE) and thus are eligible for a lower income tax rate. If a preferential tax treatment was denied with retroactive effect or is no longer granted in the future, this would have an adverse impact on our financial position and results of operations. Several of our subsidiaries have considerable tax loss carry forwards, some of which have been capitalized as deferred tax assets in the consolidated financial statements for the fiscal year ending on September 30, 2019. The utilization of tax loss carry forwards, however, may be restricted under applicable tax laws, for instance, if they cannot be carried forward indefinitely or if they forfeit upon occurrence of a certain events (e.g., a direct or indirect transfer of shares or a change of control). If tax loss carry forwards can no longer be set-off against future taxable profits, this would generally increase our future tax burden (for further details with respect to the separation see *"3.5.13 In the separation from Siemens Group and in particular in the Spin-Off, unutilized tax loss carry forwards and interest carry forwards could have been forfeited."* below). In addition, any such restriction may require a write-down of the deferred tax assets in our consolidated financial statements. This would negatively affect our financial position and results of operations.

Because we operate in numerous jurisdictions, we are exposed to tax risks, in particular with regard to the so-called "transfer pricing" rules that apply in several jurisdictions and in relation to cross-border business relationships. Pursuant to such rules, related enterprises are obligated to conduct any inter-company transactions per conditions which would also apply among unrelated third parties concluding comparable agreements (so-called "at arm's length principle") and to provide sufficient documentation thereof, subject to the rules applicable to them in the relevant jurisdiction. Even though we have established a transfer pricing model aimed at being compliant with domestic and international transfer pricing regulations, it cannot be excluded that one or more foreign tax authorities might not agree with, and thus challenge, our implemented transfer pricing rules. The consequence might be double taxation in two or more countries, which could potentially only be mitigated or avoided by means of a mutual agreement procedure between the relevant tax authorities or certain unilateral measures. Furthermore, transfer pricing risks may increase in the future as intra-Group cross-border business grows or changes against the background of the digitalization and as the tax authorities' interpretation of the arm's length principle evolves over time. For example, some of our subsidiaries sell goods and/or provide services to foreign subsidiaries. These companies must fulfill special requirements regarding the documentation of transfer prices according to special tax laws, such as the German Foreign Tax Act (*Außensteuergesetz*) or similar applicable national laws and regulations regarding OECD



requirements. Our documentation may be considered to be insufficient by the relevant tax authorities or transfer prices may be considered to be inadequate or inadequately justified. This may result in penalties and additional tax payments. Companies of our Group could be involved in transactions with the existing shareholders of the Company and/or parties related to the existing shareholders. Such transactions, in order to be recognized for income tax purposes, also need to comply with the arm's length principle. In case of any such transactions being found not to be at arm's length, this could lead to the assessment of additional taxes payable by companies of our Group and thus negatively affect our results of operations, cash flows and financial position.

**3.4.9 We depend, with respect to certain activities, on permits, licenses, approvals, certifications and exemptions, and there can be no assurance that we will be able to renew all necessary licenses, certifications and similar permits required for our operations in a timely manner.**

Certain of our activities depend on permits, licenses, approvals, certifications and/or exemptions in different jurisdictions in order to operate our business. For example, we are exposed to risks associated with approvals when building and operating production facilities and require certain certifications for our plants, which must be regularly renewed. Furthermore, our customers increasingly require that we obtain additional certifications in order to consider engaging us. The necessary validation and certification processes are often complex, time-consuming and costly, and may be influenced by factors that are beyond our control. Also, occupational health and safety incidents may cause certain certifications to be suspended or revoked. In addition, relevant regulatory authorities may not grant licenses, approvals, certifications, exemptions and dispensations as quickly as anticipated, which may result in project delays or unused capacities. In addition, there can be no assurance that we will be able to renew our permits, licenses, approvals, certifications, exemptions and dispensations upon their expiration within the required timeframe or at all.

With respect to our SGRE segment, the governmental support for the wind industry in the form of subsidies and similar schemes (see *"3.1.8 The wind power industry faces structural market changes, in particular declining subsidy levels, and there can be no guarantee that Siemens Gamesa Renewable Energy will succeed in addressing the resulting challenges."*), and the granting of permits and licenses for the operation of wind power plants (including in relation to a wind power plant's construction, environmental impact, grid connection and feeding-in of power) currently constitute an important form of governmental and administrative support for investments in the wind power industry. Any decrease or elimination of such (indirect) government support in any jurisdiction, including political or policy changes towards the wind industry and/or in relation to the cost, timing and conditions required to obtain permits and licenses for wind power plants (such as statutory minimum distances between wind power plants and populated areas), could have a negative impact on the market for wind power in that jurisdiction and, consequently, could reduce the demand for our SGRE segment's wind power equipment and its revenues from sales.

If we are unable to secure permits, licenses, approvals, certifications and exemptions, our activities may be disrupted and this could have a material adverse effect on our competitive position and our business, financial position and results of operations.

**3.4.10 We are subject to risks relating to change-of-control clauses, which may result in termination or in renegotiation of contracts, potentially with less advantageous terms for us. Such change-of-control clauses may be triggered when the Spin-Off becomes effective and we may not always be able to obtain a waiver, amendment or novation.**

Several agreements entered into by Siemens Energy contain change-of-control clauses. In case of a change of control, any of the parties is entitled to terminate the relevant agreement. These types of provisions apply to certain agreements entered into between Siemens Energy with third parties or with Siemens AG, including the preferred financing agreements with Siemens, licensing agreements pursuant to which we are entitled to use the "Siemens" brand (see

*"3.5.11 Under certain conditions, we may lose the right to use the "Siemens Energy" or "Siemens Gamesa" brands, which could leave us without a consistent brand across our business activities or entirely without an established brand." below), an agreement regarding a strategic alliance between the parties, covering also the supply of Siemens products to our SGRE segment, agreements for the contracting of financial derivatives between both companies. Furthermore, Siemens has a right to request the sale back of certain IP relating to our power plants control system SPPA-T3000 which has been transferred by Siemens to Siemens Energy if a third party directly or indirectly acquires control over Siemens Energy. Additionally, in case of a change of control event, our SGRE segment may have to pay significantly higher fees for guarantees issued in the favor of its customers.*

Certain contracts of Siemens Energy made with consortium partners, suppliers, customers and other contractual partners include change of control provisions allowing for termination, in particular if the new controlling party is the other party's competitor. After Spin-Off Completion, Siemens AG will no longer be the majority shareholder of Siemens Energy. This may trigger the change-of-control clauses in certain contracts. While we have approached consortium partners, suppliers, customers and other contractual partners with contracts containing a change-of-control clause, it is uncertain whether and which contract partners will make use of their rights, which may result in loss of contracts, an obligation of Siemens Energy to find alternative suppliers and partners, potentially at a higher cost, or develop appropriate in-house functions.

Specific provisions regarding a change of control are for example contained in the IP agreement between Siemens AG and Rolls-Royce plc relating to our aero-derivative gas turbine business. Once this agreement is transferred to Siemens Energy a provision will apply to us, according to which, if a competitor of Rolls-Royce plc. acquires direct or indirect control of Siemens Energy (whereby the acquisition of 30% of Siemens Energy's shares implies the acquisition of control), Siemens Energy is obligated to sell the aero-derivative gas turbine business to a company that is not a competitor of Rolls-Royce within 12 months of such acquisition of control. If the business is not sold, the licenses granted by Rolls-Royce to Siemens Energy will be automatically terminated.

### **3.5 Risks Related to Our Separation from the Siemens Group**

#### **3.5.1 Our Gas and Power segment and, to a lesser extent, our SGRE segment may lose business opportunities and face a negative perception of our stand-alone position following our separation from the Siemens Group. Further, as a stand-alone group, we may not be able to satisfy financial or technical requirements under public procurement laws.**

In the past, our Gas and Power segment benefited to some extent from the business activities of the Siemens Group, and vice versa, in particular regarding the sale of our transmission products by Siemens' "Smart Infrastructure" segment. It cannot be ruled out that, following the significant reduction of Siemens' stake in Siemens Energy AG following the Spin-Off, we will no longer benefit from this cooperation as much as we used to. We may also lose business opportunities we previously enjoyed because our business partners took into consideration other business opportunities relating to the entire Siemens Group when they entered into business relations with us. We also face the risk that a contractual partner may not agree to transfer a contract or a binding offer (entered into or submitted prior to our separation from Siemens) from Siemens to Siemens Energy. In such case, we may have to execute on such contracts as a sub-contractor or agent of Siemens. This situation could result in losing contractual partners and/or business opportunities if contractual partners are then unwilling to continue their relationship with Siemens Energy. As such transfers usually require the consent of the counterparty, counterparties such as customers or suppliers may use the consent requirement as leverage to enter into renegotiations or make use of their contractual termination rights. Similarly, objections to contract transfers could also cause us to lose access to current or future IP rights which were licensed to Siemens and may result in restricted access to certain business fields.

We face the risk that the new stand-alone position of Siemens Energy may be negatively perceived by potential consortium partners, suppliers, customers and their lenders, employees and other stakeholders. For example, customers of Siemens' former Gas and Power business may be reluctant to place orders with Siemens Energy, e.g., because of a less favorable credit rating or insufficient capabilities to finance projects, or we may experience increased difficulties to recruit and to retain talent and key experts. To a lesser degree, this risk is also relevant for our SGRE segment, especially with a view to offshore projects.

Furthermore, private-sector clients or public procurement laws often require that a bidder demonstrates certain qualifications, e.g., by demonstrating that the bidder has been active with a registered local company for a certain number of years, sufficient capitalization, or technical qualifications, e.g., by demonstrating a track record of relevant projects. While Siemens has permitted us using references of projects we executed as part of Siemens Group, there can be no assurance Siemens will cooperate in relation to such references projects or that public authorities will accept such references as references demonstrating our capabilities as a stand-alone company.

### **3.5.2 We may face difficulties in satisfying certain treasury and finance requirements as well as performing certain services and functions that historically were provided by the Siemens Group.**

As our Gas and Power segment had formerly been a fully-integrated part of the Siemens Group, we have relied on financial, administrative and other resources (such as services related, for example, to taxes, legal and contract management, IT, corporate communications, procurement, human resources, internal audit, compliance, real estate, (cyber-)security, accounting and financing, including treasury, guarantees, insurance and pension management) of the Siemens Group. Following the Spin-Off, the Siemens Group will continue to provide some of these services and function-related services for a limited period of time under transitional service agreements as well as under long-term service agreements and other individually negotiated agreements. Such service agreements will, however, not replace these services to the same extent, or may not function as efficiently, or may not fully capture the organizational and commercial benefits the Group's business has enjoyed as a fully-integrated part of the Siemens Group. It is also possible that such service agreements may be insufficient to cover our future needs. For example, accounting complexities resulting from our separation from Siemens are expected to make our future financial reporting significantly more complex, and we may not be able to ensure accurate and timely reporting of our financial results. Further, the transitional and long-term service agreements may contain terms and conditions that may prove to be unfavorable. In addition, if the Siemens Group fails to perform the services provided for under the various service agreements, this may result in operational problems or liabilities towards third parties and increased costs for us. Furthermore, if, after the expiration or termination of the transitional service agreements, we fail to set up the relevant functions by ourselves or to replace the transitional services with third-party services in a timely manner or on reasonable terms, we may experience operational problems, become liable towards third parties and incur increased costs. To a lesser degree, SGRE could also be affected as it also has transitional services agreements in place with the Siemens Group.

Moreover, due to cost reasons, long-term (currency) hedges are expected to be replaced with short-term hedges resulting in a higher risk exposure. In connection with the Spin-Off, significant hedging positions will be transferred to Siemens Energy, which could be more costly than anticipated. In case of a termination of the existing hedging positions, the market values of the derivative transactions need to be settled between the relevant parties which could result in substantial short-term payment obligations of Siemens Energy.

After our separation from Siemens, we may not be able to continue to rely on certain waivers and exemptions granted under capital markets regulations, including under the European Union's European Market Infrastructure Regulation (EMIR), to pursue derivatives trading, clearing and collateralization as well as for certain treasury financing operations of non-financial companies for both Group-internal and external activities without having to obtain a license. If

we fail to obtain required waivers and exemptions in time or at all we may be required to set-up systems for external reporting or have to procure services externally at increased costs.

In particular, with respect to our working capital requirements and capital for our general corporate purposes – including acquisitions, research and development and capital expenditures – the risks associated with fluctuations in foreign currency denominated receivables, payables, debt, guarantees, firm commitments and forecast transactions, as well as interest rate change risks, credit risks associated with contractual partners (e.g., banks and customers) and market price risks (e.g., commodities or foreign exchange) have all historically been managed by or via the Siemens Group. Other corporate finance and treasury services (including insurance and pension management services) have historically been managed as part of the treasury and financing policies and procedures of the Siemens Group. Following the Spin-Off, our corporate finance and treasury functions will continue to depend on the Siemens Group for certain finance and treasury IT tools for a transitional period of 8 to 24 months and potentially beyond. Upon expiration of such support service agreements (or if we decide to terminate them or they are terminated upon notice by Siemens), there can be no guarantee that we will be able to replace such tools in a timely and cost-efficient manner, which could negatively impact our business operations and results.

There is a risk that guarantees attributable to the Siemens Energy business contain rating trigger clauses which oblige Siemens Energy (in case of transferred contracts) to replace such guarantees through alternative securities, e.g., bank guarantees or surety bonds, in case the rating of the guarantor falls below a defined level. Furthermore, fees for existing or new guarantees, surety exposures or parent company guarantees may increase significantly, especially for guarantees relating to long-term service contracts. In an unfavorable financial markets environment such fees may rise disproportionately for Siemens Energy when compared to Siemens.

In the stand-alone set-up following the Spin-Off, we intend to obtain financing from banks, public offerings or private placements of debt, convertible or potentially equity securities. The cost of obtaining third-party funding for our business could be higher than under the financing received from the Siemens Group prior to the separation. In addition, third-party providers of debt financing, such as banks, may not be willing or, due to internal thresholds or other limitations, able to provide or extend credits or other forms of debt financing to us in the first months after spin-off because they have already provided similar financing to other entities of the Siemens Group and it may take time to adjust credit lines and transfer such exposures. While our SGRE segment is mostly financing itself, SGRE and other Siemens Energy Group companies form a so-called “single borrower unit” (*Kreditnehmereinheit*) (see “3.3.4 Our business and the businesses of our customers and suppliers require access to significant credit and guarantee lines and other financing instruments. Our business activities could be negatively affected if we are unable to meet our capital requirements in the future, for example in weak financial market environments, as a result of a significant deterioration of our credit standing or of a breach of a credit facility agreement, or if access to capital becomes more expensive. Our business activities could be similarly negatively affected if our customers or suppliers do not have access to financing on economically viable terms.”). The same applies to any other kind of product we may decide to, or be required to, purchase or obtain from banks, insurance companies or other third parties (e.g., hedging instruments or guarantees). Furthermore, we cannot rule out that our credit rating may be negatively impacted if SGRE S.A.’s ratings were subject to a downgrading, and vice versa.

### **3.5.3 We are subject to tax risks due to the separation from the Siemens Group**

The separation from the Siemens Group and the grouping of activities and assets that shall form part of the Siemens Energy Group was implemented by way of reorganization measures under German law (e.g., spin-off) and comparable measures under the laws of other jurisdictions as well as certain carve-out measures. In the course of these separation measures, a multitude of assets have been transferred. In addition, numerous contractual intercompany relations between Siemens and Siemens Energy (for instance, financing arrangements) had to be terminated, sometimes prematurely and/or against the payment of an arms’ length termination fee. In this

respect, it cannot be ruled out that the envisaged tax treatment of such measures will be challenged by the tax authorities and that additional taxes, for instance, income taxes, VAT, stamp duties or de-grouping charges, will be assessed, for example due to a denial of certain exemptions or of input VAT-deductions, or a different valuation of the transferred assets, or that loss-carry-forwards will be utilized as a consequence of such measures which could result in a reduction of deferred tax assets.

As a general rule, the taxes arising in the course of the separation of the Siemens Energy Business shall be borne by the entity which owes such taxes as statutory taxpayer. Hence, e.g., in the event that the Siemens Energy Business was separated by way of reverse carve-out measures, the tax burden and risks which result from such measure or relate to the carved out business remain with entities of the Siemens Energy Group, although the transferred assets do not belong to the Siemens Energy Business.

Furthermore, under the Group Separation Agreement (*Konzerntrennungsvertrag*), Siemens Energy AG shall procure that certain assets contributed to SE Global GmbH & Co. KG are recognized at their tax book values and the required application with the competent tax office is filed in time. If Siemens Energy AG violates such obligations and taxes are imposed on Siemens AG or Siemens Beteiligungen Inland GmbH ("**SBI GmbH**"), both of which hold shares in the Company, or their loss carry forwards for corporate income and trade tax purposes are reduced, Siemens Energy AG shall compensate Siemens AG or SBI GmbH. SBI GmbH has also contributed a limited partnership interest (*Kommanditanteil*) in SE Global GmbH & Co. KG to Siemens Energy AG in return for granting shares in Siemens Energy AG. In this regard, Siemens Energy AG is obligated to recognize this partnership interest at tax book value and to file the required application with the competent tax office in time. If these obligations are violated, Siemens Energy AG is liable towards Siemens AG or SBI GmbH if taxes are imposed on them or their loss carry forwards for corporate income tax purposes are reduced. The Group Separation Agreement further contains provisions in relation to shares held by Siemens AG or SBI GmbH that are subject to a lock-up period (*sperrfristbehaftete Anteile*) for tax purposes in connection with the separation of the Siemens Energy business. If a contribution gain (*Einbringungsgewinn*) is assessed, the tax consequences at the level of Siemens AG and SBI GmbH together with the trade tax arising at the level of SE Global GmbH & Co. KG may result in a total cash-out of up to a medium three digit million euro amount. Such tax cash-out may be compensated only partially by corresponding tax benefits, for which the cash effect may only arise over time. In case Siemens Energy AG caused such assessment of the contribution gain (e.g., by violating the obligation to procure that Siemens Energy entities apply for tax book values or by triggering an event pursuant to section 22 (1) sentence 6 of the German Transformation Tax Act (*Umwandlungssteuergesetz*)), Siemens Energy AG shall compensate Siemens AG or SBI GmbH for the resulting tax consequences. In case such contribution gain is caused by Siemens AG or SBI GmbH, Siemens Energy AG may have a compensation claim against Siemens AG for trade tax or the reduction of trade tax loss carry-forwards resulting therefrom, whereas such claim is generally reduced by potential tax benefits arising for Siemens Energy AG and/or SE Global GmbH & Co. KG in case of a recognition of an increase amount in accordance with section 23 (2) of the German Transformation Tax Act (*Umwandlungssteuergesetz*) ("step-up"). To the extent that the potential step-up benefit exceeds the amount, which Siemens AG would have to pay to Siemens Energy AG without the deduction of the step-up benefit, Siemens Energy AG is obliged to pay to Siemens AG an amount equal to this difference, even though the step-up benefit may not have materialized in a cash effect yet, but only would materialize over time. Finally, the parties of the Group Separation Agreement (*Konzerntrennungsvertrag*) shall cooperate with regard to tax matters and in case one party does not comply with its cooperation obligations, it has to indemnify the other party, i.e., if Siemens Energy AG is not compliant it has to indemnify Siemens AG or the affected Siemens Group entity.

For a transitional period, there may also be tax inefficiencies associated with the need to initially set-up the corporate and/or business structure (including, among others, the conclusion or transfer of customer contracts) and with the transfer of assets in certain jurisdictions. There are, for instance, jurisdictions in which the Siemens Energy Group will operate via newly created



permanent establishments which need to become registered for tax and, as the case may be, particularly VAT purposes. Such process usually takes some time and, might be further delayed, due to external conditions (such as the current COVID-19 pandemic).

**3.5.4 We have not previously operated as a stand-alone publicly listed entity and the Spin-Off may result in significant additional expenses; we may be unable to operate efficiently and to fully implement our business strategy.**

We have not previously operated as a stand-alone publicly listed entity and it is uncertain how we will perform as such. Following Spin-Off Completion, we will be responsible for managing all of our corporate affairs ourselves. This may result in significant additional expenses, including expenses for the creation of our own financial and administrative support systems and for services that will continue to be provided by the Siemens Group to us pursuant to transitional service agreements at prices intended to correspond to those obtainable from third parties, and/or expose the Company to an increased risk of legal, regulatory or civil costs or penalties. Furthermore, such transitional service agreements with Siemens and other agreements qualifying as related-party transactions, in particular agreements that include volume commitments, bind us to Siemens during their term and may therefore limit the benefits we are able to realize from the separation from Siemens if prices for the procured services change in the market. Conversely, we agreed on a general volume discount for the service contracts with Siemens relating to our Gas and Power segment. For example, for certain specified worldwide services, Siemens AG shall grant a mid double digit percentage discount on the agreed prices in the first year after the Spin-Off Completion (*i.e.*, presumably until September 25, 2021), a low double digit percentage discount in the second and third year; thereafter, no further discounts shall be granted. For purposes of our internal planning, we have assumed to benefit from these volume discounts to the full extent. Accordingly, if we fail to obtain these discounts, the costs for services obtained by Siemens would be significantly higher than anticipated.

Significant changes may occur in our cost structure, management, financing and financial risk management and business operations as a result of operating as a stand-alone publicly listed entity separate from the Siemens Group. The historical financial information in the form of combined financial statements included in this Prospectus relate to periods prior to our separation from Siemens and, thus, may not fully reflect the additional costs of us operating as an independent company (see *"3.5.5 Our combined financial statements are based on management judgments and a series of assumptions and estimates that may prove inaccurate and not necessarily representative of the results we would have achieved as a stand-alone publicly listed company."*). Furthermore, we anticipate that our success in managing our business as a stand-alone publicly listed entity and in successfully implementing our business strategy will depend substantially upon our ability to develop the expertise necessary to comply with the numerous regulatory and other requirements applicable to independent public companies. In addition, we will need to implement or adapt and monitor the necessary structures including an effective internal control environment. We cannot guarantee that we will be able to do so in a timely and effective manner and may face additional costs in doing so, which could have a material adverse effect on our business, financial position and results of operations.

We may be unable to realize the potential benefits associated with the separation from Siemens as and when we expect. These benefits include our ability to focus on our own strategic and operational plans, cost savings from a lean and efficient company setup, a more efficient allocation of capital and a distinct investment identity which allows investors to evaluate our merits, performance and future prospects separately from those of the Siemens Group. We may not achieve these and other anticipated benefits for a variety of reasons, including, among others, increased costs and liabilities when operating as a stand-alone company, the necessity to set up independent functions and processes and we may be more susceptible to market fluctuations and other adverse events than if we were still a fully-integrated part of the Siemens Group, since our business will be significantly less diversified.

**3.5.5 Our combined financial statements are based on management judgments and a series of assumptions and estimates that may prove inaccurate and not necessarily representative of the results we would have achieved as a stand-alone publicly listed company.**

We have no history of operating as a stand-alone company. The historical financial information included in this Prospectus does not necessarily indicate what our Group's results of operations, financial position, cash flows or costs and expenses will be in the future. Such historical financial information has been derived from Siemens Group's historical financial and company information, with certain adjustments being made. In order to reflect the assets, liabilities, income and expenses that fall within the scope of the Siemens Energy Group, various combination rules as well as a series of assumptions and estimates have been applied. The management of Siemens Energy exercised considerable judgment in determining these combination rules, assumptions and estimates.

In addition, some of our subsidiaries were in the past part of the Siemens income tax group (hereinafter referred to as the "**Siemens Tax Group**") such that certain taxes were not imposed on us. For purposes of the preparation of our combined financial statements, we have disregarded the Siemens Tax Group and calculated income based on certain assumptions.

Therefore, the historical financial information contained in the Prospectus in the form of combined financial statements does not necessarily reflect the financial position, results of operations and/or cash flows that we would have had if Siemens Energy Group had existed as a separate group in the periods presented.

**3.5.6 As a legal consequence of the Spin-Off, creditors of Siemens AG may be able to enforce certain claims existing at the time of the Spin-Off against us, and there can be no assurance that we are able to obtain indemnification from Siemens AG.**

Our separation from Siemens was partly realized by way of a spin-off under the German Transformation Act (*Umwandlungsgesetz*) or comparable corporate measures under the laws of other jurisdictions. Under relevant laws, we may be held liable by creditors of Siemens AG who may be able to enforce certain claims existing at the time of the Spin-Off against us. For example, in accordance with the provisions of the German Transformation Act, Siemens Energy AG is jointly and severally liable with Siemens AG for any liabilities of Siemens AG that were incurred prior to Spin-Off Completion if such liabilities fall due within five years, or in case of retirement benefit obligations under the German Company Pension Act (*Betriebsrentengesetz*) ten years, from publication of the Spin-Off in the commercial registers of Siemens AG. In the spin-off and transfer agreement concluded between Siemens AG and Siemens Energy AG, Siemens AG agreed to indemnify Siemens Energy AG against any liabilities or obligations that remained with Siemens AG in the event that relevant claims are asserted against Siemens Energy AG. Should Siemens AG not satisfy its obligations to indemnify Siemens Energy AG, this could have a material adverse effect on our business, financial condition and results of operations or prospects. Furthermore, existing creditors of Siemens AG could request Siemens Energy AG to provide security to the extent such creditors cannot obtain satisfaction of their claims and can demonstrate probable cause that the fulfillment of their claims will be jeopardized by the Spin-Off.

**3.5.7 We are exposed to risks arising from indemnities which we have granted to Siemens in connection with our separation from Siemens. In addition, as part of this separation, assets or liabilities may have been incorrectly allocated, which may require us to transfer certain assets to or assume further liabilities from Siemens.**

Our separation from Siemens was largely implemented on a country-by-country basis through the transfer of the local Siemens Energy business to local entities which will form part of Siemens Energy. The result of these business transfers is generally that the future local Siemens companies can be held liable for obligations or that it is affected by other consequences from former activities attributable to the transferred Siemens Energy business. It has therefore been agreed that Siemens Energy will indemnify the relevant local future Siemens companies from liabilities

attributable to the transferred Siemens Energy business. These indemnity obligations could have a material adverse effect on our business, financial position and results of operations.

Furthermore, it cannot be ruled out that we have, as part of our separation from Siemens, erroneously received assets or liabilities attributable to Siemens Group. Conversely, assets or liabilities attributable to Siemens Energy may have remained with Siemens. If such erroneous transfers of assets or liabilities or failures to transfer assets or liabilities are established, we may be required to transfer assets to or assume liabilities from Siemens.

**3.5.8 As we build our IT environment and transition our data to our own systems, we could incur substantial additional costs and may suffer temporarily reduced quality of IT services or business interruptions.**

After Spin-Off Completion, a large part of our IT environment, including infrastructure, systems, applications and related support and development functions will continue to be highly integrated and embedded in Siemens Group's IT environment. Siemens Group will therefore continue to provide certain IT services to us, including infrastructure services, license services, systems and application services. However, we will also continue to install and implement our own IT environment to support our critical business functions. In particular, we will transition or newly introduce the IT systems for the Group including financial consolidation and reporting systems, treasury, guarantee as well as insurance administration systems, central customer relationship solutions, compliance, export control, customs and tax systems. We may incur temporary interruptions in business operations and financing services if we cannot transition effectively from Siemens Group's existing transactional and operational systems and data centers and the services that support these functions as we replace these systems with our own. We may not be successful in effectively and efficiently implementing our new systems and transitioning our data and we may incur substantially higher costs for implementation than currently anticipated. Any interruptions as we implement the new systems and replace parts of the Siemens Group's IT services, or our failure to implement the new systems and replace the Siemens Group's services effectively and efficiently, could disrupt our business and expose us to liability towards third parties, which could have a material adverse effect on our business, financial position and results of operations. In addition, we may incur proportionally higher costs than planned for our IT, as central or corporate IT systems and services are provided to a smaller base (e.g., the costs for software licenses as well as support and maintenance contracts proportionally increases, as we cease to benefit from lower prices currently available due to larger volume purchasing as part of Siemens Group).

**3.5.9 As a stand-alone entity, our Gas and Power segment and, to a lesser extent, our SGRE segment may be unable to continue benefiting from joint purchasing and procurement terms with Siemens AG in the future.**

Our Gas and Power segment has until recently been an integral part of Siemens and thus benefited significantly from Siemens' purchasing and bargaining power in procuring goods, technology, financing (including guarantees, hedges, letters of credit and other bank services), logistics and other services (including insurance, pension plans, legal and audit and IT services). Following the Spin-Off Completion, we will be a smaller and less diversified company than Siemens. As a separate, stand-alone company, we may be unable to obtain goods, technology and services at prices and on terms as favorable as those available to our Gas and Power segment and, to a lesser extent, our SGRE segment prior to the separation from the Siemens Group. In order to continue to benefit from joint purchasing and procurement terms, Siemens Energy and Siemens AG entered into joint pooling agreements regarding our Gas and Power and our SGRE segment, respectively. Under these agreements, Siemens AG acts for Siemens Energy on the procurement markets in respect of certain materials. After expiry or termination of the joint pooling agreements, we may fail to enter into individual agreements on similar or other favorable terms in the future, which could have a material adverse effect on our business, financial position and results of operations.

**3.5.10 In certain countries, carve-outs may be deferred or even fail or Siemens will retain parts of the Siemens Gas and Power business. In these countries, limited access to the local markets, established facilities, research and development resources may have an adverse impact on our business prospects and operations. In addition, contractual agreements may require us to purchase the local business after termination of the contract, which may result in significant cash outflows.**

Following the Spin-Off Completion, Siemens will retain parts of the Siemens Gas and Power business in Algeria, Greece, India, Indonesia and Pakistan. In these countries and certain adjacent sales territories, business activities of our Gas and Power segment will be carried out by local Siemens companies under agency and distributorship agreements under which the local Siemens companies are mostly appointed as sole selling agents with exclusive selling rights for certain gas and power products. Not being able to conduct our own sales activities in the relevant sales territories may adversely impact our business prospects and results of operations. Furthermore, for Algeria, Greece, Indonesia and Pakistan, under framework agreements, we are required to purchase the business from the local Siemens companies if the framework agreement is terminated, which could result in significant cash outflows. This risk is further exacerbated because Siemens could terminate the respective framework agreement before we have set up appropriate structure to acquire the respective operations.

In India, with the exception of one of our subsidiaries mainly active in the oil and gas compressor market, business activities relating to our Gas and Power segment in India and certain adjacent sales territories ("**Indian Energy Business**") will be carried out under an agency and distributorship agreement by Siemens India, which is a listed company in which Siemens holds 51% and we hold 24% of the shares (as of June 30, 2020). Furthermore, we have negotiated a shareholders' agreement regulating the exercise of voting rights in Siemens India and the separation of the Siemens and Siemens Energy business activities in certain cases. The shareholders' agreement also details principles of cooperation with respect to the Gas and Power business in India. Such agreements entail a number of risks, e.g.:

- we cannot dispose of our shares in Siemens India without Siemens' consent;
- we have no direct or only limited access to the Indian market to carry out our Gas and Power business and the results of operations relating to this market will to a significant extent be recognized by Siemens Group and not by Siemens Energy Group;
- we have no direct access to existing local manufacturing research, development and engineering personnel and facilities of Siemens India that were previously part of Siemens' Gas and Power engineering and manufacturing network, and are not allowed to establish new local manufacturing, research, development or engineering personnel or facilities in India without Siemens India's discretionary consent. Furthermore, we are obligated to make certain annual volume commitments and have granted certain first and last call rights to Siemens India, which may require us to favor Siemens India in respect of certain products or services over our own manufacturing facilities or personnel;
- upon expiry of the shareholders' agreement, or upon its termination by either party, we are obliged to acquire the Indian Energy Business at fair market value and to return our 24% share (as of June 30, 2020) in Siemens India to Siemens. This may lead to significant cash outflows if, as is currently the case, the valuation of the Indian Energy Business exceeds the valuation of our share in Siemens India, in which case we may, however, elect to acquire the balance of the Indian Energy Business that exceeds the valuation of our share in Siemens India over a period of three years. Furthermore, we are obliged to indemnify Siemens against adverse tax consequences which may arise in connection with the termination and the resulting transfer of the Indian Energy Business which may constitute a significant amount, in certain events of termination, notably in the event the shareholders' agreement is terminated by us for convenience (which may make such termination unattractive to us) or in the event the shareholders' agreement is terminated by Siemens as a result of a third party directly or indirectly acquiring more than 25% of the shares (which may be outside our control) in SE Global GmbH & Co. KG.

In addition, if certain carve-out measures were deferred or even fail, this could not only impact our ability to conduct business in the relevant countries but also our position as a stand-alone company. Despite the carve-out being effective in most countries, certain follow-up activities may be necessary to bring the respective local business fully into operation, such as the registration of branches or the application for business licenses, which may take longer than expected, as is, amongst other countries, currently the case in Iraq and the United Arab Emirates / Abu Dhabi, and if such follow-up activities are deferred or fail, there is the risk that we either (i) are not able to conduct new local business directly but only through Siemens AG against a consideration to be paid by Siemens Energy that may lead to a margin erosion or, if no workaround is available, (ii) will lose business opportunities. The same might be true for the applications for other permits or certificates.

**3.5.11 Under certain conditions, we may lose the right to use the “Siemens Energy” or “Siemens Gamesa” brands, which could leave us without a consistent brand across our business activities or entirely without an established brand. Furthermore, Siemens could intensify competition with us, in particular under the “Siemens” brand, or it could allow our competitors to do so using the “Siemens” brand.**

Under a Trademark and Name Use (Sub-)License Agreements (“SE TLA”) entered into on March 31, 2020, between Siemens AG as licensor and SE Global GmbH & Co. KG as licensee, with effect as of Spin-Off Completion, Siemens AG granted Siemens Energy (excluding SGRE) the exclusive right to, among other things, use the combined designation “Siemens Energy” within our company name, internet and e-mail domains and the trademark “SIEMENS Energy” as corporate mark and as product mark (the “SE Mark”) as well as the non-exclusive right to use certain “Si-” product marks (the “SE Licensed Designations”).

Under the SE TLA, this right to use the SE Licensed Designations is generally limited to business fields in which the Siemens segment Gas and Power was active as of October 1, 2019 or which were defined in the business mandate of this segment at that time (including certain products and services that were the subject of research and development activities ongoing at that time) (the “SE Current Field”). If we enter business fields outside the SE Current Field, we can request Siemens AG to expand the scope, the consent to such request shall not be unreasonably withheld. However, if such request is denied, we must enter business fields outside the SE Current Field through a separate legal entity that does not have the right to use the SE Licensed Designations.

The SE TLA has an initial term of ten years and extends automatically unless terminated by either party. During the term of the SE TLA, we are obligated to use the SE Licensed Designations in the SE Current Field as our master brand. Siemens AG has the right to terminate the SE TLA with immediate effect subject to staggered transition periods in a number of instances, e.g., if (i) Siemens holds less than 25% of the shares and/or voting rights in the Company (excluding shares directly or indirectly held by Siemens Pension-Trust e.V. or any other entity holding or managing plan assets under or in connection with Siemens Group’s benefit plans), provided that such termination may become effective earliest on September 25, 2023, (ii) a substantial competitor of Siemens Group holds 15% or more of the shares and/or voting rights in the Company, (iii) another person holds 25% or more of the shares and/or voting rights in the Company, (iv) Siemens has a legitimate reason to believe that the reputation of “Siemens” is materially adversely affected, even where this is due to a situation beyond our control, (v) we fail to establish and maintain certain best industry practices as defined in the SE TLA, or (vi) we materially breach the SE TLA and such breach is not remedied.

SGRE S.A. as licensee concluded a Trademark and Name Use (Sub-)License Agreement with Siemens AG as licensor on May 20, 2020 (the “SGRE TLA”). Under the SGRE TLA, Siemens AG continues to grant SGRE the right to, among other things, exclusively use the combined designation “Siemens Gamesa” as part of its company name, internet and e-mail domains, and the trademark “Siemens Gamesa” for new products, as well as the “SIEMENS” trademark for existing products of the former Siemens wind power business (the “SGRE Licensed Designations”). Under the SGRE TLA, the right to use the SGRE Licensed Designations is generally limited to business fields in which SGRE was active prior to its formation in April 2017 but



excludes certain Gamesa Electric and Gamesa Energy Transmission products and services (the **"SGRE Permitted Activities"**). If SGRE enters into business fields outside of the SGRE Permitted Activities, it may request Siemens AG to expand the scope, the consent to such request shall not be unreasonably withheld. However, if such request is denied, SGRE must enter business fields outside the SGRE Permitted Activities through a separate legal entity that does not have the right to use the SGRE Licensed Designations.

The SGRE TLA has an initial term of ten years and extends automatically unless terminated by either party. Siemens AG has the right to terminate the SGRE TLA with immediate effect subject to staggered transition periods in a number of instances, e.g., if (i) the SE TLA is terminated, (ii) Siemens Energy loses control over SGRE S.A., (iii) SGRE S.A. stops using the designation "Siemens" as part of its company name, (iv) Siemens has a legitimate reason to believe that the reputation of "Siemens" is materially adversely affected, even where this is due to a situation beyond SGRE's control, (v) SGRE fails to establish and maintain certain best industry practices defined in the SGRE TLA, or (vi) SGRE materially breaches the SGRE TLA and such breach is not remedied.

Any termination of the SE TLA and/or the SGRE TLA and, after the lapse of any transition periods under such agreements, as the case may be, the resulting loss of the right to use the SE Licensed Designations and/or the SGRE Licensed Designations may leave our Group with an inconsistent branding across its business operations or may force us to operate under a new brand entirely. These risks are further exacerbated by the fact that the SE TLA and the SGRE TLA require us to use the "Siemens" brand as our master brand which precludes us from establishing a brand independent from "Siemens" while using the licensed "Siemens" brands.

Our right to use the SE Mark is exclusive for the SE Current Field only for the combination of the "SIEMENS" mark with "Energy", but not for the standalone "SIEMENS" mark. SGRE's right to use the combined designation "Siemens Gamesa" is exclusive for the SGRE Permitted Activities. However, there are no "non-compete" undertakings by Siemens in favor of Siemens Energy or SGRE. Accordingly, we are already seeing competition by Siemens which may intensify, including in areas on which we place strategic emphasis. Furthermore, Siemens may compete or it could allow our competitors to compete with us, in particular under the designation and trademark "Siemens" in the SE Current Field or in the SGRE Permitted Activities. Any competition by Siemens or such competition by another licensee, in particular under the "Siemens" brand, could have a material adverse effect on our business, financial position and results of operations.

Additionally, if the Group is no longer able to use the SE Mark, SE Licensed Designations, the SGRE mark, or SGRE Licensed Designations, it could have a material adverse effect on our business, financial position and results of operations.

### **3.5.12 Our market perception may be negatively influenced by Siemens Group's image.**

We use the combined "Siemens Energy" and "Siemens Gamesa" as product marks, corporate marks and as part of our company names, business designations and main domains to operate our business. These designations clearly identify us with the Siemens Group, even though the Company will no longer be a consolidated subsidiary of Siemens AG upon the Spin-Off Completion. Our brand perception may be influenced by adverse developments in Siemens Group. Negative publicity or reputational damage of any kind or problems associated with companies of the Siemens Group, even if unrelated to us and our business, could have a detrimental effect on our reputation and brand and, as a result, a material adverse effect on our business, financial position and results of operations. This risk is exacerbated by the fact that we have to use the SE Licensed Designations and the SGRE Licensed Designations during the terms of the SE TLA and the SGRE TLA as master brands and therefore do not have an established alternative brand we could fall back to if we terminate the SE TLA and the SGRE TLA in the event that the reputation of "Siemens" is materially adversely affected.

### **3.5.13 In the separation from Siemens Group and in particular in the Spin-Off, unutilized tax loss carry forwards and interest carry forwards could have been forfeited.**

In Germany, unutilized losses for corporate income tax, trade tax and interest carry forwards are forfeited in full if within a period of five years more than 50% of a corporation's registered share capital or voting rights are directly or indirectly transferred to an acquiring party, affiliated individuals/entities or a group of acquirers with aligned interests, or a comparable change of ownership in the corporation occurs (harmful acquisition – *schädlicher Beteiligungserwerb*). The foregoing forfeiture rules are, however, subject to certain exceptions, e.g., losses and interest carry forwards may be preserved to the extent the losses and interest carry forwards do not exceed the taxable hidden reserves in Germany. Unutilized losses for trade tax of a partnership are in general forfeited to the extent a direct change of ownership occurs at the level of the partnership.

In the course of the separation from Siemens Group, a harmful acquisition and/or change of ownership could have occurred upon the Spin-Off of a limited partnership interest (*Kommanditanteil*) in SE Global GmbH & Co. KG, representing 55% of the total fixed capital (*Festkapital*) of SE Global GmbH & Co. KG, and 55% of the shares in Siemens Gas and Power Management GmbH, the sole general partner of SE Global GmbH & Co. KG, and the preceding contribution of the remainder of the limited partnership interest (*Kommanditanteil*) in SE Global GmbH & Co. KG and the shares in Siemens Gas and Power Management GmbH to Siemens Energy AG respectively. This may also occur in the future resulting in the risks stated above. Thereupon, German loss and interest carry forwards of SE Global GmbH & Co. KG or any of its subsidiaries could have been forfeited.

Comparable rules providing for a limitation on the utilization of loss carry forwards and similar tax attributes also exist in other jurisdictions (for instance, in the United States). Therefore, the separation also might have limited or excluded the utilization of such loss carry forwards or similar attributes of any Siemens Energy Group company that has previously been available.

### **3.5.14 We have to consider governance rules and legal protections afforded to minority shareholders of SGRE as well as its independent financing activities.**

We hold approximately 67% of the shares in SGRE S.A. and, following Spin-Off Completion, will fully consolidate the SGRE results. In the nine-month period ended June 30, 2020, and in the fiscal year ended September 30, 2019, our SGRE segment contributed total revenue of € 6,615 million and € 10,227 million, respectively, to the Total Segments' revenue of € 19,942 million and € 28,936 million, respectively. The segment further contributed € (631) million and € 481 million to the Total Segments' Adjusted EBITA of € (1,171) million and € 1,069 million in the nine-month period ended June 30, 2020, and in the fiscal year ended September 30, 2019, respectively. Our SGRE segment thus makes a significant contribution to the performance of the Group. SGRE S.A. is a publicly listed company with external shareholders. In this context, governance rules as well as the legal protections afforded to minority shareholders may cause delays and increase the level of complexity related to the administrative interaction with our SGRE segment.

Our SGRE segment finances itself independently from Siemens Energy. If its financial position deteriorates, we may need to provide financial support to our SGRE segment with the additional risk that, compared to bank financing for SGRE, our claims would be subordinated.

## **3.6 Risks Related to Our Shareholder Structure**

### **3.6.1 Siemens AG will retain a substantial shareholding in Siemens Energy AG following completion of the Spin-Off and will be able to exercise a corresponding influence, and the interests of Siemens AG could come into conflict with the interests of other investors.**

Upon Spin-Off Completion, Siemens AG, SBI and Siemens Pension-Trust e.V. will directly and/or indirectly hold 23.1%, 12.0% and 9.9%, respectively, of the Shares, while the remaining 55% will

be held by the shareholders of Siemens AG. In May 2020, the Company and Siemens AG and SBI entered into a deconsolidation agreement (*Entherrschungsvertrag*, the “**Deconsolidation Agreement**”). In essence, under the Deconsolidation Agreement, Siemens AG and SBI undertake *vis-à-vis* the Company to a level of self-restraint regarding the use of their voting rights in the Company in order to ensure that they will not be able to carry a vote on their own in respect of certain essential matters. Such matters include the appointment and removal of the members of the Company’s supervisory board (the “**Supervisory Board**”), certain management matters (*Geschäftsführungsmaßnahmen*) brought before the shareholders’ meeting of the Company, discharge (*Entlastung*) of the members of the Executive Board and Supervisory Board, votes of non-confidence (*Vertrauensentzug*), board compensation matters and adoption (*Feststellung*) of annual accounts if the shareholders’ meeting resolves on such approval. Further, Siemens undertakes *vis-à-vis* the Company that there will be a maximum of three Supervisory Board members who are depending on Siemens, e.g., members of the executive board (*Vorstand*) of Siemens AG. Members of the supervisory board (*Aufsichtsrat*) of Siemens AG are not considered closely affiliated with Siemens for purposes of this threshold. The Deconsolidation Agreement shall commence on the day of the Spin-Off Completion and shall be effective at least until the end of the fifth general shareholders’ meeting following the general shareholders’ meeting at which the post-Spin-Off Supervisory Board is appointed. During this period, the Deconsolidation Agreement can only be terminated for good cause.

On matters not covered by the Deconsolidation Agreement or if the Deconsolidation Agreement is terminated, Siemens AG may, depending on the shareholder presence at the general shareholders’ meeting of the Company, be in a position to control the resolutions passed by the general shareholders’ meeting of the Company with a simple majority of the votes cast or the represented share capital. Matters not covered by the Deconsolidation Agreement include resolutions concerning the distribution of dividends. Due to the expected attendance levels, Siemens will likely be able to control the resolutions on the distribution of dividends as long as it does not significantly reduce its post-Spin-Off shareholding in the Company. In addition, as long as Siemens AG holds more than 25% of the shares represented at the general shareholders’ meeting, Siemens AG will be able to prevent resolutions from being adopted at the general shareholders’ meeting of the Company which require a qualified majority of the votes cast and/or the represented share capital. This may include, inter alia, capital increases to finance acquisitions or for other purposes, structural measures (e.g., approval of enterprise, merger, spin-off or other major agreements and most changes to the articles of association). In connection with the exercise of its voting rights and/or the exercise of its contractual rights under agreements entered into with the Company or its subsidiaries, the interests of Siemens AG may be in conflict with the interests of the other shareholders and the Company. In the event that Siemens AG does not participate in a capital increase proposed by the Company in the future, the Company’s efforts to raise new capital could be undermined.

Siemens AG may also sell, or announce to sell, the shares it holds in Siemens Energy at a certain point of time thereby affecting the share price of Siemens Energy shares negatively.

### **3.6.2 Membership of the same individuals on boards of the Company and of Siemens as well as other relationships with Siemens may result in conflicts of interest.**

As of the date of the Prospectus, all members of the Supervisory Board are employees of Siemens. Following Spin-Off Completion, Mr. Joe Kaeser and Prof. Dr. Ralf P. Thomas, who are also serving on the executive board of Siemens AG, and Mr. Matthias E. Rebellius, who currently is an employee of Siemens and is expected to become a member of the executive board of Siemens AG with effect as of October 1, 2020, will be members of the Supervisory Board. Furthermore, Dr. Andrea Fehrmann, Mr. Jürgen Kerner and Mr. Hagen Reimer are expected to remain members of the supervisory board of Siemens AG following Spin-Off Completion. Since the interests of Siemens AG and the Company will not necessarily always coincide or be aligned, the aforementioned dual mandates and other relationships of the Group’s board members with Siemens Group may in the future result in conflicts of interest for these persons.

### **3.7 Risks Related to the Shares and the Listing**

#### **3.7.1 Substantial sales of the Company's Shares may occur in connection with the Spin-Off, which could cause the price of the Shares to decline; such sales may also occur at a later stage. Furthermore, Siemens intends to significantly reduce its shareholding in the Company within twelve to 18 months after the Spin-Off.**

Upon Spin-Off Completion and after the listing of the Shares on the Frankfurt Stock Exchange, it is likely that a number of shareholders receiving Shares in connection with the Spin-Off will sell Shares, and thus that the price of the Company's Shares may initially decline significantly. Some of the reasons for such a fall in the share price could be that shareholders sell the Shares because they do not wish to invest in the activities which have been spun off and new investors do not buy the Shares to the same extent, one reason being that no experience has yet been gained with Siemens Energy AG on a stand-alone basis. In particular, unlike the shares of Siemens AG, the Shares of Siemens Energy AG are likely not to be immediately listed in the DAX; this means that all existing investors who are required (due to their own investment guidelines, investment risk profiles or for other reasons) to invest in stocks of DAX companies would have to sell the Shares they receive under the Spin-Off. There are no explicit lock-up agreements of shareholders of which we are aware, including in respect of the shareholding held by Siemens following Spin-Off Completion. Furthermore, Siemens intends to significantly reduce its shareholding in the Company within twelve to 18 months after the Spin-Off, which could negatively affect the price of the Company's Shares. Moreover, Siemens Pension-Trust e.V. will initially hold a shareholding of 9.9% in the Company following Spin-Off Completion. In view of the investment guidelines of Siemens Pension-Trust e.V. and applicable asset diversification requirements, we cannot exclude that Siemens Pension-Trust e.V. will reduce its shareholding, which could result in additional selling pressure and could therefore negatively affect the price of the Company's Shares. In addition, New Shares attributable to the shares of Siemens AG which are traded in the form of American Depositary Receipts (ADR) in the U.S. will be sold by a representative of the depositary once the Spin-Off becomes effective and the proceeds (net of costs) will be paid to the ADR holders. Therefore, it is not unlikely that considerable selling pressure will develop immediately after the Shares are admitted to trading. In addition, there is no assurance that an active and liquid market for the Shares will develop and if at any time Siemens AG or one or more other shareholders of the Company were to sell a substantial number of the Shares they hold, directly or indirectly, in the Company, or if rumors arise in the market that such a sale may be imminent, the share price of the Company's Shares may decline.

#### **3.7.2 The market price and trading volume of the Company's Shares may fluctuate significantly and could decline following Spin-Off Completion for a variety of reasons, and investors could lose some or all of their investment. Similarly, a decline of the share price and trading volume of SGRE S.A. could negatively affect the Company's share price.**

The trading volume and price of the Company's Shares may fluctuate significantly. The share price is determined by the supply of and demand for the shares and may not necessarily reflect the fair value of the Company. Some of the factors that could negatively affect the share price or result in fluctuations in the price or trading volume of the Shares include, for example, ad hoc developments (e.g., management changes), changes in profit estimates, fluctuations in our actual or projected operating results, changes in our projected net sales, variations in quarterly results, failure to meet securities analysts' expectations, the contents of published research reports about the Company or the industry segments or securities analysts failing or ceasing to cover the Company, actions by institutional shareholders, conflicts with anchor shareholders (in particular Siemens) and general market conditions or special factors influencing companies in the industry in general. For example, an increasing number of investors follow investment guidelines aimed at furthering causes such as sustainability. If our product portfolio, which is still largely related to fossil power generation, is ineligible under such investment guidelines, investors may sell or refrain from investing in Shares. Furthermore, we cannot rule out that even certain products, e.g., products for military applications or conventional components for nuclear energy

applications, could result in such ineligibility or have a negative connotation in the public opinion with a material negative impact on our reputation. Fluctuations in the equity markets could also cause the share price to decline, though such general fluctuations may not necessarily be related to our business or short to mid-term prospects. In addition, the share price could also decline should rating agencies downgrade their rating of the Company or of its subsidiary SGRE S.A. In addition, if Siemens Energy or SGRE were to revise previously communicated targets or guidance downwards, this could directly or indirectly negatively affect the share price of the Company's shares. Similarly, a decline of the share price and trading volume of SGRE S.A. could negatively affect the Company's share price. If the share price of the Company's Shares declines, which may be due to a variety of reasons, investors may be unable to resell their shares at or above their purchase price and may lose some or all of their investment in the Company's Shares.

**3.7.3 The combined value of the Company's Shares and the shares of Siemens AG following the Spin-Off may not equal or exceed the value of the Siemens AG shares prior to the Spin-Off.**

Following the Spin-Off, the shares of Siemens AG will continue to be listed and will be traded on the trading day following the day of the Spin-Off Completion taking such Spin-Off into account (ex spin-off trading). We cannot assure that the combined trading prices of the Siemens AG shares and the Company's Shares as allocated to Siemens AG shareholders in accordance with the allotment ratio will be equal to or greater than the trading price of Siemens AG shares prior to the Spin-Off Completion. Until the market has fully evaluated the business of the Siemens Group excluding the Siemens Energy business, as well as our business on a stand-alone basis, the price at which the Company's Shares, and to a lesser extent Siemens AG shares, trade may be subject to extraordinary volatility.

**3.7.4 Following Spin-Off Completion, the Company will be a holding company with no material business operations of its own and will rely on operating subsidiaries to provide the Company with the funds required to meet its financial obligations and make dividend payments. Further, in case the Company has to recognize a significant impairment on its interests in SE Global GmbH & Co. KG, its ability to make dividend payments could be limited.**

Following Spin-Off Completion, the Company will be a holding company with no material business operations of its own. The principal assets of the Company will be its direct interests in SE Global GmbH & Co. KG and indirect interests in its operating subsidiaries. As a result, the Company will be dependent on these subsidiaries in order to generate the funds required to meet the Company's financial obligations and make dividend payments, if any.

The ability of the Company's subsidiaries to make distributions and other payments to the Company will depend on the subsidiaries' earnings and is subject to various contractual and statutory limitations. The amount and timing of such distributions depend on the laws of the operating companies' respective jurisdictions and such distributions may not arrive in time for the dividend payments of the Company and the Company would have to draw on its distributable reserves to enable dividend distributions.

Further, in case the Company has to recognize a significant impairment on its interests in SE Global GmbH & Co. KG, its ability to make dividend payments would be dependent on any resulting losses being compensated by distributable reserves and other profits such as distributions from subsidiaries. An obligation to recognize such impairment may arise, among other things, if the market capitalization of the Company is permanently below the book value of approximately € 13 billion at which the interests in SE Global GmbH & Co. KG are expected to be recognized in the financial statements of Siemens Energy AG prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*). Further, there can be no guarantee that any resulting impairment loss could be offset by distributable reserves and other profits such as distributions from subsidiaries.



If the Company does not receive sufficient distributions and other payments from its direct and indirect subsidiaries at all or not in time or in case it has to recognize a significant impairment on its interests in SE Global GmbH & Co. KG, it may be unable to meet its financial obligations and/or to make dividend payments.

## 4 GENERAL INFORMATION

### 4.1 Responsibility for the Content of the Prospectus

Siemens Energy AG, with its registered seat in Munich, Germany, business address in Otto-Hahn-Ring 6, 81739 Munich, Germany, and registered with the commercial register maintained by the local court (*Amtsgericht*) of Munich, Germany, under HRB 252581 (hereinafter also the **"Company"**), together with BNP PARIBAS, Merrill Lynch International (BofA Securities), COMMERZBANK Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, Deutsche Bank Aktiengesellschaft, Goldman Sachs Bank Europe SE and J.P. Morgan Securities plc, acting as lead financial advisors and listing agents (the **"Listing Agents"**) and Joh. Berenberg, Gossler & Co. KG, HSBC Trinkaus & Burkhardt AG and Jefferies International Limited (the **"Co-Advisors"** together with the Listing Agents, the **"Banks"**) assume responsibility for the contents of this prospectus (the **"Prospectus"**) pursuant to Section 8 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and hereby declare that, to the best of their knowledge, the information contained in the Prospectus is in accordance with the facts and that the Prospectus makes no omission likely to affect its import.

Neither the Company nor the Banks are required by law to update the Prospectus subsequent to the date hereof, except in accordance with Article 23 of Regulation (EU) 2017/1129 (the **"Prospectus Regulation"**), which stipulates, among other things, that every significant new factor, material mistake or material inaccuracy relating to the information included in a prospectus which may affect the assessment of the securities and which arises or is noted after approval of the prospectus and before trading on a regulated market begins shall be disclosed in a supplement to the prospectus without undue delay.

Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

### 4.2 Subject Matter of the Prospectus

The Prospectus relates to the admission to the regulated market of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) (the **"Listing"**) of 326,990,337 existing ordinary registered shares with no par value (*Stückaktien*) (the **"Existing Shares"**) and 399,654,856 newly issued ordinary registered shares with no par value (*Stückaktien*) (the **"New Shares"**, and together with the Existing Shares, the **"Shares"**) in the Company. Each Share has a notional par value of € 1 in the share capital and full dividend rights from October 1, 2019. Following the effectiveness of the issuance of the New Shares, the Shares represent the entire share capital of the Company. The New Shares are issued in connection with a spin-off for absorption (*Abspaltung zur Aufnahme*) under the German Transformation Act (*Umwandlungsgesetz*) (the **"Spin-Off"**). In the Spin-Off, Siemens Aktiengesellschaft, Berlin and Munich, Germany (**"Siemens AG"**, together with its consolidated subsidiaries, **"Siemens"** or **"Siemens Group"**), as transferor will transfer shareholdings in entities directly and indirectly carrying out the Gas and Power business of Siemens and its approximately 67% shareholding in Siemens Gamesa Renewable Energy, S.A., Zamudio, Spain (**"SGRE S.A."**, together with its direct and indirect subsidiaries, **"SGRE"**) to the Company as transferee. As consideration for the transfer of the spin-off assets, the shareholders of Siemens AG will receive the New Shares according to their proportional shareholding in Siemens AG. For more details regarding the Spin-Off and Listing, see **"5 Carve-Out, Spin-Off and Listing"**.

In this Prospectus, references to the **"Siemens Energy Group"**, the **"Group"**, **"Siemens Energy"**, **"we"**, **"us"** or **"our"** are references to the combined group of entities and business activities comprising the Siemens Energy business, with the Company acting as the ultimate holding company as from the completion of the Spin-Off (**"Spin-Off Completion"**).

The Prospectus constitutes a prospectus for the purposes of Article 3 para. 3 of the Prospectus Regulation and has been filed with and approved by the German Federal Financial Supervisory

Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, or "**BaFin**") as competent authority under the Prospectus Regulation. BaFin only approves this prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. BaFin's approval should not be considered as an endorsement of the Issuer that is the subject of this Prospectus or the quality of the Shares that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Shares. BaFin can be contacted at Marie-Curie-Str. 24-28, 60439 Frankfurt am Main, Germany, by telephone +49 228 4108-0, or via its website: [www.bafin.de](http://www.bafin.de).

### 4.3 Validity of this Prospectus

**The validity of this Prospectus will expire with the beginning of the trading of the Shares on the regulated market of the Frankfurt Stock Exchange, which is expected to occur on September 28, 2020, and no obligation to supplement this Prospectus in the event of significant new factors, material mistakes or material inaccuracies will apply when this Prospectus is no longer valid.**

### 4.4 Forward-Looking Statements

This Prospectus contains certain forward-looking statements. These include statements on future profitability, plans and expectations regarding the Group's business and management, the Group's growth and earning capacity, and general economic and regulatory conditions and other factors that may affect the Group. Statements made using the following or similar wording may be forward-looking statements: "is likely", "expects", "anticipates", "believes", "predicts", "assumes", "estimates", "plans" or "intends". They can be found in several sections in the Prospectus, for example in the sections "*3 Risk Factors*", "*9 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*", "*10 Profit Forecast*" and "*22 Recent Developments and Outlook*".

The forward-looking statements contained in the Prospectus are based on the Company's current estimates and assessments and made to the best of the Company's knowledge. These forward-looking statements are based on numerous assumptions and are subject to risks, uncertainties and other factors, the occurrence or non-occurrence of which could cause actual circumstances, including with regard to the assets, business, financial position and results of operations as well as profitability of the Group, to differ materially from or fail to meet the expectations expressed or implied in the forward-looking statements. Even if future results of the Siemens Energy Group meet the expectations expressed herein, they may not be indicative of the results or developments in any subsequent periods.

Siemens Energy's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in the Prospectus to become inaccurate. Accordingly, investors are strongly advised to consider the Prospectus as a whole and particularly ensure that they have read the following sections of the Prospectus: "*3 Risk Factors*", "*9 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*", "*11 Industry Overview*", "*12 Business*" and "*22 Recent Developments and Outlook*", which include more detailed descriptions of factors that might influence Siemens Energy's business performance and the markets in which it operates. The following factors and others described under other sections of the Prospectus should not be construed as exhaustive.

In light of the assumptions as well as risks, uncertainties and other factors, it is also possible that the future events mentioned in the Prospectus may not occur or may differ materially from actual events. In addition, the forward-looking estimates and forecasts reproduced in the Prospectus from third-party sources could prove to be inaccurate. For more information on third-party sources see "*4.5 Sources of Market Data and other Information from Third Parties*". These factors are not necessarily all of the important factors that could cause the Company's actual results to differ materially from those expressed in any forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. The foregoing may prevent the Company from achieving its financial and strategic objectives.

The forward-looking statements contained in the Prospectus speak only as of the date of the Prospectus. Investors are advised that neither the Company nor the Banks assume any obligation and do not intend to, except as required by law, publicly release any updates or revisions to these forward-looking statements to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or to adjust them in line with future events or developments.

#### 4.5 Sources of Market Data and other Information from Third Parties

The Prospectus contains industry and customer-related data as well as calculations sourced from industry reports published by third parties, market research reports, publicly available information and commercial publications of third parties. These publications generally state that the information they contain has originated from sources assumed to be reliable, but that the accuracy and completeness of such information is not guaranteed and that the calculations contained therein are based on assumptions. Such information has not been independently verified by the Company and the Company assumes no responsibility for the accuracy of any such information. Therefore, investors should exercise care when considering such information. Market studies are frequently based on information and assumptions that may be neither exact nor appropriate, and their methodology is by nature forward-looking and speculative.

In drafting the Prospectus, the following sources were used:

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Where information in the Prospectus has been sourced from a third party, the Company confirms that this information has been accurately reproduced and that, to the extent the Company is aware and able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Investors should nevertheless consider this information carefully. The above-mentioned sources may reserve, and in some cases have expressly reserved, all rights provided by copyright law.

The Prospectus also contains certain estimates of market and other data and information derived from such data that cannot be obtained from publications by market research institutes or from other independent sources. Such information is partly based on the Group’s own market observations, the evaluation of industry information (from conferences, sector events, etc.) or internal assessments. The Company’s management believes that its estimates of market and other data and the information it has derived from such data assists investors in gaining a better understanding of the industry in which companies of the Group operate in and the Group’s position therein. The Company’s own estimates have not been checked or verified externally. The Company nevertheless assumes that its own market observations are reliable, whereby the internal assessments regarding future developments and trends in the markets described in this Prospectus are subject to additional uncertainties relating to the impact of the Coronavirus pandemic (“COVID-19”), a major disruptive factor, and its various related effects, as further described under “11 Industry Overview”. The Company assumes no responsibility for the accuracy of the Company’s own estimates and the information derived therefrom. They may differ from estimates made by competitors of the Group or from future studies conducted by market research institutes or other independent sources.

The shares in SGRE S.A. are publicly listed on the Madrid, Barcelona, Valencia, and Bilbao Stock Exchanges. With respect to information included in the Prospectus on SGRE, part of such information is taken directly from, or based on, information made publicly available by SGRE S.A. as a listed company, including its annual reports, audit and management reports, activity reports, consolidated financial statements, press releases and brochures on different products, among others.

Information contained on any website or report mentioned in this section or elsewhere in the Prospectus, including the website of the Siemens Energy Group ([www.siemens-energy.com](http://www.siemens-energy.com)), are not incorporated by reference in the Prospectus and has not been scrutinized or approved by BaFin. The web links included above for certain sources have been last retrieved on August 28, 2020.

## 4.6 Documents Available for Inspection

For as long as the Prospectus is valid, the following documents, or copies thereof, may be inspected during regular business hours at the offices of Siemens Energy AG at Otto-Hahn-Ring 6, 81739 Munich, Germany:

- the Company’s articles of association, as amended to date (“**Articles of Association**”);

- the audited combined financial statements of Siemens Energy as of and for the fiscal years ended September 30, 2019, 2018 and 2017, prepared in accordance with the International Financial Reporting Standards as adopted by the EU (“IFRS”), (the **“Audited Combined Financial Statements”**);
- the unaudited condensed combined interim financial statements of Siemens Energy as of and for the nine-month period ended June 30, 2020, prepared in accordance with IFRS for interim financial reporting (IAS 34) (the **“Unaudited Condensed Combined Interim Financial Statements”**), and together with the Audited Combined Financial Statements, the **“Combined Financial Statements”**); and
- the audited unconsolidated financial statements of Siemens Energy AG (prior to its change in name, Kyros 52 Aktiengesellschaft) as of and for the fiscal year ended September 30, 2019, prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*) (the **“Audited Unconsolidated Financial Statements”**).

The Combined Financial Statements present the combined group of entities and business activities comprising the Siemens Energy business in the fiscal years ended September 30, 2019, 2018 and 2017 and in the nine-month period ended June 30, 2020. During these periods, Siemens Energy did not conduct business operations as an independent group. For more information, see *“9.3 Basis of Preparation”*. Furthermore, investors should note that financial information regarding our SGRE segment has been taken or derived from the Combined Financial Statements or from our accounting records or internal management reporting systems and does not necessarily correspond to financial information publicly reported by SGRE S.A.

The aforementioned documents will also be available in electronic form, at least for as long as the Prospectus is valid, on our internet website, [www.siemens-energy.com](http://www.siemens-energy.com). The Company’s future consolidated, annual financial reports (*Jahresfinanzberichte*) and condensed consolidated half-year financial reports (*Halbjahresfinanzberichte*) as well as the quarterly group statements will be available on the website of the Company ([www.siemens-energy.com](http://www.siemens-energy.com)), from the German Company Register (*Unternehmensregister*) ([www.unternehmensregister.de](http://www.unternehmensregister.de)) (except for the quarterly group statements) and from the Company, Otto-Hahn-Ring 6, 81739 Munich, Germany. Annual financial reports (*Jahresfinanzberichte*) will also be published in the German Federal Gazette (*Bundesanzeiger*).

## 4.7 Note Regarding the Presentation of Financial Information

### 4.7.1 General

Unless otherwise indicated, financial information contained in the Prospectus has been prepared on the basis of IFRS.

For information regarding the presentation of financial information contained in the Prospectus see the introduction to the section headed *“9 Management’s Discussion and Analysis of Net Assets, Financial Position and Results of Operations”*.

The fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017 are also referred to in the Prospectus as **“fiscal year 2019”**, **“fiscal year 2018”** and **“fiscal year 2017”**, respectively. The current fiscal year, which will end on September 30, 2020, is also referred to as **“fiscal year 2020”**. The fiscal years ending September 30, 2025, September 30, 2024, September 30, 2023 and September 30, 2021 are also referred to in the Prospectus as **“fiscal year 2025”**, **“fiscal year 2023”**, **“fiscal year 2022”** and **“fiscal year 2021”**, respectively.

Where financial information in the tables in the Prospectus is presented as “audited”, this information was taken from the Audited Combined Financial Statements or the Audited Unconsolidated Financial Statements. Financial information in the Prospectus presented as “unaudited” in the tables in the Prospectus is not taken from the Audited Combined Financial Statements or the Audited Unconsolidated Financial Statements, but was taken either from the Unaudited Condensed Combined Interim Financial Statements or our accounting records or internal management reporting systems or has been calculated based on figures from the above-mentioned sources.

Due to the adoption of IFRS 16 – “Leases” for the fiscal year beginning as of October 1, 2019, by applying the modified retrospective approach, the financial information presented in the Prospectus for the nine-month period ended June 30, 2020 is not fully comparable to the financial information for the nine-month period ended June 30, 2019 and for the fiscal years ended September 30, 2019, 2018 and 2017 (see “9.5 Key Factors Affecting Comparability”).

#### 4.7.2 Note on Currency

The amounts set forth in the Prospectus in “€” or “euro” refer to the single currency of the participating member states in the third stage of the European Economic Union pursuant to the Treaty Establishing the European Community. The amounts in “\$”, “U.S. dollar” or “USD” refer to the legal currency of the United States of America (“United States”, “USA” or “U.S.”). Fluctuations in the currency exchange rates between the euro and the U.S. dollar or other currencies will affect the U.S. dollar or other currency amounts received by owners of the Shares on conversion of dividends, if any, paid in euro on the Shares. The Group’s principal functional currency is the euro, and the Combined Financial Statements have been prepared in euro.

#### 4.7.3 Note Regarding Figures and Technical Terms

Financial information presented in parentheses or preceded by a “minus” sign in the Prospectus denote a negative amount. Certain numerical data, financial information and market data in the Prospectus have been rounded in accordance with commercial rounding. Unless otherwise indicated, all financial data presented in the text and tables in this section of this Prospectus is shown in millions of euros (€ million), commercially rounded to the nearest million. Percentage changes and ratios in the text and tables of the Prospectus are calculated based on the underlying numbers as presented in this Prospectus, i.e., after rounding of such underlying numbers, and then commercially rounded to a whole percentage or to one digit after the decimal point. In some instances, such rounded figures and percentages may not add up to 100% or to the totals or subtotals contained in the Prospectus. Furthermore, totals and subtotals in tables may differ slightly from unrounded figures contained in the Prospectus due to rounding in accordance with commercial rounding. A dash (“—”) signifies that the relevant figure is not available or equal to zero, while a zero (“0”) or nil signifies that the relevant figure has been rounded to zero.

A glossary of certain technical and financial terms and abbreviations used in the Prospectus is provided at the end of the Prospectus under the heading “23 Glossary”.

#### 4.7.4 Certain Definitions

Certain individual line items in the Combined Statements of Income of Siemens Energy prepared in accordance with IFRS are described under “9.6 Definition and Discussion of Certain Financial Measures”. In addition, in this Prospectus, we use certain financial information neither defined under IFRS nor, in Siemens Energy’s view, qualifying as alternative performance measures (see “4.8 Alternative Performance Measures”):

Where we refer to “**Orders**” we use the following definition: Orders are determined principally as estimated revenue of accepted purchase orders for which enforceable rights and obligations exist as well as subsequent order value changes and adjustments, excluding letters of intent. To determine Orders, Siemens Energy considers termination rights and customer’s creditworthiness. We present Orders on Group, reportable segment and division level. Orders are also presented for our service business and new unit business (calculated as Orders less Orders from service business).

We disclose total revenue for our service business and our new unit business (calculated as total revenue less total revenue from service business) on Group, reportable segment and division level.

We refer to “**Book-to-Bill Ratio**” as the ratio of Orders to revenue, regarded as an economic indicator for overall trends in Siemens Energy’s markets and Siemens Energy’s ability to



sustainably generate business with customers (see also “9.4.4 High Revenue Visibility From Order Backlog”). We define Book-to-Bill Ratio as the ratio of Orders to total revenue for a specified period, generally a quarter, a year-to-date period or a fiscal year. Book-to-Bill Ratio is presented on Group, reportable segment and division level, and for our new unit business and service business.

We disclose “**Order Backlog**” in order to provide information about the remaining performance obligations in our existing contracts. Order Backlog is calculated by adding the Orders of the current reporting period to the balance of the Order Backlog as of the end of the prior reporting period and then subtracting the revenue recognized in the current reporting period. Furthermore, direct order value adjustments such as modifications or cancellations of orders, currency translation and portfolio effects are taken into account. We determine Order Backlog on Group, reportable segment and division level. We also present Order Backlog based on Orders and revenue from our service business and new unit business (calculated as Order Backlog less Order Backlog from service business).

We define “**Backlog-to-Revenue Ratio**” as the ratio of Order Backlog as of the end of a fiscal year to total revenue for that fiscal year. Backlog-to-Revenue Ratio is presented on Group and reportable segment level, and for our new unit business and service business.

We disclose the “**Order Backlog Reach**” for the following fiscal year, in order to inform about the amount and timing of revenue that we expect to recognize from the remaining performance obligations in our existing contracts. Order Backlog Reach is determined by Siemens Energy in three time intervals: within the current fiscal year, within the following fiscal year and after the following fiscal year. We present Order Backlog Reach on Group and on reportable segment level.

We define “**Revenue Growth Rate**” as the percentage change year-over-year which is calculated by dividing the absolute revenue difference between a base year and the previous period by the previous period revenue.

We use “**Special Items**” when we refer to the following items:

- *Restructuring and integration costs* – Restructuring costs refer to personnel measures leading to severance charges, in the past mainly related to the Gas and Power segment. Integration costs refer to the SGRE segment only and are related mainly to the merger of Gamesa and Siemens Wind Power into SGRE S.A. and, to a lesser extent, to the acquisition of assets from Senvion.
- *Stand-alone costs* – Stand-alone costs relate to the preparation of our separation from Siemens Group and the formation of Siemens Energy as an independent enterprise. They relate to the Carve-Out and Spin-Off of Siemens Energy and include, amongst others, costs for information technology (“IT”) applications, external service providers, costs related to the listing, and personnel related costs. For future reporting periods, especially personnel-related costs will be incurred for retention and accelerated vesting of share-based compensation.
- *Strategic portfolio decisions* – Major asset impairments and write-downs related to Siemens Energy Group strategic portfolio decisions. For example, such strategic portfolio decisions included in the past our strategic portfolio decision to streamline our offering of aero-derivative gas turbines. While we will continue to service all types of our aero-derivative gas turbines and still deliver all aero-derivative gas turbines that have already been ordered, we will over time no longer actively market our larger sized aero-derivative gas turbines. For more information, see 12.3.3.1.2(2) *Aero-Derivative Gas Turbines*.

In the opinion of Siemens Energy’s management, these Special Items affect Adjusted EBITA on a recurring or non-recurring basis. These Special Items are not a recognized term under IFRS. Special Items are subject to certain discretion in the allocation of various income and expenses and the application of discretion may differ from company to company. Special Items also include expenses that will recur in future accounting periods. Specifically, we expect further significant personnel-related restructuring costs and to a limited extent stand-alone costs in the coming

fiscal years. For a break-down of Special Items incurred in the fiscal years 2019, 2018 and 2017, as well as in the nine-month periods ended June 30, 2020 and 2019, see “9.4.10.3 Special Items”.

Geographically, we divide our business into three reporting regions – Europe, Commonwealth of Independent States, the Middle East and Africa (“EMEA”), Canada, the United States as well as Middle and South America (the “Americas”) and the other countries of the Asian continent as well as Australia and New Zealand (“Asia, Australia”). When we discuss Orders and revenue for our reporting regions in this Prospectus, Orders and revenue are measured by location of customers.

## 4.8 Alternative Performance Measures

In accordance with the Commission Delegated Regulation (EU) 2016/301 and the European Securities and Markets Authority (“ESMA”) Guidelines on alternative performance measures (“APMs”) of October 5, 2015 (the “ESMA Guidelines”), the following sections set out information related to certain financial measures of the Siemens Energy Group that are not defined by IFRS and which the Group regards as APMs within the meaning of the ESMA Guidelines.

### 4.8.1 Definitions

APM	Definition	Relevance of its Use
Adjusted earnings before interest, taxes and amortization (“Adjusted EBITA”)	<p>Adjusted EBITA is presented on Group, reportable segment and division level.</p> <p>From April 1, 2020, Adjusted EBITA is calculated as earnings before financing interest, income taxes, amortization expenses related to intangible assets acquired in business combinations and goodwill impairments. Financing interest excluded from Adjusted EBITA is any interest income or expense other than financial result from operations (i.e., interest income related to receivables from customers, from cash allocated to the segments and interest expenses on payables to suppliers).</p> <p>Prior to April 1, 2020, essential pension-related items with a financing character had been excluded from the definition of Adjusted EBITA on reportable segment level but included on Group level. Goodwill impairments were included on both Group and segment level, as further described and presented in the segment reporting of the Audited Combined Financial Statements.</p> <p>The segment reporting of the Unaudited Condensed Combined Interim Financial Statements contains Adjusted EBITA for Siemens Energy as well as the Gas and Power segment and the SGRE segment for the fiscal years 2019, 2018 and 2017 calculated by retrospectively applying the definition valid from April 1, 2020.</p>	<p>We disclose Adjusted EBITA as APM, as we believe it is a meaningful measure to evaluate the performance of our business activities over time. We understand that this measure is broadly used by analysts, rating agencies and investors in assessing our performance. Adjusted EBITA is used by Siemens Energy management as a financial measure to assess the operating performance of our Group, reportable segments and division.</p> <p>Financing interest, income taxes, amortization expenses of intangible assets acquired in business combinations as well as goodwill impairments are excluded as management does not regard them as indicative of operational performance. Costs for support functions are primarily allocated to the reportable segments. Prior to April 1, 2020, Siemens Energy excluded pension related interest in the definition of Adjusted EBITA on the level of reportable segments because decisions on essential pension-related items with a financing character are made centrally. Accordingly, Adjusted EBITA on the level of reportable segments only included amounts not related to the financing character of pensions, such as service cost of pension plans. Siemens Energy believes that the exclusion of pension-related interest from the definition of Adjusted EBITA also on the Group level from April 1, 2020 provides investors with more meaningful information with regard to the performance of the operating business of Siemens Energy.</p> <p>Goodwill impairments are excluded from the definition of Adjusted EBITA, since Siemens Energy considers such items as not to be indicative for the operative performance of its business activities and therefore believes that the exclusion provides more meaningful information to assess its operative performance.</p>

APM	Definition	Relevance of its Use
Adjusted EBITA margin (" <b>Adjusted EBITA Margin</b> ")	Adjusted EBITA Margin is calculated by dividing Adjusted EBITA by total revenue.  Adjusted EBITA Margin is presented on the Group and reportable segment level.	We believe that the presentation of Adjusted EBITA Margins provides useful information on how our business developed in our markets and enhances the ability of our investors to compare profitability across our segments.
Adjusted earnings before interest, taxes and amortization before special items (" <b>Adjusted EBITA before Special Items</b> ")	Adjusted EBITA before Special Items is calculated as the respective Adjusted EBITA on Group and segment level before Special Items. Special Items are restructuring and integration costs, stand-alone costs and strategic portfolio decisions (see " <i>4.7.4 Certain Definitions</i> " and " <i>9.4.10.3 Special Items</i> ").  Adjusted EBITA before Special Items is presented on Group, reportable segment and division level.	We disclose Adjusted EBITA before Special Items as an APM, as we believe it is a meaningful measure to evaluate the performance of our business activities over time, without being affected by Special Items (as defined by Siemens Energy), corresponding to a normalized result of operations.
Adjusted EBITA margin before special items (" <b>Adjusted EBITA Margin before Special Items</b> ")	Adjusted EBITA Margin before Special Items is calculated by dividing Adjusted EBITA before Special Items by total revenue.  Adjusted EBITA Margin before Special Items is presented on the Group, reportable segment and division level.	We believe that the presentation of Adjusted EBITA Margin before Special Items provides useful information on how our business developed in our markets under a normalized perspective.
Earnings before interest, taxes, depreciation and amortization (" <b>EBITDA</b> ")	We define EBITDA as income (loss) before financial result ( <i>i.e.</i> , interest income, interest expense and other financial income (expense), net), income taxes and depreciation/amortization and impairments of goodwill, other intangible assets and property, plant and equipment, net of reversals of impairments as presented in our Combined Financial Statements).  EBITDA is presented on the Group level.	We disclose EBITDA as an APM, as we believe it is a meaningful measure to evaluate the performance of our business activities over time. We understand that this measure is broadly used by analysts, rating agencies and investors in assessing our performance. EBITDA is used to calculate the Adjusted Net Debt to EBITDA Ratio.
Net cash or net debt (" <b>Net Cash</b> / <b>Net Debt</b> ") and adjusted net cash or net debt (" <b>Adjusted Net Cash</b> / <b>Net Debt</b> ")	We define (Net Cash) / Net Debt as total debt less total liquidity. Total debt is defined as short-term debt and current maturities of long-term debt plus long-term debt plus payables to Siemens Group from financing activities. Total liquidity is defined as cash and cash equivalents plus receivables from Siemens Group from financing activities. Adjusted (Net Cash) / Net Debt represents (Net Cash) / Net Debt plus provisions for pensions and similar obligations. A negative value represents a Net Cash position.  (Net Cash) / Net Debt and Adjusted (Net Cash) / Net Debt are presented on the Group level.	We believe that the presentation of Net Debt and Adjusted Net Debt provides useful information to investors because our management reviews both measures as part of its management of our liquidity, financial flexibility, capital structure and leverage. Furthermore, we understand that certain rating agencies, creditors and credit analysts may monitor our Net Debt and Adjusted Net Debt as part of their assessment of our business.
Adjusted (Net Cash) / Net Debt to EBITDA ratio (" <b>Adjusted Net Cash</b> / <b>Net Debt</b> to EBITDA Ratio")	Adjusted (Net Cash) / Net Debt to EBITDA Ratio is calculated by dividing Adjusted (Net Cash) / Net Debt by EBITDA. For purposes of calculating the Adjusted (Net Cash) / Net Debt to EBITDA Ratio for the nine-month period ended June 30, 2020, EBITDA for the last twelve months is used, which is calculated as EBITDA for the nine-month period ended June 30, 2020 plus EBITDA for the fiscal year 2019 less EBITDA for the nine-month period ended June 30, 2019.  Adjusted (Net Cash) / Net Debt to EBITDA Ratio is presented on the Group level.	This ratio is a measure used by our management to review our liquidity, financial flexibility, capital structure and leverage to maintain ready access to capital markets and to sustain our ability to repay and service our financial obligations over time. The ratio indicates the approximate number of years that would be needed to cover the Adjusted (Net Cash) / Net Debt through income from continuing operations, without taking into account interest, taxes, depreciation and amortization. Therefore, we believe that this information provides useful information to investors. Furthermore, we understand that certain rating agencies, creditors and credit analysts may monitor such a ratio.

APM	Definition	Relevance of its Use
Free cash flow ("Free Cash Flow")	Free Cash Flow is presented on the reportable segment and Group level. On the reportable segment level, Free Cash Flow constitutes cash flows from operating activities less additions to intangible assets and property, plant and equipment. It excludes financing interest, except for cases where interest on qualifying assets is capitalized or classified as contract costs; it also excludes income taxes as well as certain other payments and proceeds. On Group level, Free Cash Flow can be calculated as difference of the line items cash flows from operating activities and additions to intangible assets and property, plant and equipment in the Combined Statements of Cash Flows.	We believe that the presentation of Free Cash Flow provides meaningful information to investors because it is a measure of cash generated by our operations after deducting cash outflows for additions to intangible assets and property, plant and equipment. Therefore, the measure gives an indication of the long-term cash generating ability of our business. In addition, because Free Cash Flow is not impacted by portfolio activities (the line item acquisitions of businesses, net of cash acquired is not taken into consideration), it is less volatile than the total of cash flows from operating activities and cash flows from investing activities. For this reason, Free Cash Flow is reported to our management on a regular basis.
Cash conversion rate ("Cash Conversion Rate")	Cash Conversion Rate is defined as Free Cash Flow divided by Adjusted EBITA on Siemens Energy Group level.	We disclose the Cash Conversion Rate as an APM, as we believe it is a meaningful measure to assess our ability to generate cash, and ultimately to pay dividends. Our management considers the Cash Conversion Rate in its management of our reportable segments, but in particular on Group level. For this reason, we believe that investors' ability to assess our ability to generate cash flows may be improved by disclosure of this information.

#### 4.8.2 Overview and Reconciliation

The following sections provide an overview of the APMs defined above and presented by Siemens Energy on the Group, the reportable segment and/or division level as well as reconciliations to Siemens Energy's Combined Financial Statements. Siemens Energy presents these APMs as (i) supplemental information for the specific reasons outlined above with respect to each APM, (ii) measures of operating performance or as an auxiliary control profitability parameter used by its management, including in presentations to the members of the Company's Executive Board, and as a basis for strategic planning and forecasting, and (iii) they represent measures that the Group believes are widely used by certain investors, securities analysts and other parties as supplemental measures of operating and financial performance. These APMs may enhance management's and investors' understanding of the Company's financial performance by excluding items that are not classified as part of the Company's ongoing operations, such as interest payments on loans and income and non-cash expenses.

For example, Siemens Energy considers Adjusted EBITA to be widely used by investors to measure the Company's operating performance.

However, these APMs are not defined by IFRS or any other internationally accepted accounting principles, and such items should not be considered as an alternative to the historical financial results or other indicators of Siemens Energy's results of operations and financial position based on IFRS measures. In particular, they should not be considered as alternatives to the Group's net income/loss as an indicator of the Group's performance and profitability, or as alternatives to cash flows from operating activities as an indicator of its financial strength. The APMs, as defined by Siemens Energy, may not be comparable to similarly titled measures as presented by other companies due to differences in the way Siemens Energy's APMs are calculated. Even though the APMs are used by management to assess ongoing operating performance and indebtedness, and though these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of Siemens Energy's results, cash flows or assets and liabilities as reported under IFRS.

#### 4.8.2.1 Siemens Energy Group

The table below sets out the figures for APMs that are based on the Siemens Energy Group's Combined Financial Statements for Siemens Energy Group:

APM – Siemens Energy Group	As of or for the Fiscal Year ended September 30,			As of or for the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(unaudited, unless otherwise indicated) (in € million, except percentages and ratios)			(unaudited) (in € million, except percentages and ratios)	
Adjusted EBITA <sup>1), 2)</sup> . . . . .	1,064	905	2,028	(1,211)	857
Adjusted EBITA Margin (in %) <sup>1)</sup> . . . . .	3.7	3.2	6.7	(6.1)	4.2
Adjusted EBITA before Special Items <sup>1), 2)</sup> . . . . .	1,517	1,456	2,174	(87)	994
Adjusted EBITA Margin before Special Items (in %) <sup>1)</sup> . . . . .	5.3	5.2	7.2	(0.4)	4.8
EBITDA <sup>3)</sup> . . . . .	1,806	1,652	2,630	103	1,365
(Net Cash) / Net Debt <sup>4)</sup> . . . . .	209	2,720	1,696	(1,898)	— <sup>7)</sup>
Adjusted (Net Cash) / Net Debt <sup>4)</sup> . . . . .	2,169	4,342	3,388	(803)	— <sup>7)</sup>
Adjusted (Net Cash) / Net Debt to EBITDA Ratio . . . . .	1.2	2.6	1.3	(1.5) <sup>6)</sup>	— <sup>7)</sup>
Free Cash Flow <sup>5)</sup> . . . . .	876*	80*	(121)*	18	(1,099)
Cash Conversion Rate . . . . .	0.8	0.1	(0.1)	(0.0)	(1.3)

\* Audited.

<sup>1)</sup> Calculated using the definition of Adjusted EBITA as applied from April 1, 2020. Adjusted EBITA for Siemens Energy for the fiscal years 2019, 2018 and 2017 as originally reported in the segment information of the Audited Combined Financial Statements amounted to € 1,025 million, € 864 million and € 1,991 million, respectively. For more information, see "4.8.1 Definitions".



- 2) The following table shows the reconciliation of Adjusted EBITA and Adjusted EBITA before Special Items of Siemens Energy to net income (loss) of Siemens Energy for the fiscal years 2019, 2018 and 2017 and for the nine-month periods ended June 30, 2020 and 2019:

	For the Fiscal Year ended September 30,			For the Nine-Month period ended June 30,	
	2019	2018	2017	2020 <sup>d)</sup>	2019
	(unaudited, unless otherwise indicated) (in € million)			(unaudited) (in € million)	
<b>Net income (loss)</b> .....	282*	645*	960*	(1,469)	202
+/- Income tax (expenses) / gains .....	35*	(493)*	349*	(203)	67
+ Financial result <sup>a)</sup> .....	280	219	181	119	238
- Financial result from operations <sup>b)</sup> .....	(31)	(10)	31	(21)	(29)
+ Amortization of intangible assets acquired in business combinations and goodwill impairments ..	499	545	507	363	379
<b>Adjusted EBITA (Siemens Energy)</b> .....	<b>1,064</b>	<b>905</b>	<b>2,028</b>	<b>(1,211)</b>	<b>857</b>
thereof: Gas and Power .....	589	440	1,703	(539)	506
SGRE .....	481	478	330	(631)	355
Reconciliation to Adjusted EBITA (Siemens Energy) .....	(5)	(13)	(5)	(40)	(4)
Thereof: Real Estate Services .....	13	15	13	1	9
Eliminations, Treasury and other central items <sup>c)</sup> .....	(18)	(28)	(19)	(42)	(13)
+ Special Items .....	453	551	146	1,124	137
<b>Adjusted EBITA before Special Items (Siemens Energy)</b> .....	<b>1,517</b>	<b>1,456</b>	<b>2,174</b>	<b>(87)</b>	<b>994</b>
thereof: Gas and Power .....	836	815	1,746	212	553
SGRE .....	687	654	433	(279)	445
Reconciliation to Adjusted EBITA before Special Items (Siemens Energy) .....	(5)	(13)	(5)	(19)	(4)

\* Audited.

a) Financial result represents the sum of (i) interest income, (ii) interest expenses and (iii) other financial income (expenses), net, each as presented in the Combined Statements of Income of our Combined Financial Statements.

b) Financial result from operations, as subpart of financial result, is included in Adjusted EBITA. Financial result from operations refers to interest income related to receivables from customers, from cash allocated to the segments and interest expenses on payables to suppliers.

c) Comprises consolidation of transactions between the segments, treasury activities and certain reconciliation and reclassification.

- d) The following table shows the reconciliation of Adjusted EBITA and Adjusted EBITA before Special Items of Siemens Energy to income (loss) before income taxes of Siemens Energy for each of the three quarters of the nine-month period ended June 30, 2020:

	For the Three-Month period ended			For the Nine-Month period ended
	December 31, 2019	March 31, 2020	June 30, 2020	June 30, 2020
	(unaudited) (in € million, unless otherwise indicated)			(unaudited) (in € million, unless otherwise indicated)
<b>Income (loss) before income taxes</b> .....	<b>(274)</b>	<b>(61)</b>	<b>(1,337)</b>	<b>(1,672)</b>
+ Financial result .....	37	43	38	119
- Financial result from operations .....	0	(15)	(6)	(21)
+ Amortization of intangible assets acquired in business combinations and goodwill impairments .....	119	122	122	363
<b>Adjusted EBITA (Siemens Energy)</b> .....	<b>(117)</b>	<b>88</b>	<b>(1,182)</b>	<b>(1,211)</b>
thereof: Gas and Power .....	51	174	(765)	(539)
SGRE .....	(165)	(60)	(406)	(631)
Reconciliation to Adjusted EBITA (Siemens Energy) .....	(3)	(26)	(12)	(40)
Thereof: Real Estate Services .....	3	(12)	10	1
Eliminations, Treasury and other central items <sup>d)</sup> .....	(6)	(14)	(21)	(42)
+ Special Items .....	43	112	969	1,124
thereof: Gas and Power .....	16	25	710	751
SGRE .....	27	82	243	352
Reconciliation to Siemens Energy .....	—	5	16	21
<b>Adjusted EBITA before Special Items (Siemens Energy)</b> .....	<b>(74)</b>	<b>200</b>	<b>(213)</b>	<b>(87)</b>
Adjusted EBITA Margin before Special Items (Siemens Energy) (in %) .....	(1.2)	2.9	(3.2)	(0.4)
thereof: Gas and Power .....	67	199	(55)	212
SGRE .....	(138)	22	(163)	(279)
Reconciliation to Adjusted EBITA before Special Items (Siemens Energy) .....	(3)	(21)	4	(19)

- 3) The following table shows the reconciliation of EBITDA of Siemens Energy to net income (loss) of Siemens Energy for the fiscal years 2019, 2018 and 2017 and for the nine-month-periods ended June 30, 2020 and 2019:

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited, unless otherwise indicated) (in € million)			(unaudited) (in € million)	
<b>Net income (loss)</b> .....	<b>282</b>	<b>645</b>	<b>960</b>	<b>(1,469)</b>	<b>202</b>
+/- Income tax (expenses) / gains .....	35	(493)	349	(203)	67
+ Financial result (unaudited) <sup>a)</sup> .....	280	219	181	119	238
+ Depreciation and impairment of property, plant and equipment .....	658	705	604	670	454
+ Amortization and impairment of other intangible assets .....	551	576	536	986	404
<b>EBITDA (unaudited)</b> .....	<b>1,806</b>	<b>1,652</b>	<b>2,630</b>	<b>103</b>	<b>1,365</b>

- a) Financial result represents the sum of (i) interest income, (ii) interest expenses and (iii) other financial income (expenses), net, each as presented in the Combined Income Statements of our Combined Financial Statements.

- 4) The following table shows the reconciliation of (Net Cash) / Net Debt and Adjusted (Net Cash) / Net Debt of Siemens Energy as of September 30, 2019, 2018 and 2017 and as of June 30, 2020 and 2019:

	As of September 30,			As of June 30,
	2019	2018	2017	2020
	(audited, unless otherwise indicated) (in € million)			(unaudited) (in € million)
Short-term debt and current maturities of long-term debt	359	1,000	819	787
+ Long-term debt	547	877	505	1,690
+ Payables to Siemens Group from financing activities	4,535	8,494	8,519	862
<b>Total debt (unaudited)</b>	<b>5,441</b>	<b>10,371</b>	<b>9,843</b>	<b>3,339</b>
Cash and cash equivalents	1,871	2,544	1,850	2,352
+ Receivables from Siemens Group from financing activities	3,361	5,107	6,297	2,885
<b>Total liquidity (unaudited)</b>	<b>5,232</b>	<b>7,651</b>	<b>8,147</b>	<b>5,237</b>
<b>(Net Cash) / Net Debt (unaudited)<sup>a)</sup></b>	<b>209</b>	<b>2,720</b>	<b>1,696</b>	<b>(1,898)</b>
+ Provisions for pensions and similar obligations	1,960	1,622	1,692	1,095
<b>Adjusted (Net Cash) / Net Debt (unaudited)</b>	<b>2,169</b>	<b>4,342</b>	<b>3,388</b>	<b>(803)</b>

<sup>a)</sup> (Net Cash) / Net Debt represents total debt minus total liquidity.

- 5) The following table shows the reconciliation of Free Cash Flow of Siemens Energy to Cash flows from operating activities of Siemens Energy for the fiscal years 2019, 2018 and 2017 and for the nine-month-periods ended June 30, 2020 and 2019:

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited) (in € million)			(unaudited) (in € million)	
<b>Cash flows from operating activities</b>	<b>1,694</b>	<b>844</b>	<b>686</b>	<b>561</b>	<b>(585)</b>
- Additions to intangible assets and property, plant and equipment <sup>a)</sup>	(818)	(764)	(807)	(543)	(515)
<b>Free Cash Flow</b>	<b>876</b>	<b>80</b>	<b>(121)</b>	<b>18</b>	<b>(1,099)</b>

<sup>a)</sup> Additions to intangible assets and property, plant and equipment are part of cash flows from investing activities.

- <sup>6)</sup> For purposes of calculating the Adjusted (Net Cash) / Net Debt to EBITDA Ratio for the nine-month period ended June 30, 2020, EBITDA for the last twelve month ended June 30, 2020 is used, which is calculated as EBITDA for the nine-month period ended June 30, 2020 plus EBITDA for the fiscal year ended September 30, 2019 less EBITDA for the nine-month period ended June 30, 2019.
- <sup>7)</sup> Not available. The Unaudited Condensed Combined Interim Financial Statements do not contain information to calculate Adjusted (Net Cash) / Net Debt as of June 30, 2019.

#### 4.8.2.2 Segments

##### 4.8.2.2.1 Gas and Power Segment

The table below sets out the figures for APMs that are based on the Siemens Energy Group's Combined Financial Statements for Siemens Energy's reportable segment Gas and Power:

APM – Gas and Power segment	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(unaudited, unless otherwise indicated) (in € million, unless otherwise indicated)			(unaudited) (in € million, unless otherwise indicated)	
Adjusted EBITA <sup>1), 2)</sup> .....	589	440	1,703	(539)	506
thereof: Transmission .....	229	265	247	169	222
Generation .....	214	(98)	1,012	(182)	185
Industrial Applications .....	202	396	431	(386)	131
Reconciliation to Adjusted EBITA (Gas and Power segment) .....	(56)	(123)	13	(141)	(33)
thereof: Other Operations <sup>3)</sup> ..	(32)	(116)	(9)	(83)	(31)
Eliminations and other central items (segment level) <sup>4)</sup> ...	(24)	(7)	22	(58)	(2)
Adjusted EBITA Margin (in %) <sup>1)</sup> .....	3.1	2.3	7.7	(4.0)	3.8
+ Special Items .....	247	375	43	751	47
thereof: Transmission .....	146	14	13	2	13
Generation .....	79	323	32	204	29
Industrial Applications .....	15	32	22	513	4
Reconciliation to the Gas and Power segment .....	7	6	(24)	32	2
Adjusted EBITA before Special Items <sup>1), 2)</sup> ...	836	815	1,746	212	553
thereof: Transmission .....	375	279	260	172	235
Generation .....	293	225	1,044	22	214
Industrial Applications .....	217	428	453	127	135
Reconciliation to Adjusted EBITA before Special Items (Gas and Power segment) ..	(49)	(117)	(11)	(109)	(31)
Adjusted EBITA Margin before Special Items (in %) <sup>1), 2)</sup> .....	4.5	4.3	7.9	1.6	4.2
Transmission .....	6.4	4.8	4.3	4.2	5.7
Generation .....	3.6	2.7	9.5	0.4	3.7
Industrial Applications .....	4.3	8.3	8.1	3.3	3.7
Free Cash Flow <sup>5)</sup> .....	651*	212*	722*	133	(416)

\* Audited.

<sup>1)</sup> Calculated using the definition of Adjusted EBITA as applied from April 1, 2020. Adjusted EBITA for the Gas and Power segment for the fiscal years 2019, 2018 and 2017 as originally reported in the segment information of the Audited Combined Financial Statements amounted to € 589 million, € 440 million and € 1,703 million, respectively. For more information, see "4.8.1 Definitions".

<sup>2)</sup> For a reconciliation of Adjusted EBITA and Adjusted EBITA before Special Items of the Gas and Power segment to Adjusted EBITA and Adjusted EBITA before Special Items of Siemens Energy and net income (loss) of Siemens Energy, see footnote 1 to the table titled "APM – Siemens Energy Group" under "4.8.2.1 Siemens Energy Group". The following table shows the reconciliation of Adjusted EBITA of the Gas and Power segment to the Adjusted EBITA before Special Items of the Gas and Power segment:

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(unaudited) (in € million)			(unaudited) (in € million)	
Adjusted EBITA .....	589	440	1,703	(539)	506
+ Special Items .....	247	375	43	751	47
Adjusted EBITA before Special Items .....	836	815	1,746	212	553

<sup>3)</sup> Other Operations include our New Energy Business and certain at-equity investments.

<sup>4)</sup> Comprises eliminations and central Gas and Power functions.

<sup>5)</sup> The following table shows the reconciliation of Free Cash Flow of the Gas and Power segment to Free Cash Flow of Siemens Energy for the fiscal years 2019, 2018 and 2017 and for the nine-month-periods ended June 30, 2020 and 2019 (for a

reconciliation of Free Cash Flow of Siemens Energy to cash flows from operating activities of Siemens Energy, see footnote 5 to the table titled "APM – Siemens Energy Group" under "4.8.2.1 Siemens Energy Group"):

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited) (in € million)			(unaudited) (in € million)	
Gas and Power .....	651	212	722	133	(416)
Siemens Gamesa Renewable Energy .....	407	373	(288)	17	(618)
<b>Total Segments .....</b>	<b>1,058</b>	<b>584</b>	<b>434</b>	<b>150</b>	<b>(1,034)</b>
Reconciliation to Combined Financial Statements or Combined Interim Financial Statements .....	(182)	(504)	(555)	(131)	(65)
<b>Siemens Energy .....</b>	<b>876</b>	<b>80</b>	<b>(121)</b>	<b>18</b>	<b>(1,099)</b>

#### 4.8.2.2.2 Siemens Gamesa Renewable Energy Segment

The table below sets out the figures for APMs that are based on the Siemens Energy Group's Combined Financial Statements for Siemens Energy's reportable segment SGRE:

APM – SGRE segment	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(unaudited, unless otherwise indicated) (in € million, unless otherwise indicated)			(unaudited) (in € million, unless otherwise indicated)	
Adjusted EBITA <sup>1), 2)</sup> .....	481	478	330	(631)	355
Adjusted EBITA Margin (in %) <sup>1)</sup> .....	4.7	5.2	4.2	(9.5)	4.9
Adjusted EBITA before Special Items <sup>1), 2)</sup> .....	687	654	433	(279)	445
Adjusted EBITA Margin before Special Items (in %) <sup>1), 2)</sup> ....	6.7	7.2	5.5	(4.2)	6.1
Free Cash Flow <sup>3)</sup> .....	407*	373*	(288)*	17	(618)

\* Audited.

<sup>1)</sup> Calculated using the definition of Adjusted EBITA as applied from April 1, 2020. Adjusted EBITA for the SGRE segment for the fiscal years 2019, 2018 and 2017 as originally reported in the segment information of the Audited Combined Financial Statements amounted to € 481 million, € 478 million and € 330 million, respectively. For more information, see "4.8.1 Definitions".

<sup>2)</sup> For a reconciliation of Adjusted EBITA of the SGRE segment to Adjusted EBITA of Siemens Energy and net income (loss) of Siemens Energy, see footnote 1 to the table titled "APM – Siemens Energy Group" under "4.8.2.1 Siemens Energy Group". The following table shows the reconciliation of Adjusted EBITA of the SGRE segment to the Adjusted EBITA before Special Items of the SGRE segment:

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(unaudited) (in € million)			(unaudited) (in € million)	
Adjusted EBITA .....	481	478	330	(631)	355
+ Special Items .....	206	176	103	352	90
<b>Adjusted EBITA before Special Items .....</b>	<b>687</b>	<b>654</b>	<b>433</b>	<b>(279)</b>	<b>445</b>



- 3) The following table shows the reconciliation of Free Cash Flow of the SGRE segment to Free Cash Flow of Siemens Energy for the fiscal years 2019, 2018 and 2017 and for the nine-month-periods ended June 30, 2020 and 2019 (for a reconciliation of Free Cash Flow of Siemens Energy to cash flows from operating activities of Siemens Energy, see footnote 5 to the table titled "APM – Siemens Energy Group" under "4.8.2.1 Siemens Energy Group"):

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited) (in € million)			(unaudited) (in € million)	
Gas and Power .....	651	212	722	133	(416)
Siemens Gamesa Renewable Energy .....	407	373	(288)	17	(618)
<b>Total Segments</b> .....	<b>1,058</b>	<b>584</b>	<b>434</b>	<b>150</b>	<b>(1,034)</b>
Reconciliation to Combined Financial Statements or Combined Interim Financial Statements .....	(182)	(504)	(555)	(131)	(65)
<b>Siemens Energy</b> .....	<b>876</b>	<b>80</b>	<b>(121)</b>	<b>18</b>	<b>(1,099)</b>

## 5 CARVE-OUT, SPIN-OFF AND LISTING

### 5.1 Overview and Timetable

In preparation of the Spin-Off, Siemens bundled its energy business under Siemens Gas and Power GmbH & Co. KG (to be renamed Siemens Energy Global GmbH & Co. KG, “**SE Global GmbH & Co. KG**”) (the “**Carve-Out**”). Following the Carve-Out, Siemens transferred 45% of its interest in SE Global GmbH & Co. KG<sup>1</sup> to the Company against issuance of new shares in the Company. As part of the Spin-Off, Siemens will transfer its remaining 55% interest in SE Global GmbH & Co. KG<sup>1</sup> to the Company against issuance of the New Shares which will be transferred to the shareholders of Siemens AG. Immediately following Spin-Off Completion, the Shares in the Company will be listed. The following table provides an overview of the most important steps of the Carve-Out, Spin-Off and Listing:

Timing	Summary
<b>Until March 31, 2020</b>	<ul style="list-style-type: none"> <li>Direct and indirect transfer of, among other things, the material assets, liabilities and contractual relationships attributed to Siemens' Gas and Power segment into SE Global GmbH &amp; Co. KG and its direct and indirect subsidiaries. A limited number of transfers were completed after March 31, 2020 or are still pending.</li> </ul>
<b>May 22, 2020</b>	<ul style="list-style-type: none"> <li>Conclusion of the spin-off and transfer agreement between the Company and Siemens AG (the “<b>Spin-Off and Transfer Agreement</b>”) subject, among other things, to the approval of the respective extraordinary shareholders' meetings. Under the Spin-Off and Transfer Agreement, Siemens AG committed to transfer its remaining partnership interest (<i>Kommanditanteil</i>) of 55% in SE Global GmbH &amp; Co. KG<sup>1</sup> to the Company by way of a spin-off for absorption (<i>Abspaltung zur Aufnahme</i>). In return, the shareholders of Siemens AG shall receive the New Shares created by way of the Spin-Off Capital Increase (as defined below). The transfer of the assets to be spun off shall occur with economic effect as of April 1, 2020, 0:00 hours. After this time, all acts taken by Siemens AG in relation to the assets to be spun off shall be deemed to have been performed for the account of the Company;</li> <li>Approval of the Spin-Off and Transfer Agreement by the extraordinary shareholders' meeting of the Company;</li> <li>Resolutions of the extraordinary shareholders' meeting of the Company to increase its share capital from € 100,000 by € 326,890,337 to € 326,990,337 by issuing 326,890,337 shares against contribution of (a fraction of) the partnership interests (<i>(Teil-)Kommanditanteil</i>) in SE Global GmbH &amp; Co. KG<sup>1</sup> held by Siemens, in aggregate representing 45% of the total fixed capital (<i>Festkapital</i>) in SE Global GmbH &amp; Co. KG<sup>1</sup> (the “<b>Capital Increases Against Contribution in Kind</b>”); and</li> <li>Resolutions of the extraordinary shareholders' meeting of the Company to increase its share capital from € 326,990,337 by € 399,654,856 to € 726,645,193 by issuing the 399,654,856 New Shares against contribution of Siemens' remaining partnership interest (<i>Kommanditanteil</i>) representing 55% of the total fixed capital (<i>Festkapital</i>) in SE Global GmbH &amp; Co. KG<sup>1</sup> (the “<b>Spin-Off Capital Increase</b>”).</li> </ul>
<b>July 9, 2020</b>	<ul style="list-style-type: none"> <li>Approval of the Spin-Off and Transfer Agreement by the extraordinary shareholders' meeting of Siemens AG.</li> </ul>
<b>September 1, 2020</b>	<ul style="list-style-type: none"> <li>Effectiveness of the Capital Increases Against Contribution in Kind, i.e., completion of the transfer of partnership interests (<i>Kommanditanteile</i>), in aggregate representing 45% of the total fixed capital (<i>Festkapital</i>) in SE Global GmbH &amp; Co. KG<sup>1</sup> to the Company and issuance of 326,890,337 new shares to Siemens. The 326,990,337 shares existing after the effectiveness of these capital increases are referred to as the Existing Shares in the Prospectus. Upon Spin-Off Completion, Siemens and Siemens Pension-Trust e.V. will directly and/or indirectly hold 35.1% and 9.9%, respectively, of the Shares of the Company.</li> </ul>
<b>September 7, 2020</b>	<ul style="list-style-type: none"> <li>Approval of the Prospectus by BaFin.</li> </ul>
<b>September 25, 2020 (expected)</b>	<ul style="list-style-type: none"> <li>Effectiveness of the Spin-Off, i.e., completion of the transfer of partnership interests (<i>Kommanditanteile</i>) representing 55% of the total fixed capital (<i>Festkapital</i>) in SE Global GmbH &amp; Co. KG<sup>1</sup> to Siemens Energy AG;</li> <li>Effectiveness of the Spin-Off Capital Increase creating the New Shares, which will be transferred to the shareholders of Siemens AG.</li> <li>Listing approval issued by the Frankfurt Stock Exchange.</li> </ul>
<b>September 28, 2020 (expected)</b>	<ul style="list-style-type: none"> <li>Allocation of the New Shares to the shareholders of Siemens AG;</li> <li>First day of public trading in the Shares.</li> </ul>

<sup>1</sup> Simultaneous transfer of shares in Siemens Gas and Power Management GmbH (expected to be renamed Siemens Energy Management GmbH, “**SEM GmbH**”), the sole general partner of SE Global GmbH & Co. KG by the respective transferor. The transferred shareholding percentages in each case correspond to the transferred partnership interest (*Kommanditanteil*) percentages.

## 5.2 The Carve-Out and the Capital Increases Against Contribution in Kind

Prior to the Carve-Out, Siemens Energy Group's business essentially corresponded to the business which Siemens reported as its segments "Gas and Power" and "Siemens Gamesa Renewable Energy" for the three-month period ended 31 December 2019. The aim of the Carve-Out was, subject to certain exceptions, to separate Siemens Energy's Group's business (including the material assets and liabilities and employees attributed to these segments) from the other operations assets, liabilities and employees of Siemens Group and to have it held by a separate sub-group with the ultimate parent SE Global GmbH & Co. KG. For illustration purposes only, the Carve-Out can be summarized by splitting it into two main parts: The transfer of the Gas and Power operations in Germany ("**Germany Carve-Out**") and in the rest of the world ("**Rest of World Carve-Out**"). As of the date of the Prospectus, essentially all transfers to SE Global GmbH & Co. KG have been completed while certain follow-up measures may be necessary, such as the registration of branches, to make the local business fully operational.

After the Carve-Out but prior to Spin-Off Completion, Siemens transferred limited partnership interests (*Kommanditanteil*) representing 45% of the total fixed capital (*Festkapital*) in SE Global GmbH & Co. KG and a corresponding percentage of its direct and indirect shareholding in SE Global GmbH & Co. KG's sole general partner to the Company (see "5.2.3 The Capital Increases Against Contribution in Kind") against issuance of the Existing Shares.

### 5.2.1 Germany Carve-Out

Pursuant to a contribution agreement entered into between Siemens AG and SE Global GmbH & Co. KG (for more details see "18.1.1.1(8) German Contribution Agreement") on December 20, 2019, Siemens AG transferred to SE Global GmbH & Co. KG domestic and foreign assets, including movable assets, intellectual property ("**IP**"), lease agreements, legal entities, employees and contracts, liabilities and other transferable rights and obligations directly held by Siemens AG and attributable to Siemens' "Gas and Power" business as well as a shareholding of approximately 30% in SGRE S.A. and certain newly created central departments for Siemens Energy. The transfers became effective on January 1, 2020. However, the actual legal transfer of certain rights, title in assets and contracts may be subject to the prior completion of registration processes and/or the receipt of third-party consents. In most of these cases, the German Contribution Agreement provides for an economic transfer of such rights, title in assets, contracts and the like, i.e., the parties of the German Contribution Agreement agreed in most of the cases to put each other into the same economic position as if the legal transfer had occurred. As consideration for this contribution, the interest of Siemens AG in the fixed capital (*Festkapital*) of SE Global GmbH & Co. KG was increased.

After completion of the Germany Carve-Out, approximately 29% of the shares in SGRE S.A., initially held by Siemens' subsidiary Siemens Beteiligungen Inland GmbH ("**SBI GmbH**"), were contributed to SE Global GmbH & Co. KG, raising its shareholding in SGRE S.A. to approximately 59%.

### 5.2.2 Rest of World Carve-Out

In most other countries in which the respective local Siemens Energy business was, prior to the Carve-Out, not conducted in a separate legal entity, the relevant local Siemens Energy business was separated from the other Siemens business in general before March 31, 2020 (the "**Local Carve-Outs**"). The separations were largely implemented through the formation of new local legal entities, or, acquisitions of empty shell companies, into which the local Siemens Energy business was transferred either through corporate or transformation law measures under local law (e.g., through spin-offs) or based on purchase or contribution agreements. In some countries, the local Siemens Energy business was transferred into an already existing local legal entity that was attributed to the future Siemens Energy Group. In a limited number of countries, the separation was implemented by means of a reverse carve-out. In such cases, the existing Siemens business was carved out of local Siemens Group entities into newly formed Siemens Group entities, with the Siemens Energy business remaining in the existing local Siemens Group entity.

Although the respective agreements for the Local Carve-Outs were in general entered into before March 31, 2020, the actual legal transfer of certain rights, title in assets and contracts is pending the completion of registration processes and/or the receipt of third-party consents in some countries. To the extent legally permissible, the respective agreements for the Local Carve-Outs provide in general for an economic transfer of such rights, title in assets, contracts and the like, *i.e.*, the parties of such Local Carve-Out agreements agreed in principle to put each other into the same economic position as if the legal transfer had already occurred in the period between the date on which the transfer of the respective right, title in asset and contract should have occurred and the date on which the transfer actually occurred.

To a certain extent our business is operated through branches, representation offices or permanent establishments of a local energy business in another country. New branches, representation offices or permanent establishments may have to be registered to make the local business fully operational. In a few countries, including Iraq, Taiwan and the United Arab Emirates, the registration is pending completion for various reasons, such as local lockdowns due to COVID-19, newly enacted local legal requirements or lengthy local registration procedures. The respective agreements for the Local Carve-Outs provide in principle for an economic transfer of affected rights, title in assets, contracts, liabilities and the like, *i.e.*, the parties of such Local Carve-Out agreements agreed to put each other into the same economic position as if the legal transfer had already occurred in the period between the date on which the transfer of the respective right, title in asset, contract and liability should have occurred and the date on which the transfer actually occurred. With regard to new projects, *i.e.*, agreements that are to be entered into after the date on which the respective local Carve-Out should have occurred, Siemens and Siemens Energy agreed on a defined process under which on a case-by-case basis Siemens and Siemens Energy will evaluate whether a workaround, such as project execution by the respective local Siemens entity for the benefit of Siemens Energy against a respective consideration, will be feasible.

In a second step, the shares in the local Siemens Energy entities, which, following the execution of the separations, are aimed to exclusively hold the respective local Siemens Energy business, were, to the extent such shares were not already held by Siemens Gas and Power Holding B.V. or any of its subsidiaries, generally transferred to Siemens Gas and Power Holding B.V. In other cases, certain local Siemens Energy businesses, especially the local Siemens Energy business in the U.S., were not separated by way of a Local Carve-Out and transferred to Siemens Gas and Power Holding B.V.; instead, shares in the already existing local Siemens Energy entities were directly contributed or transferred to Siemens Gas and Power Holding B.V. or SE Global GmbH & Co. KG. In Bangladesh, the reverse carve-out transfer is still pending and expected to become effective in December 2020, due to lengthy local registration procedures. In a few countries, including, Kuwait, Ghana, Egypt and United Arab Emirates, the local registration procedures for giving effect to the share transfers have not been completed yet. In these countries the local share transfer agreements provide that the respective share sellers and the respective share purchasers shall, from the respective date on which the agreement for the transfer of shares became effective until the date on which the title in the shares has been legally transferred, put each other into the same economic position as if the legal transfer had occurred.

Furthermore, in some countries, no Local Carve-Outs took place. Instead, Siemens and Siemens Energy have concluded agency agreements under which Siemens Group entities carry out Siemens Energy businesses for Siemens Energy (see *"18.1.1.1(5) Agreements with regard to Siemens Energy's Gas and Power Business in Algeria, Greece, Indonesia and Pakistan"* and *"18.1.1.1(6) Agreements Related to the Conduct of Siemens Energy's Gas and Power Business in India"*). For risks related to carve-out measures, see *"3.5 Risks Related to Our Separation from the Siemens Group"*.

For joint ventures relating to the Siemens Energy business, Siemens has obtained consents from the joint venture partners for the purchase by or transfer of joint venture participations to Siemens Energy with certain exceptions, most notably including the joint venture Shanghai Electric Power Generation Equipment Co., Ltd., Shanghai, China (the **"Shanghai Electric JV"**).

Siemens holds a participation of 40% in the Shanghai Electric JV and has agreed with Siemens Energy that Siemens Energy shall acquire this participation following Spin-Off Completion, subject to the consent of the joint venture partner. Upon a request to grant its consent, Siemens' joint venture partner has a pre-emption purchase right, which could be exercised. The purchase price to be paid by Siemens Energy for the participation in the Shanghai Electric JV will be determined by an external valuation firm. The expected purchase price for the participation was contributed in advance to the Group in cash. Should the actual purchase price as determined by the external valuation firm differ from the expected purchase price, Siemens Energy will need to pay to Siemens the respective difference and vice versa. Should the joint venture partner exercise its pre-emption purchase right, the Group would retain the contribution already made by Siemens up to the amount of the purchase price to be paid by the joint venture partner. The purchase price itself would accrue to Siemens for local legal reasons.

Pursuant to a contribution agreement entered into between Siemens AG and SE Global GmbH & Co. KG on March 30, 2020, Siemens AG transferred to SE Global GmbH & Co. KG with effect as of March 31, 2020 (i) its shares in Siemens Gas and Power Holding B.V., holding most of the shares in Siemens Energy's global operations, (ii) its shares in Siemens Energy Inc., holding the shares in Siemens Energy's US operations, (iii) its shares in Siemens Gas and Power S.A. and (iv) its meanwhile acquired, approximately 8.1%, shares in SGRE S.A. Further, Siemens contributed approximately € 6.2 billion via clearing accounts to capitalize Siemens Energy. Subsequently, Siemens provided another approximately € 0.1 billion in the third quarter of 2020, resulting in approximately € 6.4 billion as of June 30, 2020, that were provided to Siemens Energy. This figure includes approximately € 3 billion to satisfy the purchase price obligations of Siemens Energy for asset transfers by Siemens that were not carved out until March 31, 2020. As consideration for this contribution, Siemens AG's partnership interest (*Kommanditanteil*) in SE Global GmbH & Co. KG was increased.

Thereafter, until the Capital Increases Against Contribution in Kind, Siemens and SBI GmbH held partnership interests (*Kommanditanteile*) representing 87.98% and 12.02% of the total fixed capital (*Festkapital*) of SE Global GmbH & Co. KG, respectively, and corresponding share percentages in SE Global GmbH & Co. KG's sole general partner SEM GmbH.

### 5.2.3 The Capital Increases Against Contribution in Kind

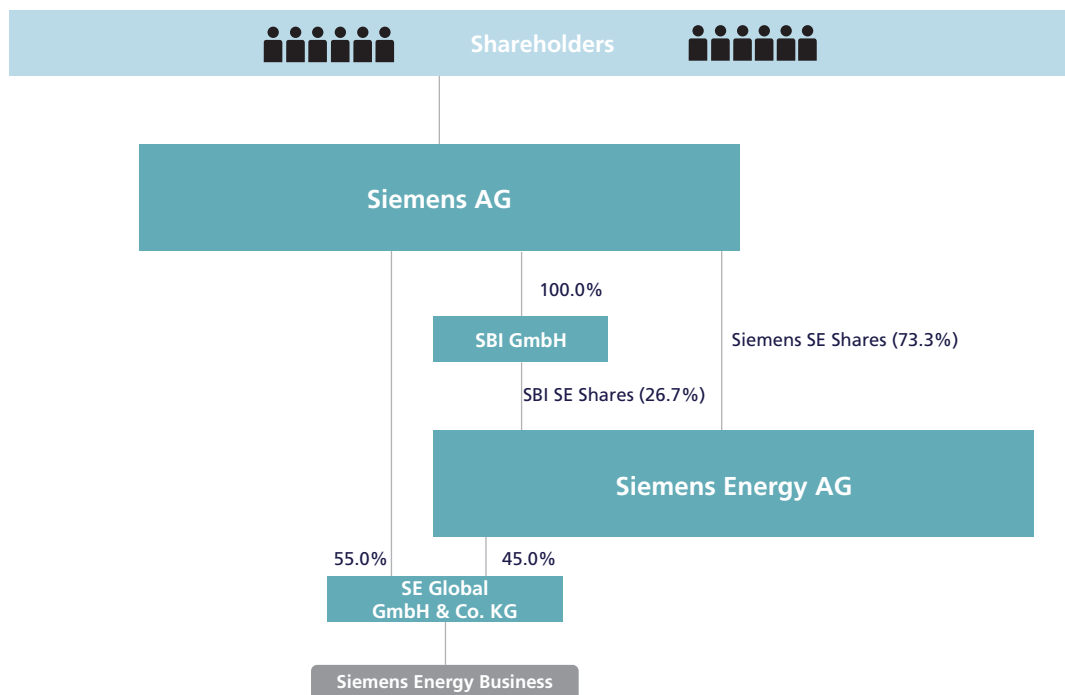
Pursuant to a contribution agreement dated May 22, 2020 entered into between Siemens AG and SBI GmbH on the one side and the Company on the other side, (i) Siemens AG committed to transfer to the Company a fraction of its partnership interest (*Teil-Kommanditanteil*) in SE Global GmbH & Co. KG, representing 32.98% of the total fixed capital (*Festkapital*) of SE Global GmbH & Co. KG, and shares in SEM GmbH, the sole general partner of SE Global GmbH & Co. KG, representing 32.98% of its share capital, and (ii) SBI GmbH committed to transfer to the Company its entire partnership interest (*Kommanditanteil*) in SE Global GmbH & Co. KG, representing 12.02% of the total fixed capital (*Festkapital*) of SE Global GmbH & Co. KG, and all of its shares in SEM GmbH, the sole general partner of SE Global GmbH & Co. KG, representing 12.02% of its share capital. As consideration for these contributions, Siemens AG received 239,582,401 new shares in the Company (the "**Siemens New SE Shares**"), thereby increasing the number of shares in the Company held by Siemens AG to 239,682,401 (the "**Siemens SE Shares**"), and SBI GmbH received 87,307,936 new shares in the Company (the "**SBI SE Shares**").

In order to create the Siemens New SE Shares and the SBI SE Shares, the Company's then sole shareholder Siemens AG in an extraordinary shareholders' meeting on May 22, 2020 resolved to increase the Company's share capital from € 100,000 by € 326,890,337 to € 326,990,337 by issuing 326,890,337 shares against contribution of the above-mentioned partnership interests (*Kommanditanteile*) of Siemens AG and SBI GmbH in SE Global GmbH & Co. KG and shares in SEM GmbH. Upon registration of these capital increases in the Company's commercial register on September 1, 2020, the SBI SE Shares and the Siemens New SE Shares were created.



#### 5.2.4 Corporate Structure of Siemens After the Carve-Out and the Capital Increases Against Contributions in Kind

The below chart shows the corporate structure of Siemens after the Carve-Out and the Capital Increases Against Contributions in Kind (for simplification reasons the chart does not depict SEM GmbH):



For an overview of the corporate structure of Siemens after the Spin-Off, see "5.3.4 Corporate Structure After the Spin-Off".

### 5.3 The Spin-Off

The aim of the Spin-Off is to complete the contribution of Siemens' remaining partnership interest (*Kommanditanteil*) in SE Global GmbH & Co. KG, representing 55% of its total fixed capital (*Festkapital*), and Siemens' remaining shares in SE Global GmbH & Co. KG's sole general partner SEM GmbH, representing 55% of its share capital, to the Company against transfer of the New Shares, representing 55% of the Shares, to the shareholders of Siemens AG.

#### 5.3.1 Spin-Off Procedure

On May 22, 2020, the Company and Siemens AG entered into the Spin-Off and Transfer Agreement. The effectiveness of this agreement was, *inter alia*, subject to the approval by a 75% majority of the Company's and Siemens AG's general shareholders' meetings. These approvals were obtained on May 22 and July 9, 2020 respectively. Pursuant to the Spin-Off and Transfer Agreement, Siemens committed to transfer the partnership interest (*Kommanditanteil*) it currently holds in SE Global GmbH & Co. KG (representing 55% of SE Global GmbH & Co. KG's total fixed capital (*Festkapital*)) and the shares it currently holds in its sole general partner, SEM GmbH (representing 55% of the share capital of SEM GmbH) to Siemens Energy AG by way of a spin-off for absorption (*Abspaltung zur Aufnahme*). In return, the shareholders of Siemens AG shall receive the New Shares created by way of the Spin-Off Capital Increase which will represent 55% of the Shares following completion of the Spin-Off. The Spin-Off and Transfer Agreement provides for an allotment ratio (*Zuteilungsverhältnis*) of 2:1, *i.e.*, each shareholder of Siemens AG is entitled to receive one share in the Company for every two shares it holds in Siemens AG. The transfer of the assets to be spun off shall occur with economic effect as of April 1, 2020, 0:00 hours. After this time, all acts taken by Siemens AG in relation to the assets to be spun-off shall be deemed to have been performed for the account of the Company. The Spin-Off Completion is expected to occur on September 25, 2020 upon the registrations of the Spin-Off with Siemens

AG's commercial registers in Munich and Berlin-Charlottenburg whereby the later registration is determinative. With respect to the reasons for the Spin-Off, see "*6 Reasons for the Spin-Off and Listing and Costs of Spin-Off and Listing*".

### **5.3.2 Spin-Off Auditor**

Pursuant to a resolution of the regional court (*Landgericht*) Munich I dated January 22, 2020, Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf ("**Baker Tilly**"), was appointed as the spin-off auditor. The Spin-Off and Transfer Agreement was audited by Baker Tilly as spin-off auditor, and a spin-off audit report was issued.

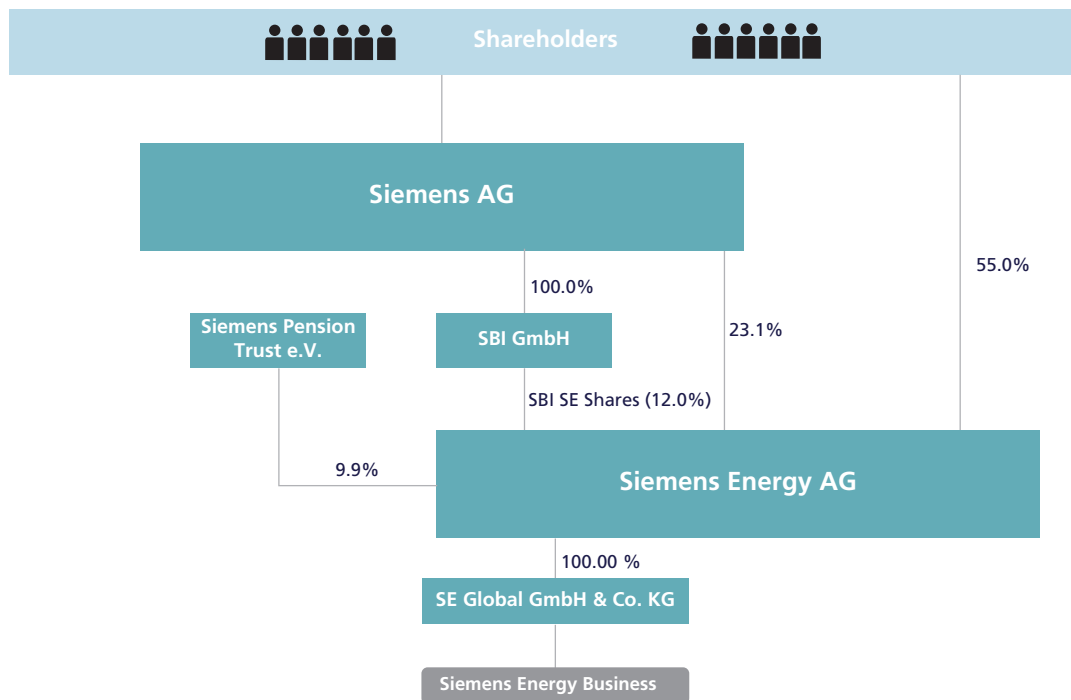
### **5.3.3 Spin-Off Capital Increase and Post-Formation Audit**

As provided for in the Spin-Off and Transfer Agreement, the Company's then sole shareholder Siemens AG held an extraordinary shareholders' meeting on May 22, 2020 where it was resolved to increase the Company's share capital from € 326,990,337 by € 399,654,856 to € 726,645,193 by issuing the 399,654,856 New Shares against contribution of Siemens AG's remaining partnership interest (*Kommanditanteil*) in SE Global GmbH & Co. KG, representing 55% of the total fixed capital (*Festkapital*) of SE Global GmbH & Co. KG, and its remaining 55% shareholding in SEM GmbH. The Spin-Off Capital Increase was registered in the Company's commercial register on September 1, 2020 and will become effective with registration of the Spin-Off in the commercial registers of Siemens AG, expected to occur on September 25, 2020.

As the Company was created by transforming Kyros 52 GmbH, which had been inactive and was reactivated less than two years prior to the conclusion of the Spin-Off and Transfer Agreement, so-called post-formation audits have been carried out. In this regard, the Supervisory Board has reviewed the Spin-Off and Transfer Agreement as well as the contribution agreement pursuant to which the Capital Increases Against Contribution in Kind have been implemented and prepared in each case a post-formation report dated May 22, 2020. Furthermore, by way of an order of the local court (*Amtsgericht*) of Munich dated March 4, 2020, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, Munich office, Arnulfstr. 59, 80636 Munich, Germany ("**EY**"), was appointed as auditor of each of the Capital Increases Against Contribution in Kind and the Spin-Off Capital Increase and as post-formation auditor (*Sacheinlage- und Nachgründungsprüfer*). The extraordinary general shareholders' meeting of the Company approved both post-formation transactions, *i.e.*, the contribution agreement pursuant to which the Capital Increases Against Contribution in Kind have been implemented as well as the Spin-Off and Transfer Agreement on May 22, 2020.

### 5.3.4 Corporate Structure After the Spin-Off

The below chart shows the corporate structure of Siemens following the completion of the Spin-Off:



Conditional upon Spin-Off Completion, Siemens AG has transferred 9.9% of the Shares to Siemens Pension-Trust e.V. For an overview of the corporate structure of Siemens after the Carve-Out and the Capital Increases Against Contributions in Kind, see "5.2.4 Corporate Structure of Siemens After the Carve-Out and the Capital Increases Against Contributions in Kind".

### 5.3.5 Trustee, Allotment Ratio, Allotment, Settlement

Deutsche Bank Aktiengesellschaft, Frankfurt am Main ("**Deutsche Bank**"), was appointed by Siemens as trustee in connection with the Spin-Off as required by the German Transformation Act (*Umwandlungsgesetz*). The trustee will receive the Shares in Siemens Energy AG allocable to the shareholders of Siemens AG as a result of the Spin-Off for transfer to such shareholders upon Spin-Off Completion. Deutsche Bank was also appointed as settlement agent for the Spin-Off.

The German language version of the notification of allotment (*Zuteilungsbekanntmachung*) set forth below is expected to be published on September 28, 2020 in the German Federal Gazette (*Bundesanzeiger*):

Siemens Aktiengesellschaft  
Berlin and Munich

**ISIN CODE DE0007236101 // GERMAN SECURITIES IDENTIFICATION NUMBER  
(WERTPAPIERKENNNUMMER) 723 610 –**

Allotment of Shares in Siemens Energy AG in connection with the Spin-Off

ISIN Code DE DE000ENER6Y0 // German Securities Identification Number  
(Wertpapierkennnummer) ENER6Y –

On May 22, 2020, Siemens AG as the transferring company (transferor) and Siemens Energy AG as the transferee company entered into a spin-off and transfer agreement (*Abspaltungs- und Übernahmevertrag*). Accordingly, Siemens AG transferred a partnership interest in Siemens Gas and Power GmbH & Co. KG (representing 55.0% of Siemens Gas and Power GmbH & Co. KG's fixed capital (*Festkapital*)) and a corresponding stake in Siemens Gas and Power Management GmbH, the general partner of Siemens Gas and Power GmbH & Co. KG (representing 55.0% of the share capital of Siemens Gas and Power Management GmbH) to Siemens Energy AG as

transferee (the remaining 45.0% of the respective holdings in Siemens Gas and Power GmbH & Co. KG and in Siemens Gas and Power Management GmbH were already transferred to Siemens Energy AG), by way of a spin-off for assumption pursuant to Section 123(2) no. 1 of the German Transformation Act (*Umwandlungsgesetz*) to Siemens Energy AG. As consideration, Siemens Energy AG grants to the shareholders of Siemens AG, free of charge, new shares in Siemens Energy AG. An allotment ratio of 2:1 has been stipulated in the spin-off and transfer agreement, i.e., for every two (2) shares of Siemens AG, one (1) Share of Siemens Energy AG will be issued.

The shareholders' meetings of Siemens Energy AG and Siemens AG approved the spin-off and transfer agreement on May 22, 2020 and on July 9, 2020, respectively. The Spin-Off was first registered with the commercial register of Siemens Energy AG at the local court (*Amtsgericht*) of Munich and subsequently with the commercial register of Siemens AG at the local courts of Munich and Berlin-Charlottenburg, and became effective accordingly. Upon effectiveness of the Spin-Off, 55.0% of the Siemens Energy AG shares are now held by the shareholders of Siemens AG, while Siemens and Siemens Pension-Trust e.V. hold directly and/or indirectly 35.1% and 9.9%, respectively, of the Shares.

For the completion of the Spin-Off, Siemens Energy AG increased its share capital from € 326,990,337 by € 399,654,856 to € 726,645,193 through the issuance of 399,654,856 no-par value registered shares each representing a notional value of the share capital of € 1. These new shares will be granted to the shareholders of Siemens AG. All shares issued by Siemens Energy AG will be entitled to dividends as from October 1, 2019.

#### **Allotment Ratio**

Upon effectiveness of the Spin-Off, the shareholders of Siemens AG have also become shareholders of Siemens Energy AG in the proportion of their shareholdings in Siemens AG. In this context, Section 10.1 of the spin-off and transfer agreement provides for an allotment ratio of 2:1. This means that each shareholder of Siemens AG receives

- for every two (2) no-par value registered shares of Siemens AG (ISIN DE0007236101 / German Securities Identification Number (WKN) 723 610)
- one (1) no-par value registered Share of Siemens Energy AG (ISIN DE000ENER6Y0 / WKN ENER6Y) representing a notional amount of the share capital of € 1 and granting dividend rights as from October 1, 2019.

#### **Trustee**

As regards the settlement of the allotment of the new shares in Siemens Energy AG, Deutsche Bank Aktiengesellschaft acts as trustee for the shareholders of Siemens AG pursuant to Sections 125 sentence 1, 71(1) sentence 1 of the German Transformation Act.

#### **Allotment Procedure**

As all shares in Siemens AG are held in collective safe custody accounts, the shareholders of Siemens AG do not need to take any action – except in the event of settlement of fractional amounts, if any – in relation to the allotment of the shares in Siemens Energy AG. The shares in Siemens Energy AG will be allotted to the shareholders entitled thereto by crediting the shares to the securities account, which shall in principle occur on September 28, 2020, in accordance with their holdings of shares in Siemens AG on (the evening of) September 25, 2020, taking into account any stock exchange transactions still outstanding. It may be expected that, in individual cases, depositary banks will effect, in analogy to the handling at Clearstream Banking AG, Frankfurt am Main ("**CBF**"), such crediting only upon settlement of stock exchange transactions still outstanding, i.e. only on September 30, 2020. The settlement of the above described measures is centralized at

Deutsche Bank Aktiengesellschaft.

No shares of Siemens Energy AG will be allotted to the holders of American Depositary Receipts ("**ADRs**") of Siemens AG. Under the provisions of the existing deposit agreement, the shares of

Siemens Energy AG attributable to ADRs will be realized for the benefit of the holders of the ADRs and the realization proceeds will be distributed *pro rata* after deduction of the costs to the holders of the ADRs.

As the right of the shareholders of Siemens Energy AG to receive certificates for their shares is excluded pursuant to the articles of association, the shares of Siemens Energy AG are represented by three global certificates deposited with CBF. The shareholders of Siemens Energy AG hold an interest in this global holding of shares in accordance with their proportional share as co-owners.

As a result of the allotment ratio, the shareholders of Siemens AG whose holdings of shares in Siemens AG are not divisible by 2 (two) will receive fractional rights in shares of Siemens Energy AG (ISIN-Code DE000ENER1T1 // German Securities Identification Number ENER1T), which generally do not confer any shareholder rights. Any consolidation of share fractions to make up full legal rights (*i.e.*, settlement of fractions) requires a corresponding purchase or sales order. For the purpose of the settlement of fractions, the shareholders of Siemens AG are requested to issue their relevant depositary bank immediately, if possible,

**however, no later than by October 14, 2020,**

with a corresponding instruction for the rounding to full legal rights. Deutsche Bank Aktiengesellschaft as centralized settlement agent is prepared to act as an intermediary for the purchase and sale of fractional rights to the extent possible. Where no instruction for settlement of fractions is given, the fractional rights attributable to the allotted shares in Siemens Energy AG shall, after the end of October 14, 2020, be combined to form whole shares and disposed of by the depositary banks and the central settlement agent via the stock exchange. The proceeds from this disposition are expected to be disbursed on October 19, 2020 to the respective shareholders in accordance with the fractional rights attributable to them. It is to be expected that, in individual cases, depositary banks, especially abroad, will not participate in the settlement of fractions or will not accept corresponding instructions.

The allotment of shares in Siemens Energy AG as well as the instruction for settlement of any fractional rights to shares of Siemens Energy AG resulting therefrom shall be effected at no cost (commissions or out-of-pocket expenses) for the shareholders, provided that the shareholders maintain a securities account in Germany.

### **Admission to Stock Exchange Trading and First Day of Listing**

The English language listing prospectus of Siemens Energy AG for the admission to stock exchange trading was approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*) on September 7, 2020. The prospectus relating to 726,645,193 no-par value registered shares of Siemens Energy AG is available online under [www.siemens-energy.com](http://www.siemens-energy.com). Printed versions of the prospectus relating to 726,645,193 no-par value registered shares of Siemens Energy AG are available free of charge from Siemens Energy AG, Investor Relations, Otto-Hahn-Ring 6, 81739 Munich (e-mail: [investorrelations@siemens-energy.com](mailto:investorrelations@siemens-energy.com); telefax: +49 89 13 636 25358), during regular business hours.

All shares of Siemens Energy AG were admitted to the regulated market of the Frankfurt Stock Exchange and, additionally, to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange on September 25, 2020.

Trading in the 726,645,193 shares in Siemens Energy AG is expected to commence on September 28, 2020.

With effect from September 28, 2020, the shares of Siemens AG will be traded on the regulated market of the Frankfurt Stock Exchange "ex spin-off". It is intended that the Siemens share will, if possible, be listed with a comparable indicator at all other stock exchanges where the shares of Siemens AG are traded. In any event, upon effectiveness of the Spin-Off, the Siemens AG share



no longer represents, in economic terms, a participation in the business activities that have been spun off for transfer to Siemens Energy AG.

Munich, in September 2020

Siemens Aktiengesellschaft  
*The Executive Board*

### **5.3.6 ADR Program**

In the United States, since May 16, 2014, American Depositary Receipts (ADRs) representing shares in Siemens AG are traded only over-the-counter (OTC), *i.e.*, not on any stock exchange in the United States. Since March 8, 2017, two Siemens ADRs represent one share in Siemens AG. Accordingly, ADR holders are attributed one share in the Company for every four ADRs they hold. The deposit agreement between Siemens AG and Deutsche Bank Trust Company Americas as depositary provides that in the case of any distribution on deposited securities other than cash, share distributions and subscription rights, to the extent the depositary deems, after consultation with Siemens AG, a distribution of such securities not to be lawful, equitable or practicable, the depositary may instead distribute the net proceeds of the sale of such distributions to the ADR holders. Accordingly, Deutsche Bank Trust Company Americas, as depositary, will receive New Shares on behalf of the ADR holders, sell them upon commencement of the trading of the Shares on the Frankfurt Stock Exchange and distribute the net cash proceeds from the sale to the ADR holders.

## **5.4 The Listing**

### **5.4.1 Stock Exchange Admission and Commencement of Trading**

Admission of the Shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange and, simultaneously, to the sub-segment of the Frankfurt Stock Exchange with additional post-admission obligations (Prime Standard) is expected to be applied for on September 8, 2020. An admission decision is expected to be announced on September 25, 2020. Trading of the Shares on the Frankfurt Stock Exchange is expected to commence on September 28, 2020.

The Company will apply for the admission to trading. Application will be made together with Deutsche Bank Aktiengesellschaft, a stock corporation incorporated in and operating under the laws of Germany, with its registered seat in Frankfurt am Main, Germany and its business address in Taunusanlage 12, 60325 Frankfurt am Main, Germany (telephone: +49 69 910-00; website: [www.db.com](http://www.db.com); LEI: 7LTWFZYICNSX8D621K86), acting on behalf of the Listing Agents, for the purpose of the admission to trading.

### **5.4.2 Publication and Availability of the Prospectus**

Following the approval of the Prospectus by BaFin, the Prospectus will be published on the website of Siemens Energy AG ([www.siemens-energy.com](http://www.siemens-energy.com)). Printed versions of the Prospectus are available free of charge from Siemens Energy AG, Investor Relations, Otto-Hahn-Ring 6, 81739 Munich (e-mail: [investorrelations@siemens-energy.com](mailto:investorrelations@siemens-energy.com); telefax: +49 89 13 636 25358), during regular business hours.

### **5.4.3 Listing Agreement; Fees; Indemnity; Lock-up**

In connection with the Spin-Off and Listing, Siemens AG, Siemens Energy AG and the Banks entered into a listing agreement dated September 6, 2020 (the "**Listing Agreement**"). In addition, Siemens AG and Siemens Energy AG have entered into a share settlement agreement with Deutsche Bank which will act as a trustee within the meaning of Sections 125 sentence 1, 71 para. 1 sentence 1 of the German Transformation Act. Siemens AG has agreed to pay to the Banks a fixed fee and may pay a discretionary fee.

The Company agreed in the Listing Agreement to indemnify the Banks against certain liability obligations that may arise in connection with the Spin-Off and the Listing. Internally, Siemens Energy AG and Siemens AG have agreed to allocate certain indemnification obligations between them in a ratio of 0.55 to 0.45.

In the Listing Agreement, the Company has agreed that during the period commencing on the date of the Listing Agreement and ending 180 days after the first day of trading of the Company's Shares on the Frankfurt Stock Exchange, the Company will not, without the prior written consent of the Listing Agents:

- (a) announce or effect an increase of the share capital of the Company out of authorized capital; or
- (b) submit a proposal for a capital increase to any meeting of the shareholders for resolution; or
- (c) announce to issue, effect or submit a proposal for the issuance of any securities convertible into shares of the Company, with option rights for shares of the Company; or
- (d) enter into a transaction or perform any action economically similar to those described in (a) through (c) above.

The Company may, however, offer, sell and issue options, warrants and shares of the Company (i) under present and future employee share purchase and share option schemes or (ii) as partial or full consideration for a business acquired by the Company or for purposes of entering into a joint venture, provided that, with respect to (ii) only, the Company shall (i) consult with the Listing Agents prior to the issuance of the shares or other securities and (ii) use its best efforts to negotiate an undertaking of the recipient of the shares or such other securities of the Company to comply with the restrictions on the disposal of shares set forth above.

#### **5.4.4 Designated Sponsors**

COMMERZBANK Aktiengesellschaft and J.P. Morgan Securities plc will assume the function of designated sponsor of the Shares traded on the Frankfurt Stock Exchange, being entitled to designate an appropriately admitted third party to perform their functions. The designated sponsors will, among other things, place limited buy and sell orders for Shares in the electronic trading system of the Frankfurt Stock Exchange during regular trading hours. This is intended to achieve greater liquidity in the market for the Shares.

#### **5.4.5 Interests of Persons Participating in the Spin-Off and the Listing**

Pursuant to the Listing Agreement, the Banks will receive a commission following Spin-Off Completion. In addition, COMMERZBANK Aktiengesellschaft and J.P. Morgan Securities plc have been appointed to act as designated sponsor for the Shares. The Company therefore assumes that the Banks have an interest in the successful completion of the transaction.

The current members of the executive board of the Company (the "**Executive Board**") (as well as other executives of Siemens Energy) have been granted a Spin-Off incentive, *i.e.*, a transaction bonus if certain target values for the effects of the Spin-Off or the market value are achieved upon Spin-Off Completion and within the first 120 days after Spin-Off Completion, based on the average volume-weighted price of the Shares of the Company (see "*17.2.3.4 Spin-Off Incentive in Connection with the Spin-Off*").

As of the date of the Prospectus, all members of the Company's supervisory board (the "**Supervisory Board**") are employees of Siemens. Following Spin-Off Completion, Mr. Joe Kaeser and Prof. Dr. Ralf P. Thomas, who are also serving on the executive board of Siemens AG, and Mr. Matthias E. Rebellius, who currently is an employee of Siemens and is expected to become a member of the executive board of Siemens AG with effect as of October 1, 2020, will be members of the Supervisory Board. Furthermore, Dr. Andrea Fehrmann, Mr. Jürgen Kerner and Mr. Hagen Reimer are expected to remain members of the supervisory board of Siemens AG following Spin-Off Completion.

Siemens AG has an interest in the Spin-Off as it serves to dispose of a majority shareholding in Siemens Energy. For further details regarding the expectations of Siemens AG and Siemens Energy AG as to the effects of the Spin-Off, see "*6 Reasons for the Spin-Off and Listing and Costs of Spin-Off and Listing*".

The Listing Agents or their affiliates act as lenders to the Company, primarily under a facility agreement (see “12.9.1 Siemens Energy Facility Agreement”). Furthermore, the Banks or certain of their respective affiliates have performed, and are likely to perform in the future, certain advisory or other services for Siemens Energy or for Siemens AG or certain of their subsidiaries in their capacity as financial institutions, in particular advisory services in connection with financing transactions, for which they have received, and are likely to receive in the future, customary fees and expenses.

#### 5.4.6 Information to Distributors

Each distributor is responsible for undertaking its own target market assessment with respect to the Shares and determining appropriate distribution channels. Solely for the purposes of the product governance requirements contained within: (a) Directive 2014/65/EU of May 15, 2014 on markets in financial instruments, as amended (“**MiFID II**”); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the “**MiFID II Product Governance Requirements**”), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any “manufacturers” (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Shares have been subject to a product approval process by the Banks. As a result, it has been determined that such Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the “**Target Market Assessment**”). Notwithstanding the Target Market Assessment, any person subsequently offering, selling or recommending the Shares (a “distributor” for the purpose of the MiFID II Product Governance Requirements) should note that: the price of the Shares may decline and investors could lose all or part of their investment; the Shares offer no guaranteed income and no capital protection; and an investment in the Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling and transfer restrictions in relation to any subsequent offering or resale of the Shares and does not constitute (i) an assessment of suitability or appropriateness for the purposes of MiFID II or (ii) a recommendation to any investor or group of investors to invest in, purchase, or take any other action whatsoever with respect to, the Shares.

In addition, other restrictions may apply in other jurisdictions in relation to any subsequent offering, transfer or resale of the Shares. Potential investors or distributors should make their own assessment on the suitability, appropriateness and lawfulness of any such offering, transfer or resale and as to their own investment decision and, if appropriate, seek professional advice for the relevant jurisdiction or jurisdictions. In particular, it may be unlawful in certain jurisdictions, including Malaysia and the People’s Republic of China, to make Shares available to others, including through a resale, allotment, delivery or transfer, without a registration or the publication of a disclosure document approved or otherwise endorsed by the competent authority in such jurisdictions unless an exemption or waiver applies.

In Canada, a resale of the Shares will generally be a “distribution” triggering a prospectus requirement unless an exemption under the Canadian National Instrument 45-102 on Resale Restrictions (“**NI 45-102**”) is available. An exemption under section 2.15 of NI 45-102 provides that a prospectus requirement does not apply to the first trade of a security distributed under a prospectus exemption if all of the following conditions are met: (i) the issuer is a “foreign issuer” on the distribution date (that is, the issuer is incorporated out-side of Canada and does not have its head office in Canada, and the majority of the issuer’s “executive officers” or directors do not ordinarily reside in Canada); (ii) the issuer is not a reporting issuer in any jurisdiction of Canada on the distribution date, or is not a reporting issuer in any jurisdiction of Canada on the date of

the trade; and (iii) the trade is made through an exchange or market outside of Canada, or to a person or company outside of Canada.

In Switzerland, the Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Shares. The Shares may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("**FinSA**") and no application has or will be made to admit the Shares to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Shares constitutes a prospectus pursuant to the FinSA, and neither this Prospectus nor any other offering or marketing material relating to the Shares may be publicly distributed or otherwise made publicly available in Switzerland.

In Singapore, the Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Prospectus and any other document or material in connection with the offer or resale, or invitation for subscription or purchase, of the Shares may not be circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) pursuant to, and in accordance with, the conditions of an exemption in Section 272 or Section 273(c) of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), or (ii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. The Shares are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products of Singapore).

## **6 REASONS FOR THE SPIN-OFF AND LISTING AND COSTS OF SPIN-OFF AND LISTING**

### **6.1 Reasons for the Spin-Off and Listing**

As a part of its strategy program, referred to as “Vision 2020+”, Siemens decided to implement the Spin-Off thereby giving Siemens Energy its independence and entrepreneurial freedom to pursue its own strategy, resource allocation, strengthen the focus on its customers, technologies, risks and markets and adapt quicker to the rapidly changing market conditions. In particular, Siemens Energy expects to benefit from the ability to independently decide on the allocation of financial and other resources to successfully navigate the rapidly changing market conditions.

The Company intends to list its entire share capital on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, on the sub-segment with additional post admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) to gain access to the capital markets.

### **6.2 Costs of Spin-Off and Listing**

Neither the Company nor Siemens AG will receive proceeds in connection with the Spin-Off.

In connection with the Listing, Siemens Energy will bear costs of approximately € 2.0 million; the remaining costs associated with the Spin-Off and Listing were assumed by Siemens.



## 7 DIVIDEND POLICY

### 7.1 General Rules on Allocation of Profits and Dividend Payments

The shareholders' share of profits is determined based on their respective interests in the Company's share capital. In a German stock corporation (*Aktiengesellschaft*), resolutions concerning the distribution of dividends for a given fiscal year, and the amount thereof, are adopted by the general shareholders' meeting (*Hauptversammlung*) of the subsequent fiscal year upon a joint proposal by the Executive Board and the Supervisory Board. Dividends may only be distributed from the distributable profit (*Bilanzgewinn*) of the Company. The distributable profit is calculated based on the Company's unconsolidated financial statements prepared in accordance with the accounting principles of the German Commercial Code (*Handelsgesetzbuch*) and the German Stock Corporation Act (*Aktiengesetz*). Accounting principles set forth in the German Commercial Code (*Handelsgesetzbuch*) differ from IFRS in material respects.

When determining the distributable profit, the net income (loss) for the year must be adjusted for profit/loss carry-forwards from the prior fiscal year and release of or allocations to reserves. Certain reserves are required to be set up by law and respective allocations must be deducted when calculating the net income (loss) before profit distribution. Certain additional limitations apply if self-created intangible assets or deferred tax assets have been capitalized or certain plan assets that exceed corresponding pension liabilities have been capitalized. The Executive Board must prepare the annual financial statements (balance sheet, income statement and notes to the financial statements) and the management report for the previous fiscal year by the statutory deadline, and present these to the Supervisory Board and the auditors immediately after preparation. At the same time, the Executive Board must present to the Supervisory Board a proposal for the allocation of the Company's distributable profit. The Supervisory Board must review the annual financial statements, the Executive Board's management report and the proposal for the allocation of the distributable profit, and report to the general shareholders' meeting in writing on the results. The Supervisory Board must submit its report to the Executive Board within one month after the documents were received. If the Supervisory Board approves the annual financial statements after its review, these are deemed adopted unless the Executive Board and Supervisory Board resolve to assign adoption of the annual financial statements to the general shareholders' meeting. If the Executive Board and Supervisory Board choose to allow the general shareholders' meeting to adopt the annual financial statements, or if the Supervisory Board does not approve the annual financial statements, the Executive Board must convene a general shareholders' meeting without delay.

The general shareholders' meeting's resolution on the allocation of the distributable profit must be passed with a simple majority of votes. If the Executive Board and Supervisory Board adopt the annual financial statements, they can allocate an amount of up to half of the Company's net income for the year to other surplus reserves. Additions to the legal reserves and loss carry-forwards must be deducted in advance when calculating the amount of net income for the year to be allocated to other surplus reserves. Pursuant to Section 20 paragraph 4 of the Articles of Association the general shareholders' meeting may decide that the distributable profits be appropriated by means of a distribution in kind, instead of, or in addition to, a cash dividend. In the resolution on the appropriation of the net profit, the general shareholders' meeting may allocate amounts to reserves or carry them forward as profit. Dividends resolved by the general shareholders' meeting are due and payable on the third business day (*Geschäftstag*) following the day of the relevant general shareholders' meeting, unless a later due date is provided in the dividend resolution, in compliance with the rules of the respective clearing system. Generally, withholding tax is withheld from the dividends paid. For more information on the taxation of dividends, see "19.2 Taxation of Dividends".

Dividend payment claims are subject to a three-year standard limitation period. If dividend payment claims expire, then the Company becomes the beneficiary of the dividends. Details concerning any dividends resolved by the general shareholders' meeting and the paying agents named by the Company in each case will be published in the Federal Gazette (*Bundesanzeiger*).

## 7.2 Dividend Policy

Siemens Energy AG did not pay any dividends in the past. Subject to a statutory minimum dividend of up to approximately € 29 million in case sufficient distributable profit is reported in the Company's audited unconsolidated financial statements for the fiscal year 2020 prepared in accordance with the requirements of German commercial law applicable to corporations, Siemens Energy AG will not make a dividend payment for the fiscal year 2020. With respect to the following fiscal years, the Company intends to propose a dividend whose distribution volume is 40% to 60% of the Group's net income attributable to shareholders of Siemens Energy AG as shown in the consolidated financial statements of the Company prepared in accordance with IFRS of the respective prior fiscal year. For this purpose, this net income may be adjusted for extraordinary non-cash effects. Generally, it is intended to fund the dividend payout from available Free Cash Flow taking into account dividend payments received from SGRE S.A., which intends to propose a dividend in a distribution volume of no less than 25% of its net income.

However, the Company's ability to pay dividends in future years will depend on the amount of distributable profit based on the Company's audited unconsolidated financial statements prepared in accordance with the accounting principles of the German Commercial Code (*Handelsgesetzbuch*). In this context, it should be noted that the Company will be a holding company with no material business operations of its own. As a result, it will be dependent on its subsidiaries in order to generate and transfer the funds required to make dividend payments, if any. Further, in case the Company has to recognize a significant impairment on its interests in SE Global GmbH & Co. KG, its ability to make dividend payments could be limited. Accordingly, no assurance regarding the amounts of future distributable profits, if any, can be provided. Consequently, we can provide no assurance that we will pay dividends in future years.

Due to expected attendance levels, Siemens will likely be able to control the resolutions on the distribution of dividends as long as it does not significantly reduce its post-Spin-Off shareholding in the Company.

## 8 CAPITALIZATION AND INDEBTEDNESS

The Company will not receive any proceeds in connection with the Spin-Off or Listing. Accordingly, there will be no effect on the Company's capitalization as reflected below.

### 8.1 Capitalization

The following table sets forth an overview of the capitalization of the Siemens Energy Group as of June 30, 2020, based on the Unaudited Condensed Combined Interim Financial Statements or from our accounting records or internal management reporting systems:

(in € million)	June 30, 2020
	(unaudited)
<b>Total current debt</b> (including current portion of non-current debt) <sup>1)</sup>	<b>22,432</b>
Guaranteed <sup>2)</sup>	1
Secured <sup>2)</sup>	91
Unguaranteed/Unsecured	22,340
<b>Total non-current debt</b> (excluding current portion of non-current debt) <sup>3)</sup>	<b>6,741</b>
Guaranteed <sup>2)</sup>	11
Secured <sup>2)</sup>	—
Unguaranteed/Unsecured	6,730
<b>Shareholders' Equity</b> <sup>4), 5)</sup>	<b>15,653</b>
Share capital <sup>5)</sup>	—
Legal reserve <sup>5)</sup>	—
Other reserves <sup>5)</sup>	—
<b>Total</b> <sup>6)</sup>	<b>44,826</b>

<sup>1)</sup> 'Total current debt' is referred to as 'Total current liabilities' in the Unaudited Condensed Combined Interim Financial Statements.

<sup>2)</sup> 'Current debt' and 'non-current debt' guaranteed or secured by third parties includes local bank financing for subsidiaries of SE Global GmbH & Co. KG in countries in which the usual financing by Siemens Group before the Spin-Off becoming effective was not possible or not appropriate. Siemens guarantees or secures repayment of the liabilities, in case of a security by letters of support (*Patronatserklärungen*), in which Siemens undertakes towards the financing banks to support the repayment by providing adequate financial funding to the subsidiaries or direct repayment to the financing banks. In connection with the Spin-Off, such guarantees or letters of support issued by Siemens will be replaced, depending on the individual case, with guarantees or letters of support issued by Siemens Energy.

<sup>3)</sup> 'Total non-current debt' is referred to as 'Total non-current liabilities' in the Unaudited Condensed Combined Interim Financial Statements.

<sup>4)</sup> 'Shareholders' Equity' refers to 'Total equity attributable to Siemens Group', calculated as 'Total equity as presented in the Combined Statements of Financial Position of the Unaudited Condensed Combined Interim Financial Statements less 'Non-controlling interests' of € 597 million as of June 30, 2020 as presented in the Combined Statements of Changes in Equity of the Unaudited Condensed Combined Interim Financial Statements.

<sup>5)</sup> Prior to Spin-Off Completion, the Siemens Energy Group was not a legal group for Consolidated Financial Statements reporting purposes in accordance with IFRS 10, Consolidated Financial Statements, in the periods presented. The equity was presented on the basis of the aggregation of the net assets of the Siemens Energy business under the control of Siemens AG and centrally managed by the managing board of Siemens AG. Consequently, the Unaudited Condensed Combined Interim Financial Statements do not separately disclose share capital, legal reserves and other reserves.

<sup>6)</sup> 'Total' is the sum of 'Total current debt', 'Total non-current debt' and 'Shareholders' Equity'.

## 8.2 Total Financial Indebtedness

The following table sets forth an overview of the total financial indebtedness of the Siemens Energy Group as of June 30, 2020, based on the Unaudited Condensed Combined Interim Financial Statements or from our accounting records or internal management reporting systems:

(in € million)	June 30, 2020 (unaudited)
A. Cash <sup>1)</sup>	2,352
B. Cash equivalents <sup>1)</sup>	—
C. Other current financial assets <sup>2)</sup>	—
<b>D. Liquidity (A + B + C)</b>	<b>2,352</b>
E. Current financial debt (including debt instruments, but excluding current portion of non-current financial debt) <sup>3)</sup>	787
F. Current portion of non-current financial debt <sup>4)</sup>	—
<b>G. Current financial indebtedness (E + F)</b>	<b>787</b>
<b>H. Net current financial indebtedness (G – D)</b>	<b>(1,565)</b>
I. Non-current financial debt (excluding current portion and debt instruments) <sup>5)</sup>	1,690
J. Debt instruments <sup>6)</sup>	—
K. Non-current trade and other payables <sup>7)</sup>	—
<b>L. Non-current financial indebtedness (I + J + K)</b>	<b>1,690</b>
<b>M. Total financial indebtedness (H + L)</b>	<b>125</b>

<sup>1)</sup> A. 'Cash' corresponds to 'Cash and cash equivalents' in the Unaudited Condensed Combined Interim Financial Statements and includes B. 'Cash equivalents'.

<sup>2)</sup> C. 'Other current financial assets' is not applicable. The line item 'Other current financial assets' shown in the Unaudited Condensed Combined Interim Financial Statements primarily relates to derivatives for hedging purposes.

<sup>3)</sup> E. 'Current financial debt' corresponds to 'Short-term debt and current maturities of long-term debt' in the Unaudited Condensed Combined Interim Financial Statements and includes € 259 million of current lease liabilities.

<sup>4)</sup> F. 'Current portion of non-current financial debt' is included in G. 'Current financial indebtedness'.

<sup>5)</sup> I. 'Non-current financial debt (excluding current portion and debt instruments)' is referred to as 'Long-term debt' in the Unaudited Condensed Combined Interim Financial Statements. This balance includes € 945 million of non-current lease liabilities.

<sup>6)</sup> J. 'Debt instruments' does not apply. Siemens Energy had no outstanding debt instruments as of June 30, 2020.

<sup>7)</sup> K. 'Non-current trade and other payables' corresponds to 'Other liabilities to Siemens Group' in the Unaudited Condensed Combined Interim Financial Statements.

## 8.3 Indirect and Contingent Indebtedness

As of June 30, 2020, the other financial commitments and contingencies of the Siemens Energy Group comprised guarantees of third-party performance, which mainly include performance bonds and guarantees of advanced payments in a consortium. In the event of non-fulfillment of contractual obligations by the consortium partner(s), Siemens Energy will be required to pay up to the agreed-upon maximum amount of € 399 million as of June 30, 2020 (September 30, 2019: € 147 million).

## 8.4 Working Capital Statement

In the Company's opinion and in line with the duration of the validity of the prospectus established in Article 12 of the Prospectus Regulation, it has sufficient working capital for a period of at least twelve months. In making this statement, the Company assessed whether it is able to access cash and other available liquid resources in order to meet its liabilities as they fall due.

## 9 MANAGEMENT'S DISCUSSION AND ANALYSIS OF NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

*Investors should read the following discussion and analysis of our net assets, financial position and results of operations in conjunction with the sections "3 Risk Factors", "4.4 Forward-Looking Statements", "4.7 Note Regarding the Presentation of Financial Information", "4.8 Alternative Performance Measures" and "12 Business", the Audited Combined Financial Statements, the Unaudited Condensed Combined Interim Financial Statements and the Audited Unconsolidated Financial Statements, which are included in this Prospectus. For further information on the financial statements, see also pages F-1 et seq.*

*The Audited Combined Financial Statements were prepared in accordance with IFRS and have been audited in accordance with Section 317 of the German Commercial Code (Handelsgesetzbuch – "HGB") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – "IDW"), by EY, who issued an unqualified independent auditor's report thereon. The Audited Unconsolidated Financial Statements were prepared in accordance with the requirements of German commercial law applicable to business corporations and have been audited by EY in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the IDW, who issued an unqualified independent auditor's report thereon. The Unaudited Condensed Combined Interim Financial Statements have been prepared in accordance with IFRS on interim financial reporting (IAS 34).*

*In contrast to the preparation of consolidated financial statements, the preparation of the combined financial statements requires additional significant Management (as defined below) judgments when determining the respective combination rules, which affect the recognition and amount of assets and liabilities, income and expenses and contingent liabilities. In such cases, the actual results may differ from our assumptions or estimates. In addition, the Combined Financial Statements include companies that were held by Siemens Group during the relevant reporting periods. Therefore, the Combined Financial Statements do not claim to represent the net assets, financial position and results of operations or cash flows that would have resulted had the Siemens Energy Group existed in its current form since October 1, 2016, nor can the net assets, financial position and results of operations or cash flows as shown in the above-mentioned financial statements be extrapolated for future periods or a future reporting date. See "9.3 Basis of Preparation" below.*

*Where financial data in the following tables is presented as "audited", this means that it was taken from the Audited Combined Financial Statements or the Audited Unconsolidated Financial Statements. Where financial data is presented in the following tables as "unaudited", it indicates that the financial data has not been taken from the Audited Combined Financial Statements or the Audited Unconsolidated Financial Statements but has been taken either from the Unaudited Condensed Combined Interim Financial Statements mentioned above or from Siemens Energy's accounting records or internal management reporting system or has been calculated based on figures from the above-mentioned sources.*

*Certain tables in this section also include certain APMs. However, these APMs are not defined by IFRS or any other internationally accepted accounting principles, and such items should not be considered as an alternative to the historical financial results or other indicators of Siemens Energy's results of operations and financial position based on IFRS measures. In particular, they should not be considered as alternatives to the Group's net income/loss as an indicator of the Group's performance and profitability, or as alternatives to cash flows from operating activities as an indicator of its financial strength. The APMs, as defined by Siemens Energy, may not be comparable to similarly titled measures as presented by other companies due to differences in the way Siemens Energy's APMs are calculated. Even though the APMs are used by management*



to assess ongoing operating performance and indebtedness, and though these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of Siemens Energy's results, cash flows or assets and liabilities as reported under IFRS.

Financial information presented in parentheses or preceded by a "minus" sign in the Prospectus denote a negative amount. Certain numerical data, financial information and market data in the Prospectus have been rounded in accordance with commercial rounding. Unless otherwise indicated, all financial data presented in the text and tables in this section of this Prospectus is shown in millions of euros (€ million), commercially rounded to the nearest million. Percentage changes and ratios in the text and tables of the Prospectus are calculated based on the underlying numbers as presented in this Prospectus, i.e., after rounding of such underlying numbers, and then commercially rounded to a whole percentage or to one digit after the decimal point. In some instances, such rounded figures and percentages may not add up to 100% or to the totals or subtotals contained in the Prospectus. Furthermore, totals and subtotals in tables may differ slightly from unrounded figures contained in the Prospectus due to rounding in accordance with commercial rounding. A dash ("—") signifies that the relevant figure is not available or equal to zero, while a zero ("0") or nil signifies that the relevant figure has been rounded to zero.

## 9.1 Overview

We are a pure play company active along the entire energy technology and service value chain with a comprehensive and differentiated products, solutions and services offering. Our broad technology base, comprising both fuel-efficient conventional as well as renewable energies, enables us to meet the increasing energy demand while at the same time supporting efforts to reduce greenhouse gases ("GHG"). We also offer digital business and intelligent service models to our customers. We consider ourselves well-positioned to shape the energy transition towards decarbonized energy technologies and to promptly react to customer needs worldwide through our global footprint.

## 9.2 Segmentation

Siemens Energy is steered by its Executive Board in two reportable segments, Gas and Power and Siemens Gamesa Renewable Energy:

- *Gas and Power segment* – Our Gas and Power segment offers a wide range of products, solutions and services in the fields of power transmission and conventional central and distributed power generation alongside industrial applications for the oil and gas industry and for industrial process applications. The segment further develops and markets new technologies in the field of decarbonization. The Gas and Power segment's operations are split into three divisions: Transmission, Generation and Industrial Applications and are complemented by its Other Operations:
  - *Transmission* – Our Transmission division offers a broad portfolio of products, systems, solutions and services geared around the key market trends of digitalization, decarbonization, grid stability and electrification. The product portfolio comprises air- and gas-insulated switchgear, transformers, digitalized products and other products such as bushings. Transmission division offers its products individually or as part of tailor-made systems and solutions as well as services relating to power transmission of high (which includes ultra-, extra- and high-voltage layers) and, to a lesser extent, medium and low voltage levels as part of product bundles or solutions.
  - *Generation* – Our Generation division offers a broad portfolio of products, solutions and services for central and distributed power generation. The product portfolio comprises gas and steam turbines, generators and gas engines as well as instrumentation & controls ("I&C") and electrical systems. Products are sold individually or as part of solutions. A comprehensive set of services covering performance enhancements, maintenance services, customer training and professional consulting complement its products and solutions businesses.

- *Industrial Applications* – Our Industrial Applications division offers a broad portfolio of products, integrated systems and solutions, comprising rotating equipment, integrated drive-train systems, electrification, automation and digital solutions for the on- and offshore industry, marine industry and the fiber industry, and water treatment solutions. Our Industrial Applications division also provides services for oil & gas and distributed generation customers, including other industries such as food and beverages, minerals and metals, industrial parks and municipalities.
- *Other Operations* – Our Other Operations include our New Energy Business and certain at-equity investments. Our New Energy Business complements the portfolio of our Gas and Power segment by developing new technologies in the field of decarbonized energy systems. The current focus of the New Energy Business is to enable the green hydrogen economy and to promote decarbonization, for instance by developing “power-to-x” technologies which use electricity from renewable energy sources (also referred to as “**renewables**”) for the production of low-CO<sub>2</sub> synthetic energy sources (power fuels).
- *Siemens Gamesa Renewable Energy* – Our Siemens Gamesa Renewable Energy segment (also referred to as ‘SGRE’) focuses on the promotion, design, development, manufacture and supply of products, installation and technologically advanced services in the renewable energy sector with a focus on wind power plants; it also provides services including management, operation and maintenance. SGRE also explores opportunities in adjacent renewable business fields which, in many cases, are also related to the wind turbine business. However, these activities represent only a small fraction of SGRE’s current business. SGRE S.A.’s shares are listed on the Spanish stock exchanges of Madrid, Barcelona, Valencia, and Bilbao and included in the Spanish IBEX 35 index. Siemens Energy holds approximately 67% of the shares in SGRE S.A. The SGRE segment comprises the business units Onshore Wind Power, Offshore Wind Power and Service:
  - *Onshore Wind Power* – With almost 40 years of experience, our business unit Onshore Wind Power provides innovative wind turbine design, manufacturing and installation solutions for global onshore markets mainly focused on geared technology including platforms, which can be adapted to regional and local needs.
  - *Offshore Wind Power* – Our business unit Offshore Wind Power provides its customers with nearly three decades of offshore wind turbine equipment design, manufacturing and installation experience focused on direct drive technology.
  - *Service* – Our business unit Service offers a comprehensive and flexible portfolio for the maintenance and optimization of wind turbines, providing a holistic, lifetime-care. Complete asset management as well as technical assistance is provided for the SGRE segment’s wind turbines and is also being expanded for third party assets.

## 9.3 Basis of Preparation

### 9.3.1 Separation from Siemens

On May 7, 2019, Siemens AG announced its plans to publicly list the Siemens Energy business on the stock exchange in the form of a spin-off, by issuing Siemens Energy shares to the shareholders of Siemens AG. Following Spin-Off Completion, 55.0% of the Siemens Energy AG shares will be transferred to the shareholders of Siemens AG. Subsequently, the shares in Siemens Energy AG will be listed on the stock exchange (see “5 Carve-Out, Spin-Off and Listing”). Siemens will retain a shareholding of initially 45.0% but conditional upon Spin-Off Completion transferred 9.9% of the Shares to Siemens Pension-Trust e.V. (see “5.3.4 Corporate Structure After the Spin-Off”). For information regarding the establishment of the Company, see “14.1 Formation, Incorporation, Commercial Register, Name”.

In order to combine the Siemens Energy business within the Group, certain carve-out and reorganization measures have been undertaken and implemented in the fourth quarter of the fiscal year 2019 and the first three quarters of the fiscal year 2020 (for more details, see “5.2 The Carve-Out and the Capital Increases Against Contribution in Kind”). The separation of the

Siemens Energy business from Siemens will be mostly completed with the Spin-Off (see “5.3 The Spin-Off”).

As of the Spin-Off Completion, Siemens Energy AG, Munich, Germany, will be the parent company of Siemens Energy Group. Siemens Energy’s operating activities will be carried out by its subsidiary SE Global GmbH & Co. KG, Munich, Germany, and its direct and indirect subsidiaries.

### 9.3.2 Preparation and Scope of the Combined Financial Statements

#### 9.3.2.1 Preparation of the Combined Financial Statements

The Audited Combined Financial Statements have been prepared in accordance with IFRS as adopted by the EU. The Unaudited Condensed Combined Interim Financial Statements were prepared in accordance with IFRS on interim financial reporting (IAS 34).

Since IFRS provides no guidelines for the preparation of Combined Financial Statements, rules given in IAS 8.12 have been used. IAS 8.12 requires the consideration of the most recent pronouncements of other standard-setting bodies, other financial requirements and recognized industry practices. Following IAS 8.12, the predecessor accounting approach was applied in the Combined Financial Statements of Siemens Energy. The same accounting policies and measurement principles were applied in preparing the Combined Financial Statements as used by the Siemens Energy entities and operations in preparing their financial information for inclusion in the consolidated financial statements of Siemens AG, which are prepared in accordance with IFRS, for the fiscal years 2019, 2018 and 2017 (“**Siemens AG IFRS Consolidated Financial Statements**”). Accounting estimates originally used in the Siemens AG IFRS Consolidated Financial Statements have not been adjusted to reflect potential new knowledge before being included in the Combined Financial Statements.

The Audited Combined Financial Statements of Siemens Energy reflect the following businesses as included in the Siemens AG Consolidated Financial Statements for the fiscal year 2019, adjusted for legal entities where no legal transfer to Siemens Energy is planned, namely:

- (i) the Siemens segment “Gas and Power”;
- (ii) the Siemens segment “SGRE”; and
- (iii) the following Siemens’ businesses that fall within the scope of Siemens Energy’s Gas and Power segment: process solutions business, excluding the minerals business; subsea business; distribution transformer business; the hydrogen solution unit and research activities within the technology field “power-to-x” and storage; at-equity investments in Voith Hydro Holding GmbH & Co. KG and EthosEnergy Group Limited; and the 24% minority shareholding (as of June 30, 2020) in Siemens Ltd., India (“**Siemens India**”) acquired under a share transfer agreement dated March 30, 2020, which is fully consolidated at Siemens AG. There is an exclusive agency and distributorship agreement in place, regulating that Siemens India will continue to execute the gas and power business. For more information on the conduct of the Gas and Power segment’s business in India, see “12.3.4.2.3 Shareholding in Siemens India” and “18.1.1.1.1(6) Agreements Related to the Conduct of Siemens Energy’s Gas and Power Business in India”). In some other countries (including Algeria, Greece, Indonesia and Pakistan) the local gas and power business was not transferred to Siemens Energy due to, e.g., limited size or regulatory reasons. Instead, Siemens Group companies will continue to execute the gas and power business on the basis of agency and distributorship agreements entered into with Siemens Energy for their own account (see “18.1.1.1.1(5) Agreements with regard to Siemens Energy’s Gas and Power Business in Algeria, Greece, Indonesia and Pakistan”).

The financial information for the segments Gas and Power and SGRE included in the Unaudited Condensed Combined Interim Financial Statements is derived from the segment reporting of Siemens Group, before applying the presentation and measurement principles of IFRS 5 for discontinued operations. The segment reporting included certain cost allocations for centrally managed functions prior to the legal separation. The financial information for the minority stake in Siemens India is derived from the Siemens AG IFRS reporting package of this entity.

In order to reflect the assets, liabilities, income and expenses that fall within the scope of Siemens Energy, certain combination rules as set out in Note 1 to the Audited Combined Financial Statement have been applied. The managing board and supervisory board of Siemens AG, the executive board of Siemens Energy and the board of directors and remaining senior management staff (who are not members of the board of directors) of SGRE S.A. (together, the **"Management"**) used significant judgment in determining these combination rules for the preparation of the Audited Combined Financial Statements and the Unaudited Condensed Combined Interim Financial Statements, respectively. Thus, the Combined Financial Statements presented in this Prospectus do not necessarily reflect the net assets, financial position, results of operations or cash flows that would have resulted if Siemens Energy had existed as a separate group in the periods presented.

#### **9.3.2.2 Scope of Combination**

The scope of combination for the Combined Financial Statements was determined on the principles of the legal reorganization approach. This approach is based on the fact that the economic activities that form the new group were not managed centrally in the past, but that the entities are legally bound together within a reorganization process. During the reporting periods of the Combined Financial Statements, the assets and liabilities forming the combination scope were under common control of Siemens AG.

The scope of combination includes companies and businesses that will be directly or indirectly and fully or partially owned by Siemens Energy AG after the legal reorganization and the Spin-Off of the Siemens Energy Group has been completed. This includes entities that were controlled by Siemens AG or its subsidiaries during the reporting periods of the Combined Financial Statements and for which a legal transfer to Siemens Energy AG is planned prior to the Spin-Off. Accordingly, the 40% participation Siemens Group holds in the joint venture Shanghai Electric Power Generation Equipment Co., Ltd., China, the transfer of which shall occur in the fiscal year 2021 (see *"12.3.2.1.1(3) Shanghai Electric Power Generation Equipment Co., Ltd."*), does not fall within the scope of combination. Businesses in accordance with IFRS 3 under common control that were transferred to Siemens Energy during the legal reorganization are included with their respective assets and liabilities as well as income and expenses in the Combined Financial Statements for all periods during which Siemens AG controlled these entities.

For legal entities transferring to Siemens Energy that had already been fully dedicated to the Siemens Energy business and for which no carve-out has been required, the Combined Financial Statements also include all non-business assets, liabilities, income and expenses of the legal entity (mainly financing activities and real estate). For legal entities that required a legal separation, certain assets and liabilities or obligations transferred to Siemens Energy that historically have not been part of the Siemens Energy business are recognized in the Combined Financial Statements at the time of the transfer as further detailed in Note 1 to the Audited Combined Financial Statements.

### **9.4 Principal Factors Affecting the Results of Operations**

#### **9.4.1 Trends in the Energy Sector**

Our results of operations are affected by certain trends in the energy sector. Among others, these trends include global energy demand, which is projected to increase in the mid- to long-term, in particular a projected rising demand for electricity and an increasing electrification of large sectors of the economy, the trend towards decarbonization, including sector coupling and the increasing use of hydrogen (in particular "green" hydrogen) as well as the trend towards digitalization in the energy markets. For more information on these industry trends, see *"11 Industry Overview", in particular "11.1.3 General Trends in the Energy Sector"*.

##### **9.4.1.1 Trends Impacting the Gas and Power Segment**

In general, the markets of our Gas and Power segment are strongly affected by changes in energy demand, national energy regulations (such as support of renewable energy), security of

supply through capacity markets or strategic reserve capacity, carbon pricing and climate change targets, and modernization of energy and electricity markets (on these trends, see *"11.1.3 General Trends in the Energy Sector"*).

The Transmission division of our Gas and Power segment benefits from these structural trends in the energy sector. Decarbonization is shifting the focus of both centralized and distributed power generation from conventional to renewables. This shift increases demand for offshore connectivity and grid stability, requiring environmentally friendly products and systems. The integration of wind power, photovoltaic ("PV"), biomass and other intermittent or distributed energy resources as well as of energy storage into efficient and reliable power networks increases grid complexity. Expanding economies and rising demand for power, mainly in developing countries from the Asian markets (excluding China), are fueling the demand for power transmission networks. Many developed countries, including the United States and European countries, are also investing in improving their aging power infrastructure with new and advanced technologies, and we expect that countries in the Asia, Pacific region will invest in replacing and refurbishing their existing grid infrastructure as well. Growth in demand for transmission technologies is driven by large-scale sector coupling, for instance the increase of green hydrogen production in countries with cheap electricity from renewable sources. The increase of efficiencies of existing grid assets and their performance through digitalization is becoming more important. Furthermore, the integration of renewables into the power grid also requires the adoption of new technologies because of increased complexity, not only for transmitting power, owing to their intermittent power generation, but also for energy storage. With substantial renewable energy mandates in place, several European countries, the United States and China are currently heavily investing in grid-scale energy storage projects. Digitalization involves increased product and system connectivity and providing intelligent solutions for the management of complex energy networks. Connected assets provide value potential for additional services and enhanced asset operation. These structural trends are to a significant degree driven by energy policy relating to power generation and grid infrastructure, including tax incentives in the U.S. and regulatory frameworks in the European Union, which affect our customers' spending behavior and consequently, the demand for our offerings. On trends specifically affecting our Transmission division, see further *"11.2.2 Market Size, Development and Trends"*.

For our Generation division, the effects of the aforementioned structural trends in the energy sector vary, as some countries focus on base load generation from conventional energy sources while other countries focus on decarbonization and shift to renewable sources. In general, the power generation industry has started an energy transition moving from conventional power generation to renewable sources, with a significant decrease on the relevance of coal. The ongoing strong growth in demand for power from renewable sources, which come with associated short-term fluctuations in power generation levels, is however shifting market demand, in particular in Europe, Latin America and Asia, from fossil fuel baseload generation to more flexible, highly efficient and affordable gas power plants with low emissions. In the fiscal years 2017 and 2018, the markets for large steam turbines and gas turbines for centralized power generation continued to shrink due to an ongoing shift from coal-fired to gas-fired and renewable power generation, given their lower emissions. This shift was also driven by carbon emission regulation. In the fiscal year 2019, the markets for industrial steam turbines and medium gas turbines were stable. In the mid- to long-term, gas-fired generation is expected to increase by nearly 50% until 2040, in part as a result of its role in providing flexibility to power systems (see *"11.3.2 Market Size, Development and Trends"*). We expect central generation services to remain stable. We believe that the stability of this business is supported by our large (and regionally diversified) fleet, demand for modernizations of existing customer assets to meet future decarbonization targets and digital solutions for further performance optimization. The decentralization trend is positively impacting our Generation division's distributed generation business, with industrial demand mostly coming from industrialized countries in Europe and the Americas as well as emerging economies in Asia. For trends specifically affecting our Generation division, see further *"11.3.2 Market Size, Development and Trends"*.



For our Industrial Applications division, the role of natural gas compared to other fossil fuels is growing in the oil & gas industry in the mid- to long-term, facilitated by its lower carbon footprint. Furthermore, declining production due to maturing or depleting oil and gas fields, requires improved recovery technologies necessitating continuous investments in additional mechanical and electrical power. At the same time, oil & gas companies increasingly focus on asset economics and emission footprint which requires products and solutions offering at high level of asset productivity, safety and environmental performance. This trend drives, amongst other things, the demand for efficiency-related modernizations and upgrades of existing/ brownfield equipment offered by the Industrial Applications division. For trends specifically affecting our Industrial Applications division, see further *"11.4.2 Market Size, Development and Trends"*.

#### **9.4.1.2 Trends Impacting the SGRE Segment**

Demand for the offerings of our SGRE segment is primarily affected by global energy demand and the share of renewable energy in energy production. The share of renewable energy in the global energy mix is widely expected to increase, in particular due to the continuing trend towards decarbonization and more sustainable energy production (see *"11.5.2 General Market Characteristics, Trends and Drivers"*). However, the trend towards evaluating competing power sources using life cycle costs continues to put pressure on the prices offered by wind power providers. Market development also strongly depends on energy policy, including tax incentives in the U.S. and regulatory frameworks in the European Union. However, with continued technological progress and cost reduction, dependency on subsidy schemes is expected to continue to decrease.

The introduction of auctions as a mechanism for allocating renewable energy capacity or production in electricity markets has historically resulted in price pressure and an increase in competition among wind turbine manufacturers (and with other energy sources with respect to technology-neutral auctions). In addition, with the global transition from feed-in-tariffs to auction mechanisms to procure renewables-based electricity at competitive prices largely completed, the wind energy market has seen a stabilization of price levels in recent auctions, for example in onshore auctions in several countries in 2019, after the introduction of auctions in previous years had led to a sharp decline in prices (see *"11.5.2.1 Trends Relating to Market Mechanisms"*). However, local and structural issues can still overlay this trend as, for example a market downturn in India in 2020 has shown. A higher share of renewable energy in electrical grids also increases the demand for predictability of the energy supply and increased capability for integrating it into the overall energy mix. Moreover, the attractive auction prices have in return triggered discussions on a further increase of the national target volumes in several countries, which would act as a positive factor for the SGRE segment.

For more information on trends relevant to our SGRE segment, see *"11.5.2 General Market Characteristics, Trends and Drivers"*.

#### **9.4.2 Global Economic and Geopolitical Conditions**

The global nature of our activities means that demand for our products, integrated systems, solutions and services, and, therefore, our results of operations have, and will continue to be, affected by global economic and geopolitical conditions. Deteriorating economic conditions, adverse geopolitical conditions and uncertainties about future conditions could cause our customers to delay, cancel or refrain from placing orders with us. Economic and geopolitical conditions also affect, and are affected by, market prices for oil and gas. We believe that our broad portfolio with offerings for almost the entire value chain in the energy industry and in many process industries, as well as for other industrial applications adds resilience to our business. The mix of products, systems and solutions we offer also includes execution of multi-year projects, often with high volumes. Depending on the type of product, system or solution, we agree delivery terms or construction phases ranging up to multiple months or years with our customers. Generally, changes of global economic or geopolitical conditions, including their

effects on oil and gas prices, may therefore not always impact our results immediately, or to the same relative extent to such changes.

Furthermore, our service business is affected by these changes to a lesser degree as we service a large share of our installed fleet of units, often with long lifespans, and for which we in many cases conclude multi-year service contracts. Our service business in particular shows resilience to adverse short- and mid-term changes in global economic conditions and oil and gas prices due to the need of many of our customers to maintain mission-critical assets and increase efficiencies (see also *"9.4.5.2 Recurring Profitable Revenue From Our Service Business"*).

#### *9.4.2.1 General Effects of Changes in Oil and Gas Prices*

Demand for certain of our products, systems solutions and services, in particular for elements of our Gas and Power segment and its Generation and Industrial Applications divisions, is to a certain degree affected by oil and gas prices. Since oil and gas prices are set on a commodity basis, spot market and futures market prices, their volatility, but also storage capacities impact our customers' business activities and their investment behavior. Market prices for oil and gas depend on a number of factors, including global or local supply and demand, inventory levels, available infrastructure (including means of transportation) macroeconomic and geopolitical conditions and certain trends in the oil & gas industry (see also *"9.4.1.1 Trends Impacting the Gas and Power Segment"*). The demand for oil and gas has in the past been highly correlated with global economic growth.

In the event of long-term low or volatile oil and gas prices or when such prices are expected to be low over a longer period in the future, customers in certain market segments in which our Gas and Power segment is active may reduce their capital expenditures. This is particularly applicable in the upstream and midstream segment of the oil & gas market, served by the Industrial Applications division. Customers whose activities in the oil & gas industry primarily depend on profitability, cash, and return on investment may decide to postpone or even cut capital expenditures, affecting demand for certain elements of our portfolio such as compressors, industrial gas turbines, subsea products or other offerings. For example, beginning in 2012, crude oil prices saw a steep decline up until 2016, falling from average monthly prices of over USD 100 per barrel ("**bbl**") of crude oil (Brent) to below average monthly USD 50/bbl of crude oil (source: Rystad, "ServiceDemandCube" database, retrieved in August 2020). This decline strongly impacted market volumes mainly during the 2016-2017 period. According to Rystad (source: Rystad, "How will low oil prices and COVID-19 impact the energy supply chain", April 8, 2020), weighted average cost compression in the upstream market experienced a decline of around 37% between 2014 and 2017 due to such oil price changes. Operating expenditure is less volatile with respect to oil price volatility compared to capital expenditure.

Certain countries that are heavily dependent on income from oil and gas may curtail investments in capital intensive oil & gas projects as well as power generation and transmission projects during periods of long-term low or expected low demand for oil and gas due to insufficient funds. This in turn could lead to less demand for certain of our Gas and Power segment's products, solutions and services, in particular for large projects in the Transmission and the Generation divisions.

Generally, market environments characterized by long-term low oil and gas prices may prompt some of our customers to shift their expenditure towards solutions and services that increase operational efficiency. For example, during the oil price downturn of 2016, the oil & gas industry experienced a strong push to higher operational efficiency and cost adjustment which enabled market recovery. This may in turn increase demand for Siemens Energy's Industrial Applications offerings addressing such customer needs.

For the above reasons (see *"9.4.2 Global Economic and Geopolitical Conditions"*), we believe that our services business shows resilience against adverse changes in oil and gas prices. Furthermore, we are active in the downstream segment of the oil & gas industry and other process industries such as fiber, chemical, or marine industries that are less affected or even benefit from low prices

for feedstock. In addition, services for the distributed and industrial power generation industries are also generally less affected by long-term low oil and gas prices.

Moreover, while long-term low or volatile oil and gas prices may put short-term pressure on power generation from renewables, they have shifted spending in the overall energy market to other energy sources, in particular renewables, which has led to increased Orders for the offering of our SGRE segment or sustainable power generation offerings from our Gas and Power segment and this trend may continue in the future during long periods of low or volatile oil and gas prices. This is reflected in the positive Order Backlog development of SGRE over the past three years (see “9.4.4 High Revenue Visibility From Order Backlog”).

#### *9.4.2.2 Effects of the COVID-19 Pandemic and the Oil Price Drop in Early 2020*

During the nine-month period ended June 30, 2020, our business was adversely affected by COVID-19 as well as by its impact on the economic environment, our customers and suppliers. The impact of COVID-19 on our business varied between countries, regions and even cities and communities. Primarily, we faced a decline in demand, shifted and cancelled order awards, restricted access to customer sites, reduced capacity utilization of our manufacturing facilities due to lockdowns or other forms of restrictions, delayed project execution and services leading to additional costs, and challenges in certain segments of our supply chain. With regard to specific segments of our supply chain, we experienced longer lead times. A significant challenge for our supply chain was the shortage of freight services, leading to higher freight costs.

Impact from COVID-19 was most pronounced in March and April of 2020. During these months, government lockdowns and quarantines imposed on parts of our Gas and Power segment's workforce mainly affected our manufacturing facilities and also repair workshops, e.g., in France, India and Italy as well as to a lesser degree in Canada and Colombia. Reduced capacity utilization resulted in significant underabsorption of fixed costs. To mitigate the impact of COVID-19, we implemented flexible working models, re-routed manufacturing to less impacted facilities and also temporary increased loads in such facilities. The Transmission division of our Gas and Power segment was less affected by lockdown and mandatory closure of sites as some of its manufacturing facilities were deemed system critical and thus exempted from measures imposed by authorities to mitigate the effects from the COVID-19 pandemic. However, the Transmission division experienced a high level of project shifts during March and April 2020, leading to a decline in revenue and underabsorption of fixed costs. The project business of our Gas and Power segment was particularly impacted by hindrances to send personnel on our customers' sites. The service business in particular of our Generation division and, to a certain extent, of our Industrial Applications division was adversely affected by travel bans hindering us to send our service personnel on site, which led to a loss of productivity and revenue. Furthermore, some customer sites were partially or fully closed down. In addition, the service business of our Industrial Applications division was negatively affected by the closures of service shops. At the same time, we saw demand for technical risk assessments from customers whose equipment was operating beyond recommended service intervals. We also switched to remote diagnostics services. In our Generation division, scheduled outages were shifted. As part of our mitigation efforts, we switched to remote support services wherever possible. Despite COVID-19, during the nine-month period ended June 30, 2020, only a limited number of scheduled outages were shifted or cancelled.

From May 2020 onwards, the situation also improved in our Gas and Power segment. However, while most of our impacted manufacturing facilities reopened and are running on high loads again, a significant number of customer sites are still either closed or ramping up only slowly. With regard to scheduled outages, the situation also improved, with less scheduled outages being shifted to later periods.

Our SGRE segment, mainly its onshore wind turbine business, was also impacted by temporary government lockdowns of manufacturing facilities, e.g., in China, India and Spain. The segment's supply chain was mainly impacted by shortages of supply of components and raw materials such as balsa wood, which to obtain had already been challenging in the first quarter of the fiscal year

2020. Supply chain challenges also contributed to reduced capacity utilization of manufacturing facilities and declines in productivity, which resulted in underabsorption of fixed costs. In the onshore wind turbine business, the impact of COVID-19 contributed to delays in the execution of projects in Northern Europe and to the continuing slow-down of the Indian market, contributing to a decline in revenue from this business and resulting in additional costs. Orders were shifted into later periods, also attributable to delayed contract signings. Delays in project execution led to customer claims for damages. The offshore wind turbine business and the service business was less impacted by COVID-19. Declines in Orders and revenue in the offshore wind turbine business were in line with pre-COVID-19 expectations due to market-specific volatility after strong Orders in the first quarter of the fiscal year 2020. To mitigate the impact of COVID-19, the SGRE segment organized teams to ensure business continuity, partly by leveraging the Group's worldwide footprint to recover lost manufacturing capacity and mitigate challenges in specific markets.

In our SGRE segment, already at the end of the second quarter of the fiscal year 2020, the segment's Chinese manufacturing facilities resumed normal operations, while manufacturing facilities in Spain resumed their operations in May 2020. In India, operations continued to be impacted in the third quarter of the fiscal year 2020.

For information on the effects of COVID-19 and associated risks see also *"3.1.3 Our industries and business operations are subject to various risks relating to global or local outbreaks of infectious diseases and other public health crises. In particular, we are affected from the fallout of the outbreak of the recent Coronavirus pandemic."*

Moreover, in early 2020, oil prices dropped sharply due to demand contraction caused by the impact of the COVID-19 pandemic and simultaneous high oversupply volumes. This resulted in adverse effects on our business, in particular on the Industrial Applications division's oil & gas industry business. Oil companies announced significant cuts to their capital expenditures, which, together with COVID-19, affected demand particularly for the offering of our Industrial Applications division, in particular in the upstream and midstream segment of the oil & gas industry.

In the nine-month period ended June 30, 2020, COVID-19, among other factors, contributed to a decrease of total revenue in the SGRE segment while total revenue of the Gas and Power segment remained nearly flat when compared with total revenue in the same period of the fiscal year 2019. In the Gas and Power segment, the Transmission division was affected the most, mainly due to project shifts and cancellations but could level total revenue with the prior year period. The Generation division's revenue slightly declined from the level of the nine-month period ended June 30, 2019, also impacted by COVID-19. The Industrial Applications division saw moderately increasing total revenue period-over-period due to a strong new unit business, driven by high Orders in the previous periods, while the division's revenue from service was stable. In our SGRE segment, COVID-19 exacerbated the slow-down of the Indian market and contributed to the delay of certain projects in Northern Europe, leading, among others, to a decline of revenue of the segment's onshore business. The SGRE segment's revenue from the offshore business saw substantial decrease in revenue in line with project execution planning. Growth of the segment's service business was partly driven by the acquisition of Servion assets (see *"9.4.8.4 Acquisition of Servion Group Assets"*).

We believe that, for the reasons described under *"9.4.2 Global Economic and Geopolitical Conditions"*, in particular the strong contribution of the service business of our Gas and Power segment's Generation and Industrial Applications divisions to revenue and profitability (see *"9.4.4 High Revenue Visibility From Order Backlog"* and *"9.4.5.2 Recurring Profitable Revenue From Our Service Business"*), and additional reasons primarily relating to the specific offerings of our segments, divisions and specific characteristics of their markets, our business shows resilience against the short- to mid-term effects of the COVID-19 pandemic and the oil price drop in early 2020. For our expectations with regard to the effects of COVID-19 and the oil price drop in early 2020 on our markets in the short- and mid-term, see for our Gas and Power segment's Transmission division *"11.2.2 Market Size, Development and Trends"* for its Generation division *"11.3.2 Market Size, Development and Trends"* and for its Industrial Applications division *"11.4.2 Market Size, Development and Trends"*; for our SGRE segment, see *"11.5.3 Market Size and Development"*.

#### 9.4.2.3 Geopolitical Conditions

With respect to geopolitical conditions, our results of operations may, among other factors, be affected by the imposition of new trade barriers or sanctions which may prohibit us from doing business in certain countries, including execution of our Order Backlog, as happened due to the imposition of sanctions by the United States on Iran in 2018. For further information on geopolitical conditions affecting our results of operations, see *"3.1.6 Political instability, international conflicts or new trade barriers may have a negative effect on our business, financial position and results of operations."*

#### 9.4.3 Competition

Our results are also affected by competition in the markets in which we are active. The intensity of competition we face and, consequently, the impact on our results of operations, differ among the relevant markets.

In the Transmission division of our Gas and Power segment, the competitor landscape is complex. Apart from some large global players, there are many small companies typically specialized in particular market segments and concentrated on specific regions. For certain parts of the transmission solutions business, such as the large high-voltage direct current ("HVDC") or grid access projects within our solutions business, we face a limited number of strong global competitors. However, as capacities for these projects in the industry have generally been limited, the impact of competition on prices for large HVDC or grid access projects has been less pronounced. In the future, we expect new competitors to emerge, specifically from the Asia, Australia region which could lead to increasing price pressure in our large projects business as well. In our Transmission division's service business, we face several smaller local independent service providers with (in many cases) aggressive pricing strategies, multi-brand service offerings, lean set-ups and low cost structures. For more information, see *"11.2.3 Competitive Environment"*.

The Generation division of our Gas and Power segment is facing intense competition from strong established competitors, other companies active in our industries and competitors from emerging markets, which were previously active locally but are increasingly entering global markets. In the relevant markets we also face competition from new industries, which may have more competitive offerings, both in terms of sophistication and cost structure. Pricing pressure exists as market participants often undertake pricing strategies that are specifically aimed at gaining or protecting market share and increasing the utilization of production capacity. Competition is particularly intense in times of declining demand or overcapacities in the market as competitors, in order to retain or increase utilization of production capacity, are tempted to support their sales volumes by lowering prices (or refrain from adjusting their prices to increased cost of sales). For example, especially the large gas turbine market experienced years of continuous price decline due to intense competition and overcapacities among original equipment manufacturers ("OEM") and engineering, procurement and construction ("EPC") contractors, resulting in strong price pressure. Overcapacity among OEMs and EPC contractors has led to market consolidation in recent years, which also affected the intensity of competition. Competing in such market environments may lead to lower revenues or depress margins. For more information, see *"11.3.3 Competitive Environment"*.

The competitor landscape in our Industrial Applications division's markets is complex. Most companies typically specialize in particular market segments, but there are only a few companies that are present across several value chain segments. In the service business, we compete mainly with independent service providers as well as with other regional and local players. For several products, we also face competition regarding service activities from other OEMs. For more information, see *"11.4.3 Competitive Environment"*.

Due to the system-critical nature of many of our products and solutions it is of major importance to our customers, particularly in the Generation and Industrial Applications division of our Gas and Power segment, that their equipment be reliable. OEMs such as Siemens Energy are generally in a better position to service their own branded equipment and this expertise enables



us to service a large share of our installed fleet, even when customers have their own maintenance personnel (see also *"9.4.5.2 Recurring Profitable Revenue From Our Service Business"* below). Although we also experience competition from other OEM and non-OEM service providers in our service business, especially in the Generation and Industrial Applications divisions, we are able to mitigate the impact by productivity measures taking effect during the lifetime of our long-term service contracts.

The competitive situation for our SGRE segment differs in the three market segments, onshore, offshore and service. The SGRE segment competes with international OEMs, Chinese OEMs and other regional OEMs, with Chinese OEMs and other regional OEMs primarily focused on their local markets. The market for onshore wind turbines is more fragmented although consolidation in the segment has increased concentration of market shares outside China. In the offshore wind energy market there is a lower number of competitors due to the relatively high entry barriers but competition with regard to wind turbine prices is also strong and influenced by the introduction of auction mechanisms. Consolidation is moving forward in both on- and offshore markets and is driven by market players striving for scale to address technological challenges, which increase development costs, and market accessibility challenges. However, major international OEMs have communicated a pricing stabilization during recent quarters. It is to be expected that the trend towards increasing nameplate (*i.e.*, nominal) capacity as well as blade size and related competition will also continue in the coming years, further resulting in increased challenges relating to the manufacturing and logistics. The service business of the wind energy market is mainly served by OEMs, however also by independent service providers and an increasing share of customers are insourcing operation & maintenance ("**O&M**") activities. These are mainly large utilities with a significant installed fleet size. In the rapidly changing market environment of the wind energy industry, most owners expand their fleets beyond a single turbine manufacturer, either due to economic or performance-related considerations, or through the integration of fleets resulting from mergers & acquisitions activities. This results in challenges for service providers such as SGRE (and for owners as well). For more information, see *"11.5.4 Competitive Environment"*.

#### **9.4.4 High Revenue Visibility From Order Backlog**

Our ability to generate revenues depends on Orders for our products, solutions and services. Our large Order Backlog gives us high visibility of future revenues as many of our Orders relate to a multi-year project business, often involving high volumes, and service business with stretched out revenue recognition (on our service business, see also *"9.4.5.2 Recurring Profitable Revenue From Our Service Business"*). Due to multi-year projects in our solutions business, we have a high level of visibility on future revenues. In our service business, existing long-lasting service contracts and regular service intervals generally also give us visibility to assess future revenues.

The following table shows revenue, Orders, Order Backlog and the related Book-to-Bill Ratios for Siemens Energy and our reportable segments Gas and Power and SGRE as of and for the fiscal years ended September 30, 2019, 2018 and 2017, as well as of and for the nine-month periods ended June 30, 2020 and 2019:

	As of and for the Fiscal Year ended September 30,			As of and for the Nine- Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(unaudited, unless otherwise indicated) (in € million, unless otherwise indicated)			(unaudited) (in € million, unless otherwise indicated)	
<b>Total Revenue</b>					
Gas and Power .....	18,709*	18,982*	22,228*	13,326	13,315
Siemens Gamesa Renewable Energy .....	10,227*	9,122*	7,922*	6,615	7,283
Reconciliation to Combined Financial Statements or Combined Interim Financial Statements .....	(139)*	(82)*	(64)*	(114)	(95)
<b>Siemens Energy</b> .....	<b>28,797*</b>	<b>28,023*</b>	<b>30,086*</b>	<b>19,828</b>	<b>20,503</b>
<b>Orders</b>					
Gas and Power <sup>1)</sup> .....	21,187*	19,283*	21,029*	14,897	15,075
Siemens Gamesa Renewable Energy .....	12,749*	11,875*	8,768*	12,172	9,674
Reconciliation to Combined Financial Statements or Combined Interim Financial Statements .....	(202)*	(112)*	(124)*	(55)	(179)
<b>Siemens Energy</b> .....	<b>33,734*</b>	<b>31,046*</b>	<b>29,673*</b>	<b>27,014</b>	<b>24,570</b>
<b>Order Backlog</b>					
Gas and Power (in € billion) <sup>2)</sup> .....	52*	48*	49	51	— <sup>4)</sup>
Siemens Gamesa Renewable Energy (in € billion) .....	26*	23*	21	32	— <sup>4)</sup>
Reconciliation to Combined Financial Statements or Combined Interim Financial Statements (in € billion) .....	(0)	(0)	(0)	(0)	— <sup>4)</sup>
<b>Siemens Energy (in € billion)</b> .....	<b>77*</b>	<b>71*</b>	<b>70</b>	<b>82</b>	— <sup>4)</sup>
<b>Book-to-Bill Ratio<sup>3)</sup></b>					
Gas and Power .....	1.1	1.0	0.9	1.1	1.1
Transmission .....	1.1	0.9	1.1	1.2	1.1
Generation .....	1.1	1.0	0.8	1.1	1.0
Industrial Applications .....	1.3	1.2	1.1	1.2	1.3
Siemens Gamesa Renewable Energy .....	1.2	1.3	1.1	1.8	1.3
<b>Siemens Energy</b> .....	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>	<b>1.4</b>	<b>1.2</b>

\* Audited.

- 1) The following table shows the contributions of the divisions Transmission, Generation and Industrial Applications to Orders of the Gas and Power segment (including interdivision Orders, but excluding common central functions of Gas and Power and Other Operations):

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30	
	2019	2018	2017	2020	2019
	(unaudited) (in € million)			(unaudited) (in € million)	
Transmission .....	6,183	5,030	7,012	4,840	4,606
Generation .....	8,594	8,848	8,455	6,044	5,822
Industrial Applications .....	6,776	5,994	5,897	4,384	4,901
Reconciliation to Gas and Power .....	(366)	(589)	(336)	(371)	(254)

- 2) The following table shows the contributions of the divisions Transmission, Generation and Industrial Applications to Order Backlog of the Gas and Power segment (including interdivision Order Backlog but excluding common central functions of Gas and Power and Other Operations):

	As of September 30,			As of June 30	
	2019	2018	2017	2020	2019
	(unaudited) (in € billion)			(unaudited) (in € billion)	
Transmission .....	8	8	9	9	— <sup>4)</sup>
Generation .....	33	32	32	32	— <sup>4)</sup>
Industrial Applications .....	11	9	9	10	— <sup>4)</sup>
Reconciliation to Gas and Power .....	(0)	(0)	(0)	(0)	— <sup>4)</sup>

- 3) Book-to-Bill Ratio is defined as the ratio of Orders to total revenue for a specified period.
- 4) Not available. The Unaudited Condensed Combined Interim Financial Statements do not contain information on Order Backlog as of June 30, 2019.

Over the fiscal years 2017, 2018 and 2019, Order Backlog of Siemens Energy increased at a compound annual growth rate ("CAGR") of 4.9%. We believe our high volume of Orders over the periods presented (for detailed discussions, see "9.7.2.1 Orders", "9.7.3.1 Orders" and "9.7.4.1 Orders") leading to our Order Backlog of € 82 billion as of June 30, 2020, gives us a solid basis for future sustainable revenue generation. In the fiscal years 2019 and 2018, we were able to record a robust Book-to-Bill Ratio of above 1, with 1.2 in the fiscal year 2019 and 1.1 in the fiscal year 2018. The Book-to-Bill Ratio above 1 from 2018 onwards demonstrates that we were able to increase Orders ahead of revenue and thus our Order Backlog. In the fiscal year 2019, especially large Orders of our Transmission and Generation divisions in our Gas and Power segment contributed to this development (see "9.7.3.1 Orders"). In the fiscal year 2018, the Book-to-Bill Ratio above 1 was largely attributable to our SGRE segment, where portfolio effects of the merger had a stronger impact on Orders than on revenue. Moreover, our SGRE segment's Orders in the fiscal year 2018 included a contract for an offshore wind power plant, including service, in the United Kingdom worth about € 1.3 billion (see "9.7.4.1 Orders").

Our Orders and Order Backlog form the basis of future sustainable revenue generation. Therefore, the number of large orders we are able to win directly affects the short- and mid-term reliability and solidity of our revenue levels. In any given reporting period, Orders for large projects may depend on our own abilities to successfully bid for projects and project-specific factors such as the granting of permits required for a specific project and availability of funding. Certain large projects have however induced volatility to our Orders or revenue levels and may continue to do so in the future. For example, the Gas and Power segment recognized comparably high revenue in the fiscal year 2017 from the execution of the project in Egypt (see "9.4.5.1 Project Business"). With regard to Orders, a significant increase in Orders of the SGRE segment in the fiscal year 2019 and the nine-month period ended June 30, 2020 was attributable to Orders in connection with the construction of an offshore wind power nacelle assembly in Taiwan. The latter will also include testing, warehousing and office facilities. Production start is planned for 2021, supporting specifically Ørsted's 900 MW "Greater Changhua" 1 & 2a project,

for which the SG 8.0–167 DD turbine will be used, as well as the increasing business in the Asia, Australia region. The order volume of the “Greater Changhua” project is € 1.2 billion, including € 50 million service volume.

While Orders for large projects may lead to volatility in total Orders from reporting period to reporting period, revenue is generally less affected from such volatility due to the fact that large projects in particular typically have longer development and construction phases and service orders often relate to long-term service contracts that therefore lead to revenue recognition over several reporting periods.

The Backlog-to-Revenue Ratio of Siemens Energy was 2.7, 2.5 and 2.3 as of September 30, 2019, 2018 and 2017, respectively. In the Gas and Power segment, the Backlog-to-Revenue Ratio was 2.8, 2.5 and 2.2 as of September 30, 2019, 2018 and 2017, respectively, and in the SGRE segment 2.5, 2.5 and 2.7, respectively.

As of June 30, 2020, we expect to convert approximately € 21 billion (or 26%) of the Order Backlog into revenue within the fiscal year 2021 (thereof Gas and Power segment: approximately € 12 billion; SGRE segment: approximately € 8 billion). As of September 30, 2019, 2018 and 2017 we expected to convert approximately € 23 billion (or 30%), approximately € 22 billion (or 31%) and approximately € 21 billion (or 30%), respectively, of the Order Backlog into revenue within one year (thereof Gas and Power segment: approximately € 13 billion, approximately € 13 billion and approximately € 14 billion, respectively; SGRE segment: approximately € 9 billion, approximately € 9 billion and € 7 billion, respectively). This stable level of Order Backlog Reach demonstrates that the major part of revenue recognition of the following year was expected to be generated from Order Backlog and led to a steady revenue development.

#### **9.4.5 Product Portfolio and Business Mix**

During any given period, our results of operations are affected by the mix of products, solutions and services sold in each segment.

We believe that our activities as a supplier of technology along almost the entire energy value chain in both conventional and renewable energy generation, energy transmission, oil & gas and other process industries together with the broad products, solutions and services portfolio add resilience to our business.

Because profitability levels differ significantly among our products, solutions or services, our revenue and profit sources and levels depend on the business mix in a reporting period (for our project business, see “9.4.5.1 Project Business”). With regard to revenue mix, from the fiscal year 2017 to the fiscal year 2019, total revenue of the Gas and Power segment declined at a CAGR of 8.3% whereas total revenue of the SGRE segment increased at a CAGR of 13.6%. While the decline of total revenue of the Gas and Power segment was also attributable to high revenue recognized from the execution of the project in Egypt (“9.4.5.1 Project Business”) in the fiscal year 2017 and the SGRE segment profited from the merger that led to the formation of SGRE S.A. in the fiscal year 2017 (see “9.4.8.1 Merger of Gamesa and Siemens Wind Power into SGRE and Acquisition of Iberdrola’s 8.1% Shareholding in SGRE”), these developments shifted revenue contribution of the Gas and Power segment and the SGRE segment from 73.7% and 26.3% of total revenue of Total Segments in the fiscal year 2017 to 64.7% and 35.3% in the fiscal year 2019, respectively.

The following table shows the contribution of our new unit business to Orders, revenue and Order Backlog of Siemens Energy and the segments Gas and Power and SGRE:

Overview New Unit Business	As of and for the Fiscal Year ended September 30,			As of and for the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(unaudited) (in € million, unless otherwise indicated)			(unaudited) (in € million, unless otherwise indicated)	
<b>New unit Orders</b>					
Gas and Power <sup>1)</sup> .....	12,293	9,959	12,046	8,953	8,434
therein: Transmission .....	5,772	4,633	6,574	4,582	4,290
Generation .....	5,009	4,625	4,663	3,413	3,112
Industrial Applications .....	2,859	2,246	2,066	1,898	1,996
Reconciliation to Gas and Power ...	(1,346)	(1,544)	(1,257)	(940)	(963)
Siemens Gamesa Renewable Energy <sup>2)</sup> .....	10,013	9,422	6,695	8,808	7,637
<b>Total Segments</b> .....	<b>22,306</b>	<b>19,381</b>	<b>18,741</b>	<b>17,761</b>	<b>16,071</b>
<b>New unit revenue (total revenue)</b>					
Gas and Power <sup>1), 3), 4), 11)</sup> .....	10,779	11,353	14,452	7,775	7,644
therein: Transmission .....	5,459	5,508	5,747	3,866	3,830
Generation .....	4,485	5,135	7,574	3,139	3,189
Industrial Applications .....	2,124	2,246	2,526	1,678	1,548
Reconciliation to Gas and Power ...	(1,290)	(1,537)	(1,396)	(909)	(922)
Siemens Gamesa Renewable Energy <sup>5), 6)</sup> .....	8,609	7,695	6,789	5,390	6,116
<b>Total Segments<sup>7)</sup></b> .....	<b>19,388</b>	<b>19,048</b>	<b>21,241</b>	<b>13,165</b>	<b>13,760</b>
<b>New unit Order Backlog</b>					
Gas and Power (in € billion) <sup>1), 8)</sup> .....	17	16	17	17	— <sup>10)</sup>
therein: Transmission (in € billion) .....	8	7	8	8	— <sup>10)</sup>
Generation (in € billion) .....	7	7	7	7	— <sup>10)</sup>
Industrial Applications (in € billion) .....	3	3	3	3	— <sup>10)</sup>
Reconciliation to Gas and Power (in € billion) .....	(1)	(1)	(1)	(1)	— <sup>10)</sup>
Siemens Gamesa Renewable Energy (in € billion) <sup>9)</sup> .....	14	12	10	16	— <sup>10)</sup>
<b>Total Segments (in € billion)</b> .....	<b>31</b>	<b>28</b>	<b>28</b>	<b>34</b>	— <sup>10)</sup>

<sup>1)</sup> Eliminations of transactions between New Unit and Service business as well as inter- and intra-divisional New Unit transactions (intercompany new unit business) within the Gas and Power segment are included in Reconciliation to Gas and Power.

<sup>2)</sup> Excluding transactions between New Unit and Service business within the SGRE segment of € 692 million, € 959 million, € 244 million in the fiscal years 2019, 2018 and 2017, respectively and € 1,054 million, € 321 million in the nine-month periods ended June 30, 2020 and 2019, respectively.

<sup>3)</sup> The Book-to-Bill Ratio for the new unit business of the Gas and Power segment in the fiscal years ended September 30, 2019, 2018 and 2017 was 1.1, 0.9 and 0.8, respectively. The Book-to-Bill Ratio is defined as the ratio of Orders to total revenue for a specified period.

<sup>4)</sup> External revenue from the new unit business of the Gas and Power segment amounted to € 10,648 million, € 11,278 million and € 14,396 million in the fiscal years 2019, 2018 and 2017, respectively, and to € 7,658 million and € 7,556 million in the nine-month periods ended June 30, 2020 and 2019, respectively (referred to as 'New units' in the Unaudited Condensed Combined Interim Financial Statements).

<sup>5)</sup> External revenue from the new unit business of the SGRE segment amounted to € 8,609 million, € 7,694 million and € 6,789 million in the fiscal years 2019, 2018 and 2017, respectively, and to € 5,389 million and € 6,116 million in the nine-month periods ended June 30, 2020 and 2019, respectively (referred to as 'Wind Turbines' in the Unaudited Condensed Combined Interim Financial Statements).

<sup>6)</sup> Excluding transactions between New Unit and Service business within the SGRE segment of € 946 million, € 441 million, € 171 million in the fiscal years 2019, 2018 and 2017, respectively and € 651 million and € 690 million in the nine-month periods ended June 30, 2020 and 2019, respectively.

<sup>7)</sup> External revenue from the new unit business of Total Segments amounted to € 19,257 million, € 18,972 million and € 21,185 million in the fiscal years 2019, 2018 and 2017, respectively, and to € 13,047 million and € 13,672 million in the nine-month periods ended June 30, 2020 and 2019, respectively.



- <sup>8)</sup> The Backlog-to-Revenue Ratio for the new unit business of the Gas and Power segment (calculated as Order Backlog divided by total revenue) as of September 30, 2019, 2018 and 2017 was 1.6, 1.4, and 1.2, respectively.
- <sup>9)</sup> Excluding transactions between New Unit and Service business within the SGRE segment of € 0 billion, € 1 billion, € 1 billion in the fiscal years 2019, 2018 and 2017, respectively and € 1 billion in the nine-month period ended June 30, 2020.
- <sup>10)</sup> Not available. The Unaudited Condensed Combined Interim Financial Statements do not contain information on Order Backlog as of June 30, 2019.
- <sup>11)</sup> In the fiscal year 2019, the division's share of new unit revenue for Transmission, Generation and Industrial Applications was approximately 92%, 49% and 40%, respectively. These shares include intercompany new unit business and are calculated by dividing the respective new unit revenue (total revenue) by division by the total of the service revenue (total revenue) and new unit revenue (total revenue) by division, i.e., for Transmission, Generation and Industrial Applications € 5,928 million, € 9,063 million and € 5,300 million respectively.

For an overview of our service business, see *"9.4.5.2 Recurring Profitable Revenue From Our Service Business"* below.

#### 9.4.5.1 Project Business

In our project business, our ability to win Orders may not only affect our revenue mix (see also *"9.4.4 High Revenue Visibility From Order Backlog"*) but also our profitability as margins may vary from market to market and from project to project. For example, in our SGRE segment, revenue mix and margins may vary depending on the mix of onshore and offshore projects. In the fiscal year 2017, the onshore wind turbine market declined, leading to a decrease in revenue from such market, while at the same time, revenue from the offshore wind turbine market increased. In the fiscal year 2018, the onshore wind turbine market recovered, leading to higher Orders. At the same time, prices in the onshore wind turbine market declined, leading to a contraction of margins. When compared to the onshore wind turbine business, in the case of SGRE, the offshore wind turbine business is generally characterized by higher margins. This was evident in the fiscal year 2019, when, despite year-on-year revenue increase, Adjusted EBITA of the SGRE segment remained nearly at the level of the fiscal year 2018, among other factors due to a less favorable project mix because of a higher volume of lower margin onshore projects.

The execution of large Orders can also have substantial effects on the volatility of our revenue. For example, in the fiscal year 2018, as part of Siemens, we completed the construction of the world's three largest combined-cycle power plants ("**CCPPs**") in Beni Suef, El Burullus and New Capital, Egypt, in collaboration with the Egyptian Ministry of Electricity and Renewable Energy and consortium partners Orascom Construction and Elsewedy Electric. This project added an aggregate power output of up to 14.4 Gigawatt ("**GW**") to Egypt's grid and involved the installation of 24 H-class gas turbines, 12 steam turbines, 36 generators and three 500 kV gas-insulated switchgears and six substations to transmit the electricity generated in Egypt's transmission system. Moreover, Siemens Energy signed long-term service contracts for all three power plants and subsequent solution contracts in connection to the three power plants. This project in Egypt has been one of the largest contracts in the history of Siemens Energy's business with an initial order volume of about € 3.7 billion, excluding service and subsequent contracts. Construction began in 2015 and more than one-third of revenue for this project was recognized in the fiscal year 2017, an amount which halved in 2018 and again halved in 2019. The amount of service orders recognized for the project in Egypt amounted to well above € 1 billion, mostly recorded in the fiscal year 2016.

In both segments, the profitability of our project business also depends on timely project execution according to plan. Our project business also comprises projects with fixed prices. Deviations from budgeted costs can result in negative project margins if costs are not fully covered by escalation clauses in our contracts or our project management is not able to mitigate higher costs by change requests in the course of the project. Conversely, we can also experience margin upsides, for instance if actual costs turn out to be lower during project execution than initially estimated in project budgeting or supplier contracts can be renegotiated. We are addressing such topics with a continuous risk and opportunities management prior and during project execution. The runtime of our projects can be several months or even years and we need to cope with unforeseen events or changes in conditions, leading to cost overruns, non-conformance costs or delays. These can have multiple reasons (which are partly beyond our control) as we are depending on variables such as environmental conditions at our construction

sites or undisrupted supply chains (see also “3.1.9 Extreme weather conditions due to climate change may have a negative effect on our business.”). Our contracts may include penalty clauses, like for project delays or performance obligations, which can have a material adverse effect on our project results, if materialization cannot be avoided. Such risks may partially be covered by risk contingencies or increases of planned costs, which are set up during the runtime of a project with negative effect on project profitability (for information on provisions for order related losses and risks, see also Note 15 to the Audited Combined Financial Statements). In turn, the release of these risk contingencies or if planned costs do not materialize lead to a positive one-time effect. After project finalization, risks are usually covered by warranty provisions, set up according to past experience. Despite being targeted at straightening project revenues and project profits over time, it is inherent to the percentage of completion (POC) accounting for our large projects that positive or negative deviations from budgeted project results have an influence in line with the stage of completion. This may lead to aperiodic, cumulative effects, shown in the period the effect is recognized. Such aperiodic effects impact the comparability of our results of operations and financial position between the reporting periods. In addition, declining demand for large projects may affect profitability if we are not able to utilize our capacities and a higher proportion of fixed costs cannot be absorbed by ongoing projects.

#### 9.4.5.2 *Recurring Profitable Revenue From Our Service Business*

Our results of operations and margins depend to a significant degree on our ability to generate revenue from servicing our large installed fleet as it becomes subject to wear and tear, in particular for rotating equipment of the Gas and Power segment’s Generation and Industrial Applications divisions and of the SGRE segment. Overall, the share of Total Segments’ total revenue from service of Total Segments’ total revenue was 33.0% in the fiscal year 2019 (fiscal year 2018: 32.2%; fiscal year 2017: 29.6%). Over the fiscal years 2017, 2018 and 2019, Total Segments’ total revenue from service increased at a CAGR of 3.5%. Our service business typically has higher margins than the new units businesses. Therefore, the share of our service business within our revenue mix also affects our overall profitability.

Since the equipment in our installed fleet often has a long lifespan, maintaining and expanding our large installed fleet and securing Orders for servicing contracts, in particular for long-term service programs, enables us to generate recurring profitable revenue. Long-term service contracts typically stretch over approximately 12 and 9 years in our Gas and Power segment and our SGRE segment, respectively.

In our Gas and Power segment, the service business of our Generation division comprises transactional and contractual business models for servicing of gas turbines, steam turbines, generators, I&C, auxiliaries, and all associated equipment throughout power plants in centralized power generation. The Generation division had more than 11,000 service-relevant gas and steam turbines, generators and engines as of June 30, 2020. The majority of its service business is based on long-term programs as well as O&M, resulting in recurring revenue from individual customers. The Industrial Applications division had a service-relevant oil & gas fleet of more than 79,000 units as of June 30, 2020, mostly comprised of gas turbines, steam turbines, compressors and generators. While a large share of the Industrial Applications division’s service business is transactional and covers spare parts, repairs, overhauls and field services, many customers sign multi-year service contracts, which provide recurring revenue from individual customers. Compared to the more complex rotating equipment of the Generation and Industrial Applications divisions, the Transmission division’s products are less service-intensive. We believe that, across our divisions, our broad customer base across different market segments contributes to the resilience of the Gas and Power segment’s service businesses. In total, the Gas and Power segment had more than 90,000 service-relevant units as of June 30, 2020 in its installed fleet.

The Gas and Power segment had a service share of 41.7% of its total revenue in the nine-month period ended June 30, 2020 and of 42.4% of its total revenue in the fiscal year 2019. The service share increased over the periods presented (fiscal year 2018: 40.2%; fiscal year: 2017: 35.0%). The share of the service business of the Generation and Industrial Applications divisions was

approximately 51% and approximately 60% of their respective total new unit and service revenue (including intercompany service business) in the fiscal year 2019, while the Transmission division showed a lower service share of approximately 8% of its total new unit and service revenue.

As of June 30, 2020, the SGRE segment had roughly 32,000 serviced turbines worldwide, with more than 72 GW under maintenance. SGRE offers a wide range of services from maintenance and repair services over upgrades to extend the life of an asset and overhaul services, offshore logistics services, blade services and remote diagnostics to asset management services. The SGRE segment had a service share of 18.5% of its total revenue in the nine-month period ended June 30, 2020 and of 15.8% of its total revenue in the fiscal year 2019. The service share slightly increased over the periods presented (fiscal year 2018: 15.6%; fiscal year 2017: 14.3%).

The following table shows the contribution of our service business to Orders, revenue and Order Backlog of Siemens Energy and the segments Gas and Power and SGRE:

Overview Service Business	As of and for the Fiscal Year ended September 30,			As of and for the Nine- Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(unaudited) (in € million, unless otherwise indicated)			(unaudited) (in € million, unless otherwise indicated)	
<b>Service Orders</b>					
Gas and Power <sup>1)</sup> . . . . .	8,893	9,323	8,982	5,944	6,641
therein: Transmission . . . . .	484	461	487	295	363
Generation . . . . .	4,630	5,222	4,810	3,275	3,447
Industrial					
Applications . . . . .	4,221	3,949	3,952	2,625	3,152
Reconciliation to					
Gas and Power . . .	(441)	(309)	(266)	(252)	(321)
Siemens Gamesa Renewable					
Energy <sup>2)</sup> . . . . .	2,737	2,453	2,072	3,364	2,036
<b>Total Segments</b> . . . . .	<b>11,630</b>	<b>11,776</b>	<b>11,054</b>	<b>9,308</b>	<b>8,677</b>
<b>Service revenue (total revenue)</b>					
Gas and Power <sup>1), 3), 9)</sup> . . . . .	7,931	7,629	7,776	5,552	5,671
therein: Transmission . . . . .	469	414	413	281	325
Generation . . . . .	4,578	4,387	4,498	3,215	3,284
Industrial					
Applications . . . . .	3,176	3,120	3,159	2,264	2,268
Reconciliation to					
Gas and Power . . .	(292)	(292)	(294)	(208)	(205)
Siemens Gamesa Renewable					
Energy <sup>4), 5)</sup> . . . . .	1,617	1,427	1,134	1,226	1,167
<b>Total Segments<sup>6)</sup></b> . . . . .	<b>9,548</b>	<b>9,056</b>	<b>8,910</b>	<b>6,778</b>	<b>6,838</b>
<b>Service Order Backlog</b>					
Gas and Power (in € billion) <sup>1)</sup> . . .	35	33	32	33	— <sup>8)</sup>
therein: Transmission					
(in € billion) . . . . .	1	1	1	1	— <sup>8)</sup>
Generation (in					
€ billion) . . . . .	27	26	25	26	— <sup>8)</sup>
Industrial					
Applications (in					
€ billion) . . . . .	8	6	6	7	— <sup>8)</sup>
Reconciliation to					
Gas and Power (in					
€ billion) . . . . .	(0)	(0)	(0)	(0)	— <sup>8)</sup>
Siemens Gamesa Renewable					
Energy (in € billion) <sup>7)</sup> . . . . .	12	11	10	15	— <sup>8)</sup>
<b>Total Segments (in € billion)</b> . . . .	<b>47</b>	<b>44</b>	<b>42</b>	<b>48</b>	— <sup>8)</sup>

<sup>1)</sup> Eliminations of transactions between Service and New Unit business as well as inter- and intra-divisional Service transactions (intercompany service business) within the Gas and Power segment are included in Reconciliation to Gas and Power.

<sup>2)</sup> Excluding transactions between New Unit and Service business within the SGRE segment of € 27 million, € 27 million, € 239 million in the fiscal years 2019, 2018 and 2017, respectively and € 22 million, € 15 million in the nine-month periods ended June 30, 2020 and 2019, respectively.

<sup>3)</sup> External revenue from the service business of the Gas and Power segment amounted to € 7,920 million, € 7,622 million and € 7,767 million in the fiscal years 2019, 2018 and 2017, respectively, and to € 5,545 million and € 5,664 million in the nine-

month periods ended June 30, 2020 and 2019, respectively (referred to as 'Service contracts' in the Unaudited Condensed Combined Interim Financial Statements).

- 4) External revenue from the service business of the SGRE segment amounted to € 1,617 million, € 1,427 million and € 1,132 million in the fiscal years 2019, 2018 and 2017, respectively, and to € 1,225 million and € 1,167 million in the nine-month periods ended June 30, 2020 and 2019, respectively (referred to as 'Operation and Maintenance' in the Unaudited Condensed Combined Interim Financial Statements).
- 5) Excluding transactions between New Unit and Service business within the SGRE segment of € 140 million, € 24 million, € 225 million in the fiscal years 2019, 2018 and 2017, respectively and € 111 million, € 107 million in the nine-month periods ended June 30, 2020 and 2019, respectively.
- 6) External revenue from the service business of Total Segments amounted to € 9,537 million, € 9,049 million and € 8,899 million in the fiscal years 2019, 2018 and 2017, respectively, and to € 6,770 million and € 6,831 million in the nine-month periods ended June 30, 2020 and 2019, respectively.
- 7) Excluding transactions between New Unit and Service business within the SGRE segment of € (0) million, € 0 million, € 0 million in the fiscal years 2019, 2018 and 2017, respectively and € (0) million in the nine-month period ended June 30, 2020.
- 8) Not available. The Unaudited Condensed Combined Interim Financial Statements do not contain information on Order Backlog as of June 30, 2019.
- 9) In fiscal year 2019, the division's share of service revenue for Transmission, Generation and Industrial Applications was approximately 8%, 51% and 60%, respectively. The shares include intercompany service business and are calculated by dividing the respective Service revenue (total revenue) by division by the total of the service revenue (total revenue) and new unit revenue (total revenue) by division, i.e., for Transmission, Generation and Industrial Applications € 5,928 million, € 9,063 million and € 5,300 million, respectively.

The Gas and Power segment's service business contributed 83.1% and the SGRE segment's service business contributed 16.9% to Total Segments' total revenue from service in the fiscal year 2019, respectively.

Total Segments' Order Backlog included a service share of 58.5% as of June 30, 2020 and of 61.0%, 62.0% and 60.0% as of September 30, 2019, 2018 and 2017, respectively. The segment Gas and Power's service share in its Order Backlog was 64.7% as of June 30, 2020 and 67.3%, 68.8% and 65.3% as of September 30, 2019, 2018 and 2017, respectively. In the SGRE segment, the service share in its Order Backlog was 46.9% as of June 30, 2020 and 46.2%, 47.8% and 47.6% as of September 30, 2019, 2018 and 2017, respectively.

Total Segments' Backlog-to-Revenue Ratio from service was 4.9, 4.9 and 4.7 as of September 30, 2019, 2018 and 2017, respectively. In the Gas and Power segment, the Backlog-to-Revenue Ratio from service was 4.4, 4.3 and 4.1 as of September 30, 2019, 2018 and 2017, respectively, and in the SGRE segment of 7.4, 7.7 and 8.8, respectively.

Because we service a large share of our installed fleet of often mission-critical units with considerable lifespans, our service business generally shows high level of resilience towards adverse changes in macroeconomic conditions (see "9.4.2 Global Economic and Geopolitical Conditions"). We therefore believe that recurring revenue from our service business offers strength to our business.

#### 9.4.6 Technological Innovation, Research and Development

Our revenue is driven by our ability to provide innovative products, integrated systems, solutions and services and develop deep relationships with customers and project partners. We believe that sustainable economic value is created through continuous innovation and that investment in research and development ("R&D") is fundamental to our success.

We steer all R&D activities of the Gas and Power segment to best address the challenges posed by what we believe to be the market-defining mega trends: growing energy and electricity demand, decarbonization, decentralization and digitalization. Recent development highlights include Topsides 4.0, the HL-class turbines, switchgears without Sulphur hexafluoride ("SF<sub>6</sub>"), increasing hydrogen co-firing capabilities of our turbine fleet and industrial-scale electrolyzers.

R&D activities in our Transmission division focus on developing products and solutions that help to increase the transient and dynamic stability of electrical grids, while improving the overall transmission capacity, quality, reliability, availability and environmental compatibility. R&D activities in our Generation division focus on the development of new products and the improvement of existing products, such as the advanced air-cooled 9000HL gas turbine product line with efficiencies over 63% in combined-cycle applications. In the fiscal year 2018, the Generation division also sold the first units of our largest gas turbine model SGT-9000HL,



including a large solution order worth about € 0.3 billion in the United Kingdom (“UK”), that reaches efficiencies beyond 63% in combined-cycle applications and is suitable for centralized, large-scale power generation application. R&D activities in our Industrial Applications division focus on developing technologies that support decarbonization. This includes addressing the dimensions of our compression solutions, increasing efficiency in all our rotating equipment, reducing emissions in our gas turbine product lines. Further, our Industrial Applications division develops novel compression applications for cleaner gases in order to drive the decarbonization of various industries. R&D activities of the Generation and Industrial Applications businesses concentrate on developing products and solutions for enhancing efficiency and flexibility and reducing GHG emissions, in particular by increasing the hydrogen co-firing capabilities of our gas turbines. Our Gas and Power segment is also intensifying R&D in innovative materials, advanced manufacturing methods (3D printing) and plant optimization. Innovations accordingly focus on product digitalization, power electronics, software-driven power control, environmentally-friendly products and systems, and grid stabilization. R&D activities in our New Energy Business are aimed at supporting the transition towards a decarbonized world with electro-chemical solutions, including optimization of “power-to-hydrogen” plans and “power to-x” solutions. Investments in the Gas and Power segment in the periods presented focused on enhancing the Generation and Industrial Applications divisions’ productivity through automation and increasing customer proximity via strategic localization of capacity. Investing activities mainly related to our gas turbines and turbine components. For more information on the Gas and Power segment’s R&D activities, see “12.3.11 R&D”.

Together with various research partners, our SGRE segment is developing new wind power technologies with a view to increase both power and performance. Furthermore, the segment focuses on new technologies such as machine learning and artificial intelligence. The SGRE segment focused its investments on production equipment for new blade types and capacity expansion in its factories. For more information on the SGRE segment’s R&D activities, see “12.4.4 R&D”.

Our R&D efforts not only affect our ability to generate future revenue but also our profitability. In the nine-month period ended June 30, 2020, our research and development expenses amounted to € 689 million (or 3.5% of our revenue) (nine-month period ended June 30, 2019: € 683 million (or 3.3% of our revenue)). Our capitalized development expenses (additions to internally generated technology) amounted to € 141 million in the nine-month period ended June 30, 2020 (nine-month period ended June 30, 2019: € 124 million).

In the fiscal years 2019, 2018 and 2017, our research and development expenses amounted to € 1,001 million (3.5% of our revenue), to € 1,069 million (3.8% of our revenue) and to € 1,111 million (3.7% of our revenue), respectively. In the fiscal year 2019, our capitalized research and development expenses (shown as additions to internally generated technology in Note 11 to the Audited Combined Financial Statements) amounted to € 163 million (fiscal year 2018: € 133 million; fiscal year 2017: € 80 million).

By segment, in the nine-month period ended June 30, 2020, we incurred research and development expenses excluding amortization of intangible assets acquired in business combinations and goodwill impairments in the Gas and Power segment of € 530 million (amortization of intangible assets acquired in business combinations and goodwill impairments: € 5 million), or 4.0%, of the segment’s total revenue (nine-month period ended June 30, 2019: € 552 million (amortization of intangible assets acquired in business combinations and goodwill impairments: € 5 million), or 4.1%, of the segment’s total revenue). The SGRE segment’s research and development expenses amounted to € 154 million, or 2.3%, of the segment’s total revenue (nine-month period ended June 30, 2019: € 126 million, or 1.7%, of the segment’s total revenue). Both periods did not include any amortization of intangible assets acquired in business combinations and goodwill impairments in SGRE segment.

In the fiscal years 2019, 2018 and 2017, we incurred research and development expenses in the Gas and Power segment excluding amortization of intangible assets acquired in business combinations and goodwill impairments of € 787 million (amortization of intangible assets

acquired in business combinations and goodwill impairments; € 6 million), or 4.2%, of the segment's total revenue, € 897 million (amortization of intangible assets acquired in business combinations and goodwill impairments: € 7 million), or 4.7%, of the segment's total revenue and € 921 million (amortization of intangible assets acquired in business combinations and goodwill impairments: € 1 million), or 4.1%, of the segment's total revenue, respectively. The SGRE segment's total research and development expenses amounted to € 208 million (or 2.0% of the segment's total revenue), € 166 million (or 1.8% of the segment's total revenue) and € 189 million (or 2.4% of the segment's total revenue) in the fiscal years 2019, 2018 and 2017, respectively. The periods presented did not include any amortization of intangible assets acquired in business combinations and goodwill impairments for SGRE.

In the fiscal year 2019, Siemens Energy employed an average number of five thousand people (based on headcount) working on R&D, of which an average number of three thousand people were employed in the Gas and Power segment and two thousand in the SGRE segment.

#### 9.4.7 Geographical Mix of Revenue

Our revenue is also affected by our geographic mix. The following table shows the revenue of Siemens Energy by location of customer for the fiscal years 2019, 2018 and 2017, as well as for the nine-month periods ended June 30, 2019 and 2018:

Revenue by location of customers	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited, unless otherwise indicated) (in € million, unless otherwise indicated)			(unaudited) (in € million, unless otherwise indicated)	
EMEA .....	15,756	14,881	16,471	10,053	11,256
share of total revenue (in %)					
(unaudited) .....	54.7	53.1	54.7	50.7	54.9
Americas .....	8,222	7,796	9,112	6,247	5,929
share of total revenue (in %)					
(unaudited) .....	28.6	27.8	30.3	31.5	28.9
Asia, Australia .....	4,819	5,346	4,503	3,528	3,318
share of total revenue (in %)					
(unaudited) .....	16.7	19.1	15.0	17.8	16.2
<b>Siemens Energy .....</b>	<b>28,797</b>	<b>28,023</b>	<b>30,086</b>	<b>19,828</b>	<b>20,503</b>

Over the periods presented, contributions by the EMEA, Americas and Asia, Australia regions remained largely stable. Certain levels of variation in our geographical mix of revenue over time are generally induced by, among other factors, macroeconomic and geopolitical conditions, the product mix in any given period, e.g., execution of large Orders in our project business for new units may induce a certain level of volatility in our results in specific regions, and changes in foreign currency exchange rates, which affect our customers spending decisions. In addition, we generally sell our entire portfolio across all regions, resulting in a balanced geographic product mix that further contributes to resiliency and also balanced pricing and margin variations by region. For our geographical mix of revenue, foreign currency exchange rates, in particular exchange rates of the relevant customer's national currency against the U.S. dollar, play a major role as they affect our customers' capital expenditures decisions and therefore also demand for our offerings from the relevant regions.

We believe that, on the Group-level, our mix of revenue by geographic region helps mitigate revenue volatility in specific regions. For example, in the fiscal year 2019, revenue in the EMEA region and the Americas increased by 5.9% and 5.5%, respectively, compensating a decrease of revenue in the Asia, Australia region, where revenue fell by 9.9%. In addition, revenue contributions of our two reportable segments in specific regions from time to time have been subject to opposing trends, mitigating the overall effect on the Group-level. For example, in the

fiscal year 2019, substantial revenue growth in the SGRE segment more than offset a decline in revenues of the Gas and Power segment in the EMEA region while in the Americas region, an increase in revenue in the Gas and Power segment offset a clear decline in revenue in the SGRE segment.

#### **9.4.8 SGRE Merger; Acquisitions and Disposals**

Our results of operations are affected by acquisitions and disposals of certain businesses. In the periods presented, the following material acquisitions and disposals occurred:

##### **9.4.8.1 *Merger of Gamesa and Siemens Wind Power into SGRE and Acquisition of Iberdrola's 8.1% Shareholding in SGRE***

In April 2017, Siemens contributed its wind power business, including services, into the publicly listed company Gamesa Corporación Tecnológica, S. A., Spain ("**Gamesa**"). The consideration transferred by Siemens equaled 59% of Gamesa's market capitalization at closing of the merger and amounted to € 3,669 million. In return for such consideration, Siemens received newly issued shares corresponding to approximately 59% in the combined entity Siemens Gamesa Renewable Energy, S. A., Spain. As part of the merger, Siemens paid € 999 million in cash which was distributed to the Gamesa shareholders (without Siemens) following the completion of the merger. The merger resulted in goodwill of € 2,857 million as of the acquisition date April 3, 2017, and comprised intangible assets that are not separable such as employee know-how and expected synergy effects from highly complementary businesses entailing an enhanced market position (including anticipated cost savings mainly in R&D, procurement and administration as well as revenue synergies). SGRE's activities linked to the post-merger integration of Gamesa and Siemens' wind power business and operational improvement measures are still ongoing (see "**9.4.10 Integration and Operational Improvement Measures; Special Items**").

Following the merger, Siemens as a majority shareholder held 59% of the shares in SGRE S.A. until Siemens AG's acquisition of the 8.1% non-controlling interest in SGRE from Iberdrola S.A. for a purchase price of € 1.1 billion in February 2020. In the Carve-Out, Siemens AG transferred its shareholdings to Siemens Energy, which holds approximately 67% of the shares in SGRE S.A.

##### **9.4.8.2 *Disposal of the Single-stage and Wastewater Compressor and Small Steam Turbines Business***

In October 2017, Siemens Energy sold its single-stage and wastewater compressor business and its small steam turbine business, both including service, for € 193 million in cash and cash equivalents. The sale resulted in a gain of € 86 million in the fiscal year 2018 which was recognized in the line item other operating income and presented in the Gas and Power segment.

##### **9.4.8.3 *Disposal of Parts of the Government Business and U.S. Navy Service Centers***

In April 2018, Siemens Energy sold part of its government business and U.S. Navy service centers for € 174 million in cash and cash equivalents. The sale resulted in a gain of € 79 million in the fiscal year 2018 which was recognized in the line item other operating income and presented in the Gas and Power segment.

##### **9.4.8.4 *Acquisition of Senvion Group Assets***

On October 20, 2019, Senvion GmbH i.L. and Siemens Gamesa Renewable Energy Eólica, S.L.U. signed an agreement under which Siemens Gamesa Renewable Energy Eólica, S.L.U. acquired on January 9, 2020 all shares of Senvion Deutschland GmbH (Senvion European Onshore Services), which included the carved-out European onshore service business of Senvion and certain additional assets associated to the business, including certain related intellectual property of Senvion. Based on this agreement, on April 30, 2020, Siemens Gamesa Renewable Energy, S.A., Portugal signed an agreement with Senvion Indústria, S.A., and Senvion GmbH i.L. by virtue of which all the shares of Ria Blades, S.A., an entity which owns and operates the business of the

wind turbine blades production facility in Vagos (Portugal) and certain additional assets associated to said business were acquired.

This acquisition is in line with SGRE's strategy to grow its multibrand service business and its production capacities and strengthens SGRE's competitive position in Europe. The overall price to be paid in cash for the shares of Senvion Deutschland GmbH and Ria Blades, S.A. amounts to € 200 million, subject to closing accounts confirmation adjustments.

As of June 30, 2020, the preliminary estimate for the consideration to be transferred amounted to € 190 million (€ 186 million net of cash acquired). Until June 30, 2020, the consideration paid in accordance with the milestones established in the acquisition agreement amounted to € 182 million (€ 177 million net of cash acquired).

For more information, see Note 2 to the Unaudited Condensed Combined Interim Financial Statements.

#### **9.4.9 Personnel Costs**

Our results are also affected by personnel costs. During the fiscal years 2019, 2018 and 2017, personnel costs remained relatively stable. Personnel costs (consisting of wages and salaries, statutory social welfare contributions and expenses for optional support as well as expenses relating to post-employment benefits as shown in the Audited Combined Financial Statements) amounted to € 7,525 million in the fiscal year 2019, € 7,785 million in the fiscal year 2018 and € 7,663 million in the fiscal year 2017.

#### **9.4.10 Integration and Operational Improvement Measures; Special Items**

##### **9.4.10.1 Restructuring and Integration Measures in our Gas and Power Segment**

During the periods presented, we carried out restructuring and integration programs, some of which are still ongoing and may lead to further measures, reflecting Siemens Energy's endeavor to adapt to a changing market environment to improve the competitiveness of our operations and integrate Siemens' wind power business and Gamesa after the merger that led to the formation of SGRE S.A.

In our Gas and Power segment, the following programs were initiated (in succession to preceding measures, which were substantially completed):

- In 2017, the Gas and Power segment initiated the program "PG 2020 Efficiency" in order to counter a negative market development and improve cost structures. It defined measures to increase efficiency, including headcount measures, which are to date substantially completed, *i.e.*, by and large the respective severance agreements have been signed. The respective employees have largely left the company.
- The program "PG 2020 Efficiency" was extended as "PG 2020" in 2018 in order to ensure a sustainable improvement of competitiveness and included measures on the Gas and Power segment's global footprint, sourcing and production capacities, targeting a reduction of employment positions worldwide. Under the program and after consultations a headcount reduction of globally approximately 6,400 is targeted, thereof approximately 2,300 in Germany. Today, the targeted reduction has been substantially completed, *i.e.*, by and large the respective severance agreements have been signed. Related savings are not fully reflected in the development of personnel costs in the fiscal year 2019 since in parts, the employees that agreed to an exit will leave Siemens Energy in the mid-term, depending on the agreed exit dates, *e.g.*, through early retirement agreements. Also savings were partly compensated by merit increases. The program mainly focused on the Generation division of the Gas and Power segment. The major part of restructuring costs for this program was incurred in the fiscal years 2018 and 2019. As part of these measures, Siemens Energy also

sold certain parts of its business, including a site for packaging and service of rotating equipment in Hengelo, Netherlands, which resulted in a loss of € 54 million in the fiscal year 2019, pertaining to the Gas and Power segment.

- In 2019, the program “GP 2020+” was initiated, focusing on cost structure optimization and re-sizing of production capacities. Under the program and after consultations, a headcount reduction of globally approximately 2,400 is targeted, thereof approximately 1,100 in Germany. Today, the targeted reduction has been well progressed especially in Germany, *i.e.*, the respective severance agreements have been signed by a large extent. A large part of restructuring costs for this program were incurred in the fiscal year 2019. In the context of the carve-out of our business, the focus of the re-sizing of support functions has now broadened to include also corporate functions (*i.e.*, in addition to business related support functions), where potential future measures are still being evaluated and remain subject to consultation with employee representatives.
- On September 1, 2020, we announced a restructuring of our Gas and Power segment’s Le Havre facilities. The current plan foresees a headcount reduction of approximately 300, the closure of production activities while keeping certain operations. We estimate to incur personnel and non-personnel costs of € 70 million to € 100 million associated with the transformation measures. The announced plan is still subject to change, especially following the outcome of the just started negotiations as per statutory requirements.
- We made a strategic portfolio decision to streamline our offering of aero-derivative gas turbines. While we will continue to service all types of our aero-derivative gas turbines and still deliver all aero-derivative gas turbines that have already been ordered, we will over time no longer actively market our larger sized aero-derivative gas turbines. For more information, see “12.3.3.1.2(2) Aero-Derivative Gas Turbines”.

As of June 30, 2020, the Gas and Power segment achieved annual gross cost savings of almost € 500 million as compared to the fiscal year 2018. In addition, the programs “PG 2020” and “GP 2020+” are expected to achieve further annual global gross cost savings of at least € 500 million by the end of fiscal year 2023 as compared to the fiscal year 2018.

Furthermore, in order to achieve our mid-term targets, our Gas and Power segment aims for further global cost savings by the end of fiscal year 2023 as compared to fiscal year 2018. For information on our mid-term targets, see “22.2 Outlook”.

To achieve these targets, we are evaluating potential further restructuring and optimization measures. As part of the ongoing evaluation process, we are closely analyzing how such measures could be designed and what consequences they would have for Siemens Energy, our customers and our employees. While the evaluation process may further crystalize already in the near future, no resolution has been made yet on future measures and these measures are subject to consultation with employee representatives. Also, the findings of this process will be discussed in the relevant committees, which will subsequently take a decision.

If we were to implement a further restructuring and optimization program, we believe that it is likely to focus on footprint optimization, project execution and function optimization:

- *Footprint optimization and project execution* – Main levers are likely going to be (i) a consolidation of our global footprint including a streamlining of our logistics operations and an optimization of our factory network aimed at reducing complexity and overcapacities (supply chain excellence), (ii) an operational improvement focusing on: project management improvements aimed at significantly reducing non-conformance costs, the simplification of decision processes and project selectivity, *i.e.*, focusing on projects with attractive return profiles (project excellence), (iii) the completion of the integration of Dresser-Rand, a leading provider of compressors, steam and gas turbines, acquired in 2015 and (iv) a streamlining of our portfolio. Related to footprint optimization and project execution forming part of the Accelerating Impact phase (see “12.2.2 Spin-Off allows for a step change in operational performance”), we aim for a minimum target of further annual global gross cost savings in



an amount of € 300 million together with the announced restructuring of our Gas and Power segment's Le Havre facilities by the end of the fiscal year 2023 as compared to the fiscal year 2018.

- *Function optimization* – In the context of the carve-out of our business, the focus of the re-sizing of support functions within the “GP 2020+” program has now broadened to also consider corporate functions in addition to business related support functions, where potential measures are still being evaluated and remain subject to consultation with employee representatives. We aim for related global savings beyond our targets within our “GP 2020+” program.

In total, our restructuring and optimization programs and the potential further measures outlined above aim at annual global gross cost savings of around € 700 million by the fiscal year 2021 and are expected to exceed the originally targeted annual global gross cost savings for the fiscal year 2023 of around € 1 billion by at least € 300 million, compared to the fiscal year 2018. On the basis of these programs and measures, we target additional annual global gross cost savings in the low triple digit euro million range by the fiscal year 2025. We believe that the restructuring costs associated therewith will amount cumulatively to a mid to high triple digit euro million amount for the fiscal years 2020 to 2023. Furthermore, at the time the evaluation process with respect to the potential restructuring and optimization measures outlined above crystallizes further, potentially already in the near future, this may lead to additional restructuring and optimization measures associated with significantly higher expenses and potentially savings in excess of our current minimum target for the global savings.

#### *9.4.10.2 Restructuring and Integration Measures in our SGRE Segment*

After the merger that led to the formation of SGRE S.A. (“9.4.8.1 Merger of Gamesa and Siemens Wind Power into SGRE and Acquisition of Iberdrola’s 8.1% Shareholding in SGRE”), SGRE announced its “L3AD2020” strategic plan for the fiscal years 2018 to 2020. “L3AD2020” is, among others, aimed at simplifying the product portfolio and included costs saving targets focused on procurement, technology and industrial footprint enhancements, as well as acceleration of the targeted synergies within SGRE from the merger and related reorganizations. The program is expected to achieve a combined effect of productivity enhancements of more than € 2 billion and significant working capital improvements by the end of the fiscal year 2020 as compared to the fiscal year 2017. Under the umbrella of “L3AD2020”, among others, the following restructuring measures were initiated:

- In November 2017, SGRE announced a global restructuring plan targeting significant headcount reductions in 31 countries, mainly Spain, Denmark, the U.S. and the U.K.
- In April and October 2018, SGRE signed restructuring agreements that mainly affect manufacturing locations in Germany.
- In October 2019, the SGRE segment initiated restructuring measures relating to rotor blade and turbine manufacturing in Denmark as part of the implementation of the “one segment, one technology strategy”. This measure was taken due to a challenging market environment and a highly competitive landscape characterized by price pressures affecting the production of direct drive onshore turbines and the onshore blade production.
- Furthermore, in November 2019, SGRE announced a reorganization program. Over a term of two years, the global white collar staff will be reduced, affecting the wind turbines business and corporate areas. The implementation approach may vary by country, and shall depend on the final discussions with employee representatives. So far, the process has been carried out according to SGRE’s plans.
- In the first half of 2020, SGRE initiated a restructuring of its Indian operations to take account of the slower-than-expected recovery of the Indian wind market and in order to adapt to new market prospects and dynamics.
- In June 2020, SGRE decided to close the blade factory in Aoiz, Spain, due to competitiveness considerations.

Furthermore, in our SGRE segment, we evaluate the implementation of further potential restructuring and optimization programs. Within its new "LEAP" program, our SGRE segment plans to maintain focus on productivity and asset management and also in operational excellence. As part of that, our SGRE segment will be constantly analyzing footprint optimization measures and also fixed costs, including selling and general administrative expenses, among others, need to be optimized to reach target profitability levels. For example, our SGRE segment has recently announced a turnaround plan for its onshore business including the above-mentioned restructuring plan in India, which will have an impact in the upcoming fiscal years. In addition, our SGRE segment is still investing in integration activities out of the merger that led to the formation of SGRE S.A. in fields such as closeout of post-merger IT related projects or in integration of acquired European Senvion assets (see "9.4.8.4 Acquisition of Senvion Group Assets"), among others. We expect to incur integration and restructuring costs in the fiscal years 2021 to 2023 of up to a mid triple digit million euro amount, the majority of these costs are expected to be attributable to restructuring measures. A substantial portion of both integration and restructuring costs are expected to be incurred by the end of the fiscal year 2022. Although most of the impact is cash related, there are also non-cash elements.

#### 9.4.10.3 Special Items

In connection with the current and ongoing programs and other measures outlined under "9.4.10.1 Restructuring and Integration Measures in our Gas and Power Segment" and "9.4.10.2 Restructuring and Integration Measures in our SGRE Segment", we incurred restructuring and integration costs, affecting our results of operations.

Furthermore, our results in the fiscal year 2020 and in the future are/will be impacted to a certain extent by stand-alone costs regarding the preparation of our separation from Siemens Group and the formation of Siemens Energy as an independent enterprise. In addition, major asset impairments and write-downs related to Siemens Energy Group strategic portfolio decisions impacted our result in the nine-month period ended June 30, 2020.

Together, these items are referred to as "Special Items" (see "4.7.4 Certain Definitions"). The following table shows Special Items incurred in the fiscal years 2019, 2018 and 2017, as well as in the nine-month periods ended June 30, 2020 and 2019:

Special Items	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(unaudited) (in € million)			(unaudited) (in € million)	
<b>Restructuring and integration costs<sup>1)</sup></b>	<b>(388)</b>	<b>(551)</b>	<b>(146)</b>	<b>(190)</b>	<b>(137)</b>
therein: Gas and Power segment	(247)	(375)	(43)	(31)	(47)
SGRE segment	(141)	(176)	(103)	(157)	(90)
Reconciliation to Siemens Energy	—	—	—	(2) <sup>6)</sup>	—
<b>Stand-alone costs<sup>2), 3)</sup></b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(38)</b>	<b>—</b>
thereof: Gas and Power segment	—	—	—	(19)	—
SGRE segment	—	—	—	—	—
Reconciliation to Siemens Energy	—	—	—	(19)	—
<b>Strategic portfolio decisions</b>	<b>(65)</b>	<b>—</b>	<b>—</b>	<b>(896)</b>	<b>—</b>
thereof: Gas and Power segment <sup>4)</sup>	—	—	—	(701)	—
SGRE segment <sup>5)</sup>	(65)	—	—	(195)	—
Reconciliation to Siemens Energy	—	—	—	—	—
<b>Special Items</b>	<b>(453)</b>	<b>(551)</b>	<b>(146)</b>	<b>(1,124)<sup>6)</sup></b>	<b>(137)</b>
therein: Gas and Power segment	(247)	(375)	(43)	(751)	(47)
SGRE segment	(206)	(176)	(103)	(352)	(90)
Reconciliation to Siemens Energy	—	—	—	(21)	—

- 1) Restructuring costs refer to personnel measures leading to severance charges mainly for the Gas and Power segment and integration costs refer to the SGRE segment only and are related mainly to the merger of Gamesa and Siemens Wind Power into SGRE S.A. (see "9.4.8.1 Merger of Gamesa and Siemens Wind Power into SGRE and Acquisition of Iberdrola's 8.1% Shareholding in SGRE") and, to a lesser extent, to the acquisition of assets from Senvion (see "9.4.8.4 Acquisition of Senvion Group Assets"). In the SGRE segment, restructuring costs amounted to € 32 million, € 86 million and nil in the fiscal years 2019, 2018 and 2017, respectively, and to € 41 million and € 25 million in the nine-month periods ended June 30, 2020 and 2019, respectively. Integration costs in the SGRE segment amounted to € 109 million, € 90 million and € 103 million in the fiscal years 2019, 2018 and 2017, respectively, and to € 116 million and € 65 million in the nine-month periods ended June 30, 2020 and 2019, respectively.
- 2) Stand-alone costs in the nine-month period ended June 30, 2020 relate to the carve-out and spin-off of Siemens Energy and include, amongst others, costs for IT applications, external service providers, costs related to the listing, and personnel related costs, which will be incurred for retention and accelerated vesting of share-based compensation.
- 3) Since Siemens has agreed to assume a portion of the total stand-alone costs, the amount for the nine-month period ended June 30, 2020 in the table above represents the share of costs borne by Siemens Energy only.
- 4) Included are impairments on intellectual property rights in relation to intangible assets acquired in business combinations of € 476 million and write-downs of inventory of € 225 million, both related to certain small gas turbine platforms due to a change in addressing segments of the industrial application market, being associated with the divisions Industrial Applications and Generation.
- 5) The amount for the fiscal year 2019 relates to impairments and write-downs of assets as a consequence of management's decision to streamline SGRE's platform portfolio. In the nine-month period ended June 30, 2020, with regard to a restructuring plan aimed at resizing and modifying the scope of business undertaken in India, included are inventory and fixed assets write-downs of € 113 million (including inventory write-downs of € 102 million and an impairment of property, plant and equipment of € 11 million) as well as an impairment of intangible assets in the amount of € 82 million.
- 6) Restructuring costs for Real Estate Services are included.

#### 9.4.11 Foreign Currency Exchange Rates

Due to the global scale of our business and the high level of regionalization of many of our businesses, our results of operations are affected to a significant extent by foreign currency exchange rate movements. There are transactional risks which arise when we and our subsidiaries execute transactions in a currency other than our or our subsidiary's respective functional currency. The largest project execution, engineering, production and R&D hubs for our business are located in Germany, the U.S., the United Kingdom, Spain, Denmark and China while our sales are global. This means that while revenue is generated in various currencies, costs are mainly in euro, U.S. dollar, British Pound, Danish Krone and Renminbi.

Foreign currency exposure is partly balanced by the purchase of goods, commodities and services in the respective currencies as well as production and other contributions along the value chain in local markets. We seek to manage transaction exposure resulting from contractual commitments as well as planned transactions in foreign currencies so that at least 75% but no more than 100% of the net foreign exchange exposure is hedged. If applicable, for such hedging transactions, hedge accounting is used to reduce earnings volatility. However, changes in currency exchange rates cannot generally be predicted and cannot always be hedged on economically reasonable terms, and there can be no assurance that our hedging and other risk mitigation strategies will always be successful in mitigating currency risks. If we are unable to match sales revenue generated in foreign currencies with costs paid in the same currency, our results of operations may be impacted by currency exchange rate fluctuations. In case of unfavorable exchange rate fluctuations, we may be able to offer our products only at comparatively higher prices or lower profit margins. This currency-related competitive disadvantage can lead to a decline in revenue or a lower profit margin at Siemens Energy.

We are also subject to translation exposure because we present our Combined Financial Statements in euro, but many of the Company's subsidiaries are located outside the Eurozone. As a result, in the preparation of our Combined Financial Statements, we must translate assets, liabilities, revenue and costs of all of our operations with a functional currency other than the euro into euro. Consequently, fluctuations in the applicable foreign currency exchange rates may increase or decrease the euro value of our non-euro assets, liabilities, revenue and costs, even if their value has not changed in their local functional currency. We assume that investments in non-euro operations are permanent and that reinvestment is continuous. Effects from foreign currency exchange rate fluctuations on the translation of net asset amounts into euro are reflected in our Combined Statements of Changes in Invested Equity.

#### 9.4.12 Taxation

Taxation can have a significant impact on our results of operations. In Germany, our current tax is calculated based on a combined tax rate of 31%, consisting of a corporate tax rate of 15%, a solidarity surcharge thereon of 5.5% and an average trade tax rate of 15%. For our foreign subsidiaries, current taxes are calculated based on local tax laws and applicable tax rates in individual countries. On December 22, 2017, the U.S. Tax Cuts and Jobs Act was signed into law and included, among other measures, a reduction of the federal corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. As a result, deferred tax assets and liabilities were re-evaluated and we recognized deferred tax benefits in profit or loss of € 264 million in the fiscal year 2018, leading to an income tax gain. In the fiscal years ended September 30, 2019 and 2017, our effective income tax rates (calculated as income tax expenses divided by income before income taxes, each as presented in the Audited Combined Financial Statements) were 11.0% and 26.7%, respectively. In the medium term and assuming no significant changes in existing tax rules, we expect an effective income tax rate in a range of 25% to 30%.

#### 9.5 Key Factors Affecting Comparability

The application of new accounting standards and changes in accounting policies limit the comparability of the Group's net assets, financial position and results of operations for the periods presented in this Prospectus.

IFRS 9 – “Financial Instruments” was adopted as of October 1, 2018 but did not have a material effect on our financial position. For more information on the effects of the adoption of IFRS 9 – “Financial Instruments”, see Note 2 to the Audited Combined Financial Statements.

As of October 1, 2019, Siemens Energy retrospectively adopted IFRIC 23 – “Uncertainty over Income Tax Treatments”, which did not have a material effect on the Group's financial position, performance or cash flows and is not expected to have any such effect in the future. For more information on the application of IFRIC 23 – “Uncertainty over Income Tax Treatments”, see Note 1 to the Unaudited Condensed Combined Interim Financial Statements.

In January 2016, the IASB issued IFRS 16 – “Leases” (“**IFRS 16**”). IFRS 16 eliminates the current classification model for lessee's lease contracts as either operating or finance leases and, instead, introduces a single lessee accounting model requiring lessees to recognize right-of-use assets and lease liabilities for leases with a term of more than twelve months. This brings the previous off-balance leases on the balance sheet in a manner largely comparable to current finance lease accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Siemens Energy adopted IFRS 16 by applying the modified retrospective approach (using practical and transition-related expedients), *i.e.*, comparative figures for the preceding year are not adjusted. IFRS 16 introduces a single lessee accounting model requiring lessees to recognize right-of-use assets and lease liabilities for leases with a term of more than twelve months, unless the underlying asset is of low value. As of September 30, 2019, finance leases totaled € 39 million (thereof Gas and Power segment: € 37 million; SGRE segment € 2 million). As of June 30, 2020, lease liabilities amounted to € 1,204 million (October 1, 2019: € 896 million), thereof Gas and Power segment € 598 million (October 1, 2019: € 311 million) and Siemens Gamesa Renewable Energy € 606 million (October 1, 2019: € 585 million).

As of October 1, 2019, right-of-use assets of € 1,003 million were recognized in property, plant and equipment, generally measured at the amount of the lease liability (in total € 896 million) adjusted by any prepaid or accrued lease payments. Most of the transition effect relates to real estate leased by Siemens Energy. The difference between future payment obligations under operating leases as of September 30, 2019 of € 1,559 million and the gross lease liability as of October 1, 2019 of € 1,045 million mostly results from the application of transition-related expedients. For leases between Siemens Real Estate and Siemens Energy that were to be transferred during the fiscal year 2020, no right-of-use assets and lease liabilities were recognized prior to the transfer.

The future lease payments from leases under the right-of-use model as of October 1, 2019 were discounted using incremental borrowing rates (weighted average incremental borrowing rate as of October 1, 2019: 1.7%).

In addition, beginning with the fiscal year 2020, straight-line operating lease expenses were replaced by depreciation expenses on right-of-use assets and interest expenses on lease liabilities resulting in an increase of EBITDA. With regard to the Adjusted (Net Cash) / Net Debt to EBITDA Ratio, the positive effect on EBITDA is more than offset by the increase in Adjusted (Net Cash) / Net Debt, resulting *ceteris paribus* in an increasing ratio. Furthermore, applying IFRS 16 resulted in a deterioration in cash flows from financing activities, an improvement in cash flows from operating activities and, accordingly, *ceteris paribus* an increase in Free Cash Flow.

## 9.6 Definition and Discussion of Certain Financial Measures

Certain individual line items in the Combined Statements of Income of Siemens Energy prepared in accordance with IFRS are described below.

**Revenue** – Siemens Energy recognizes revenue, when or as control over distinct goods or services is transferred to the customer, *i.e.*, when the customer is able to direct the use of the transferred goods or services and obtains substantially all of the remaining benefits, provided a contract with enforceable rights and obligations exists and amongst others collectability of consideration is probable taking into account customer's creditworthiness. Revenue is the transaction price Siemens Energy expects to be entitled to. Variable consideration is included in the transaction price if it is highly probable that a significant reversal of revenue will not occur once associated uncertainties are resolved. The amount of variable consideration is calculated by either using the expected value or the most likely amount depending on which is expected to better predict the amount of variable consideration. Consideration is adjusted for the time value of money if the period between the transfer of goods or services and the receipt of payment exceeds twelve months and there is a significant financing benefit either to the customer or Siemens Energy. If a contract contains more than one distinct good or service, the transaction price is allocated to each performance obligation based on relative stand-alone selling prices. If stand-alone selling prices are not observable, Siemens Energy reasonably estimates those. Revenue is recognized for each performance obligation either at a point in time or over time.

For sales from construction-type contracts, revenues are recognized over time under the percentage-of-completion method, based on the percentage of costs incurred to date compared to total estimated costs. An expected loss on the contract is recognized as an expense immediately. Payment terms are usually 30 days from the date of invoice issued according to the contractual terms.

The percentage-of-completion method places considerable importance on accurate estimates of the extent of progress towards completion and may involve estimates on the scope of deliveries and services required to fulfill the contractually defined obligations. These significant estimates include total estimated costs, total estimated revenues, contract risks, including technical, political and regulatory risks, and other judgments. Under the percentage-of-completion method, changes in estimates may lead to an increase or decrease of revenue. In addition, Siemens Energy needs to assess whether the contract is expected to continue or whether it is terminated. In determining whether the continuation or termination of a contract is expected to be the most likely scenario, all relevant facts and circumstances relating to the contract are considered on an individual basis.

Revenues from services are recognized over time on a straight-line basis or, if the performance pattern is other than straight-line, as services are provided, *i.e.*, under the percentage-of-completion method as described above. Payment terms are usually 30 days from the date of invoice issued according to the contractual terms.

For the sale of goods, revenues are recognized at a point in time when control of the goods passes to the buyer, usually upon delivery of the goods. Invoices are issued at that point in time and are usually payable within 30 days.



*Cost of sales* – Our cost of sales mainly includes costs relating to manufacturing of products, inventories sold as well as services rendered and consist of variable costs, fixed costs and depreciation and amortization relating primarily to our property, plant and equipment, internally developed intangible assets and other related costs. Our variable cost of sales primarily consists of material, labor, freight and cost of services purchased. Our fixed cost of sales primarily consist of manufacturing overheads, salaries, maintenance costs, depreciation of property, plant and equipment and rental and related overhead costs.

*Gross profit* – Gross profit is calculated as revenue less cost of sales.

*Research and development expenses* – Costs of research activities are expensed as incurred. Costs of development activities are capitalized when the recognition criteria in IAS 38 are met. Capitalized development costs are stated at cost less accumulated amortization and impairment losses with an amortization period of generally three to ten years.

*Selling and general administrative expenses* – Selling expenses are expenses that do not increase the value of manufactured products and services but that are necessary to support and ensure the sales of these products and services. Those expenses primarily consist of salaries paid to our sales employees, sales commissions paid to our sales employees or third parties, marketing and advertising costs, bad debt expense and depreciation relating to office equipment, software and similar assets. General administrative expenses include headquarter functions which are not allocable to other functions and primarily consist of lease expenses, salaries paid to senior management, headquarters and other administrative staff as well as ordinary course expenses payable in respect of auditing, tax, legal and other consulting services in connection with the day-to-day operation of our business.

*Other operating income and other operating expenses* – represents other operating income, which includes, among others, gains from the sale of businesses and disposal of assets, and other operating expenses, which includes losses on disposal of assets, transaction costs and effects from legal and regulatory matters.

*Income (loss) from investments accounted for using the equity method, net* – This item is used to recognize the share of profit or loss in associated companies or joint ventures accounted for using the equity method. Other income realized and other expense incurred in connection with investments accounted for using the equity method, such as gains and losses on the disposal of such investments, transaction costs and impairments are also recognized under this item.

*Financial result* – represents the balance of (i) interest income, (ii) interest expenses, and (iii) other financial income (expenses), net. Therein included are income or expenses for financing purposes, which primarily consist of interest expense on borrowings from Siemens Group (mainly included in interest expenses) as well as interest income and expenses on pension-related assets and liabilities, and income or expenses related to operating business (interest income related to receivables from customers, from cash allocated to the segments, interest expenses on payables to suppliers).

*Income tax expenses* – Tax positions under respective local tax laws and tax authorities' views can be complex and subject to different interpretations of tax payers and local tax authorities. Different interpretations of existing or new tax laws as a result of tax reforms or other tax legislative procedures may result in additional tax payments for prior years and are taken into account based on management's considerations. Under the liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each period-end, Siemens Energy evaluates the recoverability of deferred tax assets, generally based on five-years projected future taxable profits. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, Siemens Energy believes it is probable Siemens Energy will realize the benefits of these deductible differences. As

future developments are uncertain and partly beyond Siemens Energy's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. Estimates are revised in the period in which there is sufficient evidence to revise the assumption. Particularly for the purposes of the Combined Financial Statements, in accordance with IAS 12 – "Income Taxes", income taxes are determined using the separate tax return approach under the assumption that the entities and operations of Siemens Energy constitute separate taxable entities. This assumption implies that current and deferred taxes for all companies and operations and tax groups within Siemens Energy are calculated separately. The recoverability of deferred tax assets is assessed on this basis. In the Combined Financial Statements, deferred tax assets were recognized to the extent it is probable that they can be offset with future taxable income from the respective Siemens Energy entities. Tax receivables and liabilities as well as deferred tax assets on loss carryforwards of Siemens Energy entities and operations that did not constitute a separate tax payer in previous periods were treated as contributions or transfers from reserves by shareholders, and are not included in the Combined Financial Statements of Siemens Energy. Management deems the approach as appropriate though not necessarily indicative of the tax expenses or income that would result for Siemens Energy as a separate group. For further details please also refer to Note 6 of our Audited Combined Financial Statements.

## 9.7 Results of Operations

### 9.7.1 Overview

The following section presents Siemens Energy Group's results of operations in the periods presented. The following table sets forth our Combined Statements of Income for the fiscal years 2019, 2018 and 2017, as well as for the nine-month periods ended June 30, 2020 and 2019:

Combined Statements of Income	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited, unless otherwise indicated) (in € million)			(unaudited) (in € million)	
Revenue .....	28,797	28,023	30,086	19,828	20,503
Cost of Sales .....	(24,615)	(23,876)	(24,832)	(18,364)	(17,420)
<b>Gross profit</b> .....	<b>4,181</b>	<b>4,147</b>	<b>5,254</b>	<b>1,463</b>	<b>3,084</b>
Research and development expenses .....	(1,001)	(1,069)	(1,111)	(689)	(683)
Selling and general administrative expenses .....	(2,647)	(2,739)	(2,631)	(2,323)	(1,945)
Other operating income (expenses), net (unaudited) .....	(47)	117	(88)	(11)	(38)
thereof: Other operating income .....	61	231	38	66	41
Other operating expenses .....	(108)	(114)	(126)	(77)	(79)
Income (loss) from investments accounted for using the equity method, net .....	111	(85)	65	6	90
Financial result (unaudited) .....	(280)	(219)	(181)	(119)	(238)
thereof: Interest income .....	107	109	111	30	76
Interest expenses .....	(355)	(324)	(298)	(134)	(290)
Other financial income (expenses), net .....	(32)	(4)	5	(16)	(23)
<b>Income (loss) before income taxes</b> ....	<b>317</b>	<b>151</b>	<b>1,309</b>	<b>(1,672)</b>	<b>270</b>
Income tax (expenses) / gains .....	(35)	493	(349)	203	(67)
<b>Net income (loss)</b> .....	<b>282</b>	<b>645</b>	<b>960</b>	<b>(1,469)</b>	<b>202</b>

## 9.7.2 Comparison of the Results of Operations for the Nine-Month Periods ended June 30, 2020 and 2019

The following table sets forth our Orders and Combined Statements of Income for the nine-month periods ended June 30, 2020 and 2019:

	For the Nine-Month Period ended June 30,		Change in %  (unaudited)
	2020	2019	
	(unaudited) (in € million)		
<b>Orders</b>			
Orders .....	27,014	24,570	9.9
<b>Combined Statements of Income</b>			
Revenue .....	19,828	20,503	(3.3)
Cost of Sales .....	(18,364)	(17,420)	5.4
<b>Gross profit</b> .....	<b>1,463</b>	<b>3,084</b>	(52.6)
Research and development expenses .....	(689)	(683)	0.9
Selling and general administrative expenses .....	(2,323)	(1,945)	19.4
Other operating income (expenses), net .....	(11)	(38)	(71.1)
thereof: Other operating income .....	66	41	61.0
Other operating expenses .....	(77)	(79)	(2.5)
Income (loss) from investments accounting for using the equity method, net .....	6	90	(93.3)
Financial result .....	(119)	(238)	(50.0)
thereof: Interest income .....	30	76	(60.5)
Interest expenses .....	(134)	(290)	(53.8)
Other financial income (expenses), net ....	(16)	(23)	(30.4)
<b>Income (loss) before income taxes</b> .....	<b>(1,672)</b>	<b>270</b>	—
Income tax (expenses) / gains .....	203	(67)	—
<b>Net income (loss)</b> .....	<b>(1,469)</b>	<b>202</b>	—

### 9.7.2.1 Orders

During the nine-month period ended June 30, 2020, Order intake of certain businesses of Siemens Energy was affected by the COVID-19 pandemic as well as by the oil price development ("*9.4.2.2 Effects of the COVID-19 Pandemic and the Oil Price Drop in Early 2020*"). In the nine-month period ended June 30, 2020, Orders amounted to € 27,014 million, up by € 2,444 million or 9.9%, from € 24,570 million in the same period of the fiscal year 2019. This increase was attributable to the SGRE segment, where Orders were substantially up, driven by sharply increased service and offshore Orders, including a higher volume from large Orders. In the Gas and Power segment, Orders slightly decreased. Total Segments' Orders from service clearly increased in the nine-month period ended June 30, 2020 to € 9,308 million, up by € 631 million, or 7.3%, from € 8,677 million in the same period of the fiscal year 2019. This led to a share of 34.4% of Total Segments' Orders, slightly below the level of 35.1% in the nine-month period ended June 30, 2019.

Based on such Order intake, Siemens Energy reached a Book-to-Bill Ratio in the nine-month period ended June 30, 2020 of 1.4, as revenue moderately declined compared to clearly increased Orders. Siemens Energy's Order Backlog was € 82 billion as of June 30, 2020.

The following table shows the reconciliation of Orders of the two segments to total Orders of Siemens Energy for the nine-month periods ended June 30, 2020 and 2019:

Orders	For the Nine-Month Period ended June 30,		Change (%)
	2020	2019	
	(unaudited) (in € million)	(unaudited) (in € million)	
Gas and Power <sup>1)</sup> .....	14,897	15,075	(1.2)
Siemens Gamesa Renewable Energy .....	12,172	9,674	25.8
<b>Total Segments</b> .....	<b>27,069</b>	<b>24,749</b>	<b>9.4</b>
Reconciliation to Combined Interim Financial Statements .....	(55)	(179)	—
<b>Siemens Energy</b> .....	<b>27,014<sup>2)</sup></b>	<b>24,570</b>	<b>9.9</b>

<sup>1)</sup> The following table shows the contributions of the divisions Transmission, Generation and Industrial Applications to Orders of the Gas and Power segment as well as the total of eliminations of interdivision Orders and Orders of Other Operations including, among others, our New Energy Business, as well as Orders of central Gas and Power functions (Reconciliation to Gas and Power):

	For the Nine-Month Period ended June 30,		Change (%)
	2020	2019	
	(unaudited) (in € million)	(unaudited) (in € million)	
Transmission .....	4,840	4,606	5.1
Generation .....	6,044	5,822	3.8
Industrial Applications .....	4,384	4,901	(10.5)
Reconciliation to Gas and Power .....	(371)	(254)	—

<sup>2)</sup> The following table shows Orders of Siemens Energy for the three-month periods ended December 31, 2019, March 31, 2020 and June 30, 2020:

	For the Three-Month Period ended		
	December 31, 2019	March 31, 2020	June 30, 2020
	(unaudited) (in € million)	(unaudited) (in € million)	(unaudited) (in € million)
Gas and Power .....	5,434	5,374	4,089
Siemens Gamesa Renewable Energy .....	4,628	2,203	5,342
<b>Total Segments</b> .....	<b>10,061</b>	<b>7,577</b>	<b>9,431</b>
Reconciliation to Combined Interim Financial Statements .....	(32)	(11)	(13)
<b>Siemens Energy</b> .....	<b>10,029</b>	<b>7,566</b>	<b>9,418</b>

*Gas and Power segment* – Orders of the Gas and Power segment decreased slightly from € 15,075 million in the nine-month period ended June 30, 2019 by € 178 million or 1.2%, to € 14,897 million in the same period of the fiscal year 2020. The divisions Transmission and Generation both recorded a moderate increase, including several large Orders in particular in the Generation division and despite noticeable effects from COVID-19 due to project shifts and cancellations of scheduled Orders in the Transmission division. The Industrial Applications division, being affected by COVID-19 and the oil price development the most, posted a significant decrease of Orders, mainly caused by the pandemic, with related Order shifts, especially in the service business, and to a minor extent also caused by cancellations. Furthermore, Orders of the Industrial Applications division in the nine-month period ended June 30, 2020 included a lower volume from large Orders when compared with the same period of the fiscal year 2019. Overall, the development of Orders on the reportable segment level was stabilized by clear growth of the new unit businesses of Generation and Transmission. The Gas and Power segment's service Orders clearly decreased in the nine-month period ended June 30, 2020 to € 5,944 million by

€ 697 million, or 10.5%, from € 6,641 million in the same period of the preceding fiscal year, which also was mainly attributable to a significant decrease of Orders in the Industrial Applications division. This led to a service share of 39.9% of the segment's total Orders in the nine-month period ended June 30, 2020, clearly below the level of the same period of the preceding fiscal year.

Orders in the EMEA region increased slightly, since, among others, the Gas and Power segment's Generation division recorded an Order for a turnkey CCPP of € 0.4 billion including service in Germany and successful bid for a turnkey construction project of a CCPP with a volume of more than € 0.2 billion in Russia. Moreover, the Transmission division was awarded Orders for substations worth € 0.2 billion in Iraq as well as the first lot of about € 0.2 billion for a large HVDC converter project in Germany. The Industrial Applications division closed a contract for a gas-storage solution in Saudi Arabia in a volume of about € 0.1 billion. The region Asia, Australia was the only region showing significant growth during the nine-month period ended June 30, 2020, among others mainly due to a number of large Orders for the Generation division, including two Orders in the Republic of Korea totaling more than € 0.3 billion and an Order of about € 0.2 billion for its service business in Taiwan. Thus, Order intake in the Asia, Australia region partially compensated the development in the Americas region which posted a significant decline despite significant growth in the United States. In the Americas region, the Industrial Applications division in the prior year period recorded a higher volume from large Orders in Brazil and further smaller projects in Canada.

Based on such Order intake, the Gas and Power segment reached a Book-to-Bill Ratio in the nine-month period ended June 30, 2020 of 1.1. The Order Backlog was € 51 billion as of June 30, 2020.

*SGRE segment* – Orders of the SGRE segment increased from € 9,674 million in the nine-month period ended June 30, 2019 by € 2,498 million, or 25.8%, to € 12,172 million in the nine-month period ended June 30, 2020. The impact of the COVID-19 pandemic (see "9.4.2.2 Effects of the COVID-19 Pandemic and the Oil Price Drop in Early 2020") mainly affected the onshore market. The substantial increase in Orders was mainly due to a higher volume from large Orders, with Order intake for offshore wind power plant projects including service in Taiwan, the United Kingdom, the Netherlands, France and Germany. Despite a large Order in Brazil and the United States, Order volume for onshore projects was significantly below the prior year level, overall reflecting the impact of COVID-19. Among others, this was attributable to delayed contract signings in all three reporting regions, though mainly in the U.S. as well as in India, where the market generally slowed down. Overall, on a geographical basis, Orders sharply rose in the EMEA region, while the Asia, Australia region (mainly due to a sharp decline in China) and the Americas region showed a substantial decline. Service Orders increased by € 1,328 million, or 65.2%, to € 3,364 million in the nine-month period ended June 30, 2020, up from € 2,036 million in the same period of the fiscal year 2019. The sharp growth mainly resulted from portfolio additions of acquired Senvion assets and also included the first contracts for Senvion technology outside the scope of the acquisition of Senvion assets (see "9.4.8.4 Acquisition of Senvion Group Assets"), namely two multi-year maintenance contracts for wind power plants in Australia, as well as maintenance contracts for two offshore projects in France. This led to a service share of 27.6% of the segment's total Orders, substantially above 21.0% in the nine-month period ended June 30, 2019.

Based on such Order intake, the SGRE segment reached a Book-to-Bill Ratio in the nine-month period ended June 30, 2020 of 1.8. As of June 30, 2020, the Order Backlog was € 32 billion, benefitting from the acquisition of Senvion assets (see "9.4.8.4 Acquisition of Senvion Group Assets"). Following the integration of service assets acquired from Senvion in January 2020, service accounted for 46.9% of the Order Backlog of the SGRE segment.



The following table shows Orders of Siemens Energy by region (as measured by location of customers) in the nine-month periods ended June 30, 2020 and 2019:

Orders by location of customers	For the Nine-Month Period ended June 30,		Change (%)
	2020	2019	
	(unaudited) (in € million)	(unaudited) (in € million)	(unaudited)
EMEA .....	15,476	10,422	48.5
therein: Germany .....	2,458	1,579	55.7
Americas .....	6,486	8,407	(22.9)
therein: U.S. ....	3,493	4,988	(30.0)
Asia, Australia .....	5,051	5,740	(12.0)
therein: China and Taiwan .....	2,301	3,797	(39.4)
<b>Siemens Energy</b> .....	<b>27,014</b>	<b>24,570</b>	<b>9.9</b>

#### 9.7.2.2 Revenue

During the nine-month period ended June 30, 2020, revenue development of Siemens Energy was affected by the COVID-19 pandemic (see "9.4.2.2 Effects of the COVID-19 Pandemic and the Oil Price Drop in Early 2020"). In the nine-month period ended June 30, 2020, Siemens Energy recognized revenue of € 19,828 million. This was € 675 million, or 3.3%, lower than in the same period in the fiscal year 2019, in which revenue amounted to € 20,503 million. The decrease was driven by the SGRE segment, while revenue in the Gas and Power segment was stable period-over-period. Total segments' revenue from service was nearly stable in the nine-month period ended June 30, 2020 to € 6,778 million compared to € 6,838 million in the same period of the fiscal year 2019. This led to a share of 34.0% of Total Segments' total revenue, slightly above the level of the same period in the fiscal year 2019 of 33.2% (see also "9.4.5.2 Recurring Profitable Revenue From Our Service Business").

The following table shows the reconciliation of the total revenue of our segments Gas and Power and SGRE to revenue of Siemens Energy in the nine-month periods ended June 30, 2020 and 2019:

Total revenue	For the Nine-Month Period ended June 30,		Change (%)
	2020	2019	
	(unaudited) (in € million)	(unaudited) (in € million)	(unaudited)
Gas and Power <sup>1)</sup> .....	13,326	13,315	0.1
Siemens Gamesa Renewable Energy .....	6,615	7,283	(9.2)
<b>Total Segments</b> .....	<b>19,942</b>	<b>20,598</b>	<b>(3.2)</b>
Reconciliation to Combined Interim Financial Statements .....	(114)	(95)	—
<b>Siemens Energy</b> .....	<b>19,828<sup>2)</sup></b>	<b>20,503</b>	<b>(3.3)</b>

- <sup>1)</sup> The following table shows the contributions of the divisions Transmission, Generation and Industrial Applications to total revenue of the Gas and Power segment as well as the total of eliminations of interdivision revenue and revenue of Other Operations, including, among others, our New Energy Business, as well as revenue of central Gas and Power functions (Reconciliation to Gas and Power):

	For the Nine-Month Period ended June 30,		Change (%)
	2020	2019	
	(unaudited) (in € million)	(unaudited) (in € million)	
Transmission .....	4,112	4,102	0.2
Generation .....	5,714	5,825	(1.9)
Industrial Applications .....	3,811	3,666	4.0
Reconciliation to Gas and Power .....	(311)	(277)	—

- <sup>2)</sup> The following table shows total revenue of Siemens Energy for the three-month periods ended December 31, 2019, March 31, 2020 and June 30, 2020:

	For the Three-Month Period ended		
	December 31, 2019	March 31, 2020	June 30, 2020
	(unaudited) (in € million)	(unaudited) (in € million)	(unaudited) (in € million)
Gas and Power .....	4,420	4,615	4,292
Siemens Gamesa Renewable Energy .....	2,001	2,204	2,411
<b>Total Segments</b> .....	<b>6,420</b>	<b>6,818</b>	<b>6,703</b>
Reconciliation to Combined Interim Financial Statement .....	(48)	(39)	(28)
<b>Siemens Energy</b> .....	<b>6,373</b>	<b>6,780</b>	<b>6,675</b>

**Gas and Power segment** – Total revenue of the Gas and Power segment in the nine-month period ended June 30, 2020 amounted to € 13,326 million, nearly level with € 13,315 million in the same period of the fiscal year 2019. In a continuously disruptive and challenging market environment (see “9.4.1.1 Trends Impacting the Gas and Power Segment”), the COVID-19 pandemic posed an additional considerable impact on the Gas and Power segment’s revenue development (see “9.4.2.2 Effects of the COVID-19 Pandemic and the Oil Price Drop in Early 2020”) and impacted all divisions. The Industrial Applications division saw, despite COVID-19 effects, a moderate revenue increase mainly due to a strong product business driven by the Order intake of the fiscal year 2019. Revenue from the division’s service business remained stable on prior year’s level. The Generation division’s revenue slightly declined from the level of the nine-month period ended June 30, 2019, also impacted by COVID-19. The highest influence from the pandemic was seen in the Transmission division due to delays or shifts of projects as well as lockdowns or quarantines in factories, despite that, the Transmission division’s revenue could level with the prior year period. The Gas and Power segment’s service revenue slightly decreased in the nine-month period ended June 30, 2020 by € 119 million, or 2.1%, to € 5,552 million from € 5,671 million in the same period of the fiscal year 2019. This led to a service share of 41.7% of the Gas and Power segment’s total revenue in the nine-month period ended June 30, 2020, slightly below the level of 42.6% the same period of the preceding fiscal year.

**SGRE segment** – Total revenue of the SGRE segment decreased from € 7,283 million in the nine-month period ended June 30, 2019 by € 668 million, or 9.2% to € 6,615 million in the same period of the fiscal year 2020. Revenue development was considerably affected by the COVID-19 pandemic (see “9.4.2.2 Effects of the COVID-19 Pandemic and the Oil Price Drop in Early 2020”), mainly in the onshore market. The overall decrease reflected a decline of revenue from both the onshore and the offshore business, which was partly offset by growth of service revenue. While the substantial decrease in revenue from the offshore business was in line with project execution planning, the reduction of onshore revenue was due to delays in the execution of certain projects in Northern Europe and the continuous slowdown in the Indian market, both exacerbated by the COVID-19 pandemic as well as due to trends in the prices of executed contracts, less volume of

installation work and the geographical mix of revenue with a substantially lower contribution from the EMEA region. Overall, on a geographical basis, the substantial decrease in the EMEA region was only in part offset by substantial growth in the Americas region and a moderate increase in the Asia, Australia region. The SGRE segment's service revenue moderately increased in the nine-month period ended June 30, 2020 to € 1,226 million, up by € 59 million, or 5.1%, from € 1,167 million in the same period of the fiscal year 2019. Growth was driven by the acquisition of the service assets from Senvion in January 2020 (see "9.4.8.4 Acquisition of Senvion Group Assets") and by organic growth in maintenance revenue and spare part sales, offset by a reduction in the sale of value-added solutions. This led to a service share of 18.5% of the SGRE segment's total revenue in the nine-month period ended June 30, 2020, significantly above the level of 16.0% the same period of the fiscal year 2019.

The following table shows the revenue of Siemens Energy by region (as measured by location of customers) in the nine-month periods ended June 30, 2020 and 2019:

Revenue by location of customers	For the Nine-Month Periods ended June 30,		
	2020	2019	Change (%)
	(unaudited) (in € million)	(unaudited) (in € million)	(unaudited)
EMEA .....	10,053	11,256	(10.7)
therein: Germany .....	1,717	1,767	(2.8)
Americas .....	6,247	5,929	5.4
therein: U.S. ....	4,192	3,758	11.5
Asia, Australia .....	3,528	3,318	6.3
therein: China and Taiwan .....	1,638	1,228	33.4
<b>Siemens Energy .....</b>	<b>19,828</b>	<b>20,503</b>	<b>(3.3)</b>

In the nine-month period ended June 30, 2020, revenue in the EMEA region amounted to € 10,053 million, corresponding to a share of 50.7% of revenue of Siemens Energy. Revenue in this region was down from € 11,256 million in the nine-month period ended June 30, 2019 by € 1,203 million or 10.7%. A substantial decrease of revenue of the SGRE segment due to the reasons mentioned above, was slowed by a slight increase in revenue of the Gas and Power segment, with Germany balancing a negative development in other countries of the region.

Revenue in the Americas amounted to € 6,247 million in the nine-month period ended June 30, 2020, corresponding to a share of 31.5% of revenue of Siemens Energy, up by € 318 million, or 5.4%, from € 5,929 million in the same period of the preceding fiscal year. The increase was driven by substantially higher revenue in the SGRE segment, as the U.S. were the main source for revenue from the onshore business, which more than offset a moderate decline of revenue in the Gas and Power segment.

In the Asia, Australia region, revenues amounted to € 3,528 million in the nine-month period ended June 30, 2020, corresponding to a share of 17.8% of revenue of Siemens Energy, up by € 210 million, or 6.3%, from € 3,318 million in the same period of the preceding fiscal year. Revenue moderately increased in the SGRE segment and clearly in the Gas and Power segment, including revenue driven by a technology collaboration in the field of heavy duty gas turbines in China.

#### 9.7.2.3 Cost of Sales

Cost of sales increased from € 17,420 million in the nine-month period ended June 30, 2019 by € 944 million, or 5.4%, to € 18,364 million in the same period of the fiscal year 2020. The moderate increase was due to noticeable impacts of the COVID-19 pandemic (see "9.4.2.2 Effects of the COVID-19 Pandemic and the Oil Price Drop in Early 2020"), overall reflecting less fixed cost absorption related to reduced capacity utilization caused by temporary disruptions in the supply chain and plant closures, as well as project delays and claims for damages from customers, as well

as due to asset impairments and write-downs. The Gas and Power segment's cost of sales did not reflect the stable revenue pattern, but increased clearly compared to the prior year period, due to inventory write-downs in the amount of € 225 million, in part associated with impairments of intellectual property rights in relation to intangible assets acquired in business combinations in the amount of € 318 million (see "9.7.2.13 Adjusted EBITA and Adjusted EBITA before Special Items"), negative effects from project suspension and termination as well as a more unfavorable product mix. Moderately increased cost of sales in the SGRE segment mainly resulted from negative effects from project execution (especially in Northern Europe and India), which were exacerbated by COVID-19, combined with sharply higher integration costs as well as impacts from strategic portfolio decisions, mainly related to the resizing and restructuring plan for the Indian business and a plant closure in Spain. Amortization of intangible assets acquired in business combinations included in cost of sales amounted to € 188 million and € 185 million in the nine-month period ended June 30, 2020 and 2019, respectively.

#### 9.7.2.4 Gross profit

Gross profit sharply decreased from € 3,084 million in the nine-month period ended June 30, 2019 by € 1,621 million, or 52.6%, to € 1,463 million in the same period of the fiscal year 2020, reflecting decreased revenue and increased cost of sales at the same time during the nine-month period ended June 30, 2020. The overall gross profit deterioration was primarily attributable to the SGRE segment posting a negative swing in gross profit. Also, the Gas and Power segment showed a substantially decreased gross profit due to, amongst others, cost of sales including major non-recurring charges. The gross profit margin (calculated as the ratio of gross profit to revenue) of Siemens Energy for the nine-month period ended June 30, 2020 of 7.4% decreased sharply, compared to 15.0% in the same period of the fiscal year 2019.

#### 9.7.2.5 Research and development expenses

Despite a decline in revenue, research and development expenses of € 689 million in the nine-month period ended June 30, 2020 were nearly level with € 683 million in the same period of the fiscal year 2019. Implemented cost out measures of the Gas and Power segment taking effect with a moderate decrease of its research and development expense, which was more than offset by an increase in the SGRE segment. Amortization of intangible assets acquired in business combinations included in research and development expenses amounted to € 5 million and € 5 million in the nine-month periods ended June 30, 2020 and 2019, respectively.

#### 9.7.2.6 Selling and general administrative expenses

Selling and general administrative expenses increased from € 1,945 million in the nine-month period ended June 30, 2019 by € 378 million, or 19.4%, to € 2,323 million in the same period of the fiscal year 2020. Both segments showed a considerable increase in selling and general administrative expenses, with the major part being caused by impairments of intellectual property rights in relation to intangible assets acquired in business combinations in the amount of € 170 million in the Gas and Power segment ("9.7.2.13 Adjusted EBITA and Adjusted EBITA before Special Items") as well as to the set-up of corporate functions in preparation for the Spin-Off and Listing of Siemens Energy. Furthermore, included in selling expenses in the nine-month period ended June 30, 2020 were royalties in an amount of € 40 million for the usage of the combined designation "Siemens Energy" and the "SIEMENS Energy" trademark (see "18.1.1.1.4 Trademark and Name Use (Sub-)License Agreement with Siemens Energy"), such expenses had no relevance in past fiscal years. The SGRE segment posted expenses of € 82 million resulting from impairments of intangible assets as a consequence of its adaption of the Indian business model (see "9.7.2.13 Adjusted EBITA and Adjusted EBITA before Special Items"). Amortization of intangible assets acquired in business combinations included in selling and general administrative expenses amounted to € 170 million and € 189 million in the nine-month periods ended June 30, 2020 and 2019, respectively.

#### 9.7.2.7 Other operating income (expenses), net

Other operating income (expenses), net decreased from net expenses of € 38 million in the nine-month period ended June 30, 2019 by € 27 million to net expenses of € 11 million in the same period of the fiscal year 2020. While the prior year period included a loss of € 54 million from the sale of a site for packaging and service of rotating equipment in Hengelo, Netherlands, of the Industrial Applications division in the Gas and Power segment, in the nine-month period ended June 30, 2020 sharply lower Carve-out related expenses were incurred. The overall development was reflected in other operating income of € 41 million in the nine-month period ended June 30, 2019 compared to € 66 million in the same period of the fiscal year 2020, while other operating expenses remained nearly stable and amounted to € 77 million in the nine-month period ended June 30, 2020 compared to € 79 million in the same period of fiscal year 2019.

#### 9.7.2.8 Income (loss) from investments accounted for using the equity method, net

Income (loss) from investments accounted for using the equity method, net decreased from an income of € 90 million in the nine-month period ended June 30, 2019 by € 84 million to an income of € 6 million in the same period of the fiscal year 2020. The decline is due to a decreased share of profit (loss), net in at-equity investments and lower gains on sales of investments. The nine-month period ended June 30, 2019 included a € 55 million gain from the partial sale of an at-equity investment presented in the Gas and Power segment's Transmission division.

#### 9.7.2.9 Financial result

Negative financial result decreased from € 238 million in the nine-month period ended June 30, 2019 by € 119 million, or 50.0%, to € 119 million in the same period of the fiscal year 2020. Interest income decreased from € 76 million in the nine-month period ended June 30, 2019 by € 46 million, or 60.5%, to € 30 million in the same period of the fiscal year 2020. This decline mainly reflects reduced interest income from financing transactions with Siemens Group. Interest expenses decreased from € 290 million in the nine-month period ended June 30, 2019 by € 156 million, or 53.8%, to € 134 million in the same period of the fiscal year 2020, mainly due to lower interest expenses, driven by the final termination and repayment of the last outstanding loan of USD-denominated loans granted by Siemens to Siemens Energy's subsidiary Dresser-Rand Group Inc. to finance the acquisition of Dresser-Rand in May 2015 (the "**Dresser-Rand Loans**"), which occurred in February 2020. Other financial income (expenses), net decreased from expenses of € 23 million in the nine-month period ended June 30, 2019 by € 7 million to expenses of € 16 million in the same period of the fiscal year 2020.

#### 9.7.2.10 Income (loss) before income taxes

Income before income taxes decreased from € 270 million in the nine-month period ended June 30, 2019 by € 1,942 million to a loss before income taxes of € 1,672 million in the same period of fiscal year 2020. While the total of financial result and depreciation and amortization was broadly stable compared to the same period of fiscal year 2019, the development of income before income taxes was primarily determined by the patterns as discussed for Adjusted EBITA (see "9.7.2.13 Adjusted EBITA and Adjusted EBITA before Special Items" below).

#### 9.7.2.11 Income tax (expenses) / gains

In the nine-month period ended June 30, 2020, income tax gains of € 203 million were recognized, compared to income tax expenses of € 67 million in the same period of the fiscal year 2019. However, the effective tax rate of 12.1% (absolute value) for the nine-month period ended June 30, 2020 was well below 24.8% for the same period in the fiscal year 2019, in particular because of the non-recognition of deferred tax assets on loss carryforwards.

#### 9.7.2.12 Net income (loss)

As a result of the factors discussed above, net income declined from € 202 million in the nine-month period ended June 30, 2019 by € 1,671 million to a net loss of € 1,469 million in the same period of the fiscal year 2020.



### 9.7.2.13 Adjusted EBITA and Adjusted EBITA before Special Items

The development of Adjusted EBITA during the nine-month period ended June 30, 2020 was impacted across all businesses by the COVID-19 pandemic while the Gas and Power segment's Industrial Applications division in particular was also affected by the oil price development (see "9.4.2.2 Effects of the COVID-19 Pandemic and the Oil Price Drop in Early 2020"). Adjusted EBITA of Siemens Energy fell from positive € 857 million in the nine-month period ended June 30, 2019 by € 2,068 million to a negative € 1,211 million in the same period of the fiscal year 2020. The sharp decline in Adjusted EBITA was due to the development in both segments. Besides considerable impacts due to COVID-19 and the oil price development, Gas and Power recorded impairments on intellectual property rights and in part associated with inventory write-downs totaling € 713 million. Furthermore the Gas and Power segment recorded a less favorable mix of revenue and non-recurring Carve-Out-related expenses. Adjusted EBITA of the SGRE segment turned negative, mainly due to project delays, the slowdown in the Indian market and COVID-19 and sharply higher restructuring and integration costs.

Special Items within Adjusted EBITA of Siemens Energy in the nine-month period ended June 30, 2020 totaled € 1,124 million, compared to € 137 million in the same period of the fiscal year 2019, leading to an Adjusted EBITA before Special Items of Siemens Energy in the nine-month period ended June 30, 2020 of negative € 87 million, compared to positive € 994 million in same period a year earlier. The respective Adjusted EBITA Margin before Special Items in the nine-month period ended June 30, 2020 was negative 0.4%, compared to positive 4.8% in the same period of the fiscal year 2019.

The following table shows the reconciliation of Siemens Energy's Adjusted EBITA (Group) to net income (loss) for the nine-month periods ended June 30, 2020 and 2019:

	For the Nine-Month Periods ended June 30,	
	2020	2019
	(unaudited) (in € million)	
<b>Net income (loss)</b> .....	<b>(1,469)</b>	<b>202</b>
+/- Income tax expenses (expenses) / gains .....	(203)	67
+ Financial result <sup>1)</sup> .....	119	238
- Financial result from operations <sup>2)</sup> .....	(21)	(29)
+ Amortization of intangible assets acquired in business combinations and goodwill impairments .....	363	379
<b>Adjusted EBITA (Siemens Energy)</b> .....	<b>(1,211)<sup>6)</sup></b>	<b>857</b>
thereof: Gas and Power <sup>3)</sup> .....	(539)	506
Siemens Gamesa Renewable Energy .....	(631)	355
Reconciliation to Adjusted EBITA (Siemens Energy) .....	(40)	(4)
thereof: Real Estate Services <sup>4)</sup> .....	1	9
Eliminations, Treasury and other central items <sup>5)</sup> .....	(42)	(13)
+ Special Items .....	1,124	137
<b>Adjusted EBITA before Special Items (Siemens Energy)</b> .....	<b>(87)</b>	<b>994</b>
thereof: Gas and Power .....	212	553
Siemens Gamesa Renewable Energy .....	(279)	445
Reconciliation to Adjusted EBITA before Special Items (Siemens Energy) .....	(19)	(4)

<sup>1)</sup> Financial result represents the sum of (i) interest income, (ii) interest expenses and (iii) other financial income (expenses), net, each as presented in the Combined Statements of Income of our Unaudited Condensed Combined Interim Financial Statements.

<sup>2)</sup> Financial result from operations, as subpart of financial result, is included in Adjusted EBITA. Financial result from operations refers to interest income related to receivables from customers, from cash allocated to the segments and interest expenses on payables to suppliers.

- 3) The following table shows the contributions of the divisions Transmission, Generation and Industrial Applications to Adjusted EBITA of the Gas and Power segment as well as the total of eliminations, Other Operations, including, among others, our New Energy Business, as well as central Gas and Power functions (Reconciliation to Gas and Power):

	For the Nine-Months Period ended June 30,	
	2020	2019
	(unaudited) (in € million)	
Transmission .....	169	222
Generation .....	(182)	185
Industrial Applications .....	(386)	131
Reconciliation to Adjusted EBITA (Gas and Power) .....	(141)	(33)

- 4) Real Estate Services manages the Gas and Power segment's real estate business portfolio, operates the properties and is responsible for building projects and the purchase and sale of real estate.
- 5) Comprises consolidation of transactions between the segments, treasury activities and certain reconciliation and reclassification.
- 6) The following table shows Adjusted EBITA of Siemens Energy for the three-month periods ended December 31, 2019, March 31, 2020 and June 30, 2020:

	For the Three-Month Period ended		
	December 31, 2019	March 31, 2020	June 30, 2020
	(unaudited) (in € million)		
Gas and Power .....	51	174	(765)
Siemens Gamesa Renewable Energy .....	(165)	(60)	(406)
<b>Total Segments</b> .....	<b>(114)</b>	<b>114</b>	<b>(1,170)</b>
Reconciliation to Combined Interim Financial Statements .....	(3)	(26)	(12)
<b>Siemens Energy</b> .....	<b>(117)</b>	<b>88</b>	<b>(1,182)</b>

*Gas and Power segment* – Adjusted EBITA of the Gas and Power segment decreased sharply from positive € 506 million in the nine-month period ended June 30, 2019 by € 1,045 million to negative € 539 million in the same period of the fiscal year 2020. The decisive factors were impairments on intellectual property rights in relation to intangible assets acquired in business combinations in part combined with inventory write-downs of € 488 million and € 225 million, respectively, both being associated with the divisions Industrial Applications and Generation (see also “9.4.10.3 Special Items”). The COVID-19 pandemic noticeably impacted the Gas and Power segment's result due to project outages or shifts, underabsorption of fixed costs, shut downs of production and customer sites as well as related project charges and cost increases mostly related to the divisions Generation and Transmission. A decrease of severance charges was more than offset, as Gas and Power recognized additional expenses of € 19 million in connection with the establishment of Siemens Energy as an independent company, which are part of the Special Items (see below). Furthermore, related topics, e.g., royalties for the usage of the combined designation “Siemens Energy” and the “SIEMENS Energy” trademark (see “18.1.1.1.4 Trademark and Name Use (Sub-)License Agreement with Siemens Energy”), which had no relevance in past fiscal years, impacted Adjusted EBITA. Adjusted EBITA of the nine-month period ended June 30, 2019 was positively affected by a gain from the partial sale of an at-equity investment in the amount of € 55 million, allocated to the Transmission division. Furthermore, the development of the prior year period was influenced by a more favorable mix of revenues and positive effects from the progress of projects. The Adjusted EBITA Margin for the nine-month period ended June 30, 2020 turned negative to 4.0% compared to positive 3.8% in the same period of the fiscal year 2019.

Special Items in the Gas and Power segment in the nine-month period ended June 30, 2020 totaled € 751 million compared to € 47 million in the same period of the fiscal year 2019, leading to Adjusted EBITA before Special Items in the nine-month period ended June 30, 2020 of € 212 million, compared to € 553 million in same period a year earlier. The respective Adjusted EBITA Margin before Special Items in the nine-month period ended June 30, 2020 was 1.6%, compared to 4.2% in the same period of the fiscal year 2019.

*SGRE segment* – Adjusted EBITA of the SGRE segment sharply fell to negative € 631 million in the nine-month period ended June 30, 2020, down by € 986 million, from positive € 355 million in the same period of fiscal year 2019, including negative COVID-19 effects (see “9.4.2.2 Effects of the COVID-19 Pandemic and the Oil Price Drop in Early 2020”) mainly concentrated on the onshore business. The development of Adjusted EBITA reflects the execution of projects with lower prices from the Order Backlog (onshore, offshore and service), which were offset by improvements in productivity and fixed costs under the “L3AD2020” program (see “9.4.10 Integration and Operational Improvement Measures; Special Items”). Furthermore, Adjusted EBITA was impacted by a less favorable business mix, with a lower contribution by the EMEA region in the onshore business, and a lower contribution from the offshore business, mainly due to lower revenue, which was in line with expectations. The service business delivered a significantly increased contribution to Adjusted EBITA period-over-period. The onshore business faced project delays in Northern Europe and the slow-down of the Indian market which was further exacerbated by the effects of the COVID-19 pandemic. This resulted in asset write-downs and considerable cost increases, including charges related to two projects of € 183 million and € 95 million in Northern Europe and India, respectively. Restructuring and integration costs sharply increased to € 157 million accompanied by impacts of strategic portfolio decisions of € 195 million in the nine-month period ended June 30, 2020 (see also “9.4.10.3 Special Items”), after only restructuring and integration costs of € 90 million in the same period a year earlier. That was related to a plant closure in Spain and, for the most part, to a restructuring plan for India, including strategic portfolio decisions, which was launched in the fiscal year 2020, aimed at resizing and modifying the scope of business undertaken in India, in order to adapt the business model to the current market structure and the significantly reduced market outlooks in India. Defined measures resulted in inventory and fixed assets write-downs. In addition, due to the deterioration of the Indian market, the recoverability of the existing intangible assets has been analyzed, and an impairment of intangible assets in the amount of € 82 million has been recognized. The impacts mentioned were partially offset by the positive effect of the litigation settlement between Areva and Adwen (see “12.8.2.1 Settlement Agreement with Areva”). The Adjusted EBITA Margin of the SGRE segment for the nine-month period ended June 30, 2020 was negative 9.5% and switched from positive 4.9% in the same period of fiscal year 2019.

Special Items in the SGRE segment in the nine-month period ended June 30, 2020 totaled € 352 million compared to € 90 million in the same period of the fiscal year 2019, leading to Adjusted EBITA before Special Items in the nine-month period ended June 30, 2020 of negative € 279 million, compared to € 445 million in same period a year earlier. The respective Adjusted EBITA Margin before Special Items in the nine-month period ended June 30, 2020 was negative 4.2%, sharply decreased from positive 6.1% in the same period of the fiscal year 2019.

### 9.7.3 Comparison of the Results of Operations for the Fiscal Years 2019 and 2018

The following table sets forth our Orders and Combined Statements of Income for the fiscal years 2019 and 2018:

	For the Fiscal Year ended September 30,		Change in % (unaudited)
	2019 (audited, unless otherwise indicated) (in € million)	2018	
<b>Orders</b>			
Orders .....	33,734	31,046	8.7
<b>Combined Statements of Income</b>			
Revenue .....	28,797	28,023	2.8
Cost of Sales .....	(24,615)	(23,876)	3.1
<b>Gross profit</b> .....	<b>4,181</b>	<b>4,147</b>	<b>0.8</b>
Research and development expenses .....	(1,001)	(1,069)	(6.4)
Selling and general administrative expenses .....	(2,647)	(2,739)	(3.4)
Other operating income (expenses), net (unaudited) .....	(47)	117	(140.2)
thereof: Other operating income .....	61	231	(73.6)
Other operating expenses .....	(108)	(114)	(5.3)
Income (loss) from investments accounting for using the equity method, net .....	111	(85)	(230.6)
Financial result (unaudited) .....	(280)	(219)	27.9
thereof: Interest income .....	107	109	(1.8)
Interest expenses .....	(355)	(324)	9.6
Other financial income (expenses), net .....	(32)	(4)	700.0
<b>Income before income taxes</b> .....	<b>317</b>	<b>151</b>	<b>109.9</b>
Income tax (expenses) / gains .....	(35)	493	(107.1)
<b>Net Income</b> .....	<b>282</b>	<b>645</b>	<b>(56.3)</b>

#### 9.7.3.1 Orders

In the fiscal year 2019, Orders amounted to € 33,734 million, up by € 2,688 million or 8.7%, from € 31,046 million in the fiscal year 2018. This increase was attributable to a higher volume from large Orders in both the Gas and Power segment and the SGRE segment. In the Gas and Power segment, Orders clearly increased in the fiscal year 2019 driven by growth in the new-unit business. Volume from large Orders was up year-over-year. In the SGRE segment, Orders clearly increased year-over-year due to an increased volume from large Orders in all businesses. Total Segments' Orders from service slightly decreased in the fiscal year 2019 by € 146 million, or 1.2% to € 11,630 million from € 11,776 million in the fiscal year 2018. This led to a share of 34.3% of Total Segments' Orders, clearly below the level of 37.8% in the fiscal year 2018.

Based on such Order intake, Siemens Energy as a whole reached a Book-to-Bill Ratio in the fiscal year 2019 of 1.2. Siemens Energy's Order Backlog was € 77 billion as of September 30, 2019.

The following table shows the reconciliation of Orders of the two segments to total Orders of Siemens Energy for the fiscal years 2019 and 2018:

Orders	For the Fiscal Year ended September 30,		Change (%) (unaudited)
	2019	2018	
	(audited) (in € million)	(unaudited)	
Gas and Power <sup>1)</sup> .....	21,187	19,283	9.9
Siemens Gamesa Renewable Energy .....	12,749	11,875	7.4
<b>Total Segments</b> .....	<b>33,936</b>	<b>31,157</b>	<b>8.9</b>
Reconciliation to Combined Financial Statements .....	(202)	(112)	—
<b>Siemens Energy</b> .....	<b>33,734</b>	<b>31,046</b>	<b>8.7</b>

<sup>1)</sup> The following table shows the contributions of the divisions Transmission, Generation and Industrial Applications to Orders of the Gas and Power segment as well as total of eliminations of interdivision Orders and Orders of Other Operations including, among others, our New Energy Business, as well as Orders of central Gas and Power functions (Reconciliation to Gas and Power):

	For the Fiscal Year ended September 30,		Change (%) (unaudited)
	2019	2018	
	(unaudited) (in € million)	(unaudited)	
Transmission .....	6,183	5,030	22.9
Generation .....	8,594	8,848	(2.9)
Industrial Applications .....	6,776	5,994	13.0
Reconciliation to Gas and Power .....	(366)	(589)	—

*Gas and Power segment* – Orders of the Gas and Power segment increased from € 19,283 million in the fiscal year 2018 by € 1,904 million, or 9.9%, to € 21,187 million in the fiscal year 2019. While the divisions Transmission and Industrial Applications contributed to this development, the Generation division posted a moderate decrease. The overall increase on the reportable segment level was driven by the new-unit businesses of all three divisions. Volume from large Orders increased while service Orders decreased in the fiscal year 2019 to € 8,893 million by € 430 million, or 4.6%, from € 9,323 million in the fiscal year 2018. This was mainly due to a decrease in the Generation division, which recorded higher volume from large service orders in the EMEA region and the Americas in the fiscal year 2018. This led to a service share of 42.0% of the segment's total Orders, significantly below the level of the fiscal year 2018.

Orders in the EMEA region decreased significantly, despite, among others, the Gas and Power segment's Generation division successful bid for a large contract of about € 0.4 billion for a CCPP including service in France in the fiscal year 2019. Moreover the Transmission division was awarded a HVDC order worth about € 0.4 billion in Germany as well as an Order of about € 0.3 billion for a large offshore grid connection project in the United Kingdom, both being postponed from the prior year. Furthermore, the Generation division secured an order of about € 0.3 billion for its solution business in Brazil. The Industrial Applications division also recorded large Orders related to the product business and other power plants operated for external customers in Brazil and further smaller projects in Canada and the United States, all supporting the substantial growth in the Americas.

Based on such Order intake, the Gas and Power segment reached a Book-to-Bill Ratio in the fiscal year 2019 of 1.1. The Order Backlog was € 52 billion as of September 30, 2019.

*SGRE segment* – Orders of the SGRE segment increased from € 11,875 million in the fiscal year 2018 by € 874 million, or 7.4%, to € 12,749 million in the fiscal year 2019. Effects from acquisitions and disposals as well as foreign currency translation effects in total had nearly no effect on order development. The order growth was driven by all businesses, in particular by a



higher volume from large Orders. With service Orders up by € 284 million, or 11.6%, service Orders amounted to € 2,737 million in the fiscal year 2019 after € 2,453 million in the fiscal year 2018. Growth was driven by two offshore contracts signed in Taiwan (as described below), both of which included maintenance. This led to a share of 21.5% of the segment's total Orders, moderately above 20.7% in the fiscal year 2018.

Sharp order growth in Asia, Australia was supported by the recovery of the Indian onshore market since June 2019 and included two large Orders for offshore wind power plants including service in Taiwan, totaling about € 2.3 billion. The SGRE segment also recorded sharply higher Orders in the Americas region, driven by several large Orders in the onshore business mainly in the United States, benefitting from the strength of the United States market in the fiscal year 2019. In contrast, Orders came in substantially lower in the EMEA region, which in the fiscal year 2018 had included an order for an offshore wind power plant, including service, in the United Kingdom worth about € 1.3 billion.

Based on such Order intake, SGRE reached a Book-to-Bill Ratio in the fiscal year 2019 of 1.2. The Order Backlog was € 26 billion as of September 30, 2019.

The following table shows Orders of Siemens Energy by region (as measured by location of customers) in the fiscal years 2019 and 2018:

Orders by location of customers	For the Fiscal Year ended September 30,		Change (%) (unaudited)
	2019	2018	
	(unaudited) (in € million)		
EMEA . . . . .	14,155	16,110	(12.1)
therein: Germany . . . . .	2,075	1,397	48.5
Americas . . . . .	11,350	9,208	23.3
therein: U.S. . . . .	6,498	5,218	24.5
Asia, Australia . . . . .	8,229	5,728	43.7
therein: China and Taiwan . . . . .	4,509	1,968	129.1
Siemens Energy . . . . .	33,734	31,046	8.7

#### 9.7.3.2 Revenue

Revenue increased from € 28,023 million in the fiscal year 2018 by € 774 million, or 2.8%, to € 28,797 million in the fiscal year 2019. The increase was driven by significant revenue growth in the SGRE segment, with both new unit and service business significantly up. Revenue of the Gas and Power segment slightly decreased compared to the fiscal year 2018. Primarily, revenue of the new-unit business of the Generation division declined as a result of the weak order intake in prior fiscal years. Total Segments' revenue from service moderately increased in the fiscal year 2019 by € 492 million, or 5.4%, to € 9,548 million from € 9,056 million in the fiscal year 2018. This led to a share of 33.0% of Total Segments' total revenue in the fiscal year 2019, slightly above the level of 32.2% in the fiscal year 2018.

The following table shows the reconciliation of the total revenue of our segments Gas and Power and SGRE to revenue of Siemens Energy in the fiscal years 2019 and 2018:

Total Revenue	For the Fiscal Year ended September 30,		Change (%)
	2019	2018	
	(audited) (in € million)	(unaudited)	(unaudited)
Gas and Power <sup>1)</sup> .....	18,709	18,982	(1.4)
Siemens Gamesa Renewable Energy .....	10,227	9,122	12.1
<b>Total Segments</b> .....	<b>28,936</b>	<b>28,104</b>	<b>3.0</b>
Reconciliation to Combined Financial Statements .....	(139)	(82)	—
<b>Siemens Energy</b> .....	<b>28,797</b>	<b>28,023</b>	<b>2.8</b>

<sup>1)</sup> The following table shows the contributions of the divisions Transmission, Generation and Industrial Applications to total revenue of the Gas and Power segment as well as the total of eliminations of interdivision revenue and revenue of Other Operations, including, among others, our New Energy Business, as well as revenue of central Gas and Power functions (Reconciliation to Gas and Power):

	For the Fiscal Year ended September 30,		Change (%)
	2019	2018	
	(unaudited) (in € million)	(unaudited)	(unaudited)
Transmission .....	5,849	5,870	(0.4)
Generation .....	8,161	8,472	(3.7)
Industrial Applications .....	5,099	5,163	(1.2)
Reconciliation to Gas and Power .....	(400)	(523)	—

**Gas and Power segment** – Total revenue of the Gas and Power segment decreased slightly from € 18,982 million in the fiscal year 2018 by € 273 million, or 1.4%, to € 18,709 million in the fiscal year 2019. In a continuing competitive market environment characterized by overcapacities in the gas turbines market and prevailing price pressure (see also “9.4.3 Competition”), the new-unit businesses recorded lower revenue compared to the fiscal year 2018, following weak order intake in prior years in the Generation and Industrial Applications divisions as well as a lower revenue contribution from the projects in Egypt. This project mainly impacted the Generation division (see “9.4.5.1 Project Business”), as related revenue in the fiscal year 2019 halved when compared to the fiscal year 2018. A moderate increase in service revenue, also predominantly driven by the Generation division, could not offset the overall decline in the segment’s total revenue. On a geographical basis, revenue decreased in the regions EMEA, due to lower contribution from the projects in Egypt, and Asia, Australia, partly offset by growth in the Americas. The segment Gas and Power’s service revenue moderately increased in the fiscal year 2019 by € 302 million, or 4.0%, to € 7,931 million from € 7,629 million in the fiscal year 2018. This led to a service share of 42.4% of the Gas and Power segment’s total revenue in the fiscal year 2019, moderately above the level of 40.2% the fiscal year 2018.

**SGRE segment** – Total revenue of the SGRE segment increased from € 9,122 million in the fiscal year 2018 by € 1,105 million, or 12.1% to € 10,227 million in the fiscal year 2019. The revenue increase included significant growth in the offshore and service businesses and clear growth in the onshore business. Growth in the offshore business was in line with the activity that had been planned for the fiscal year 2019, based on Orders received in past periods. The increase in the onshore business was mainly due to greater installation activity, with EMEA making a larger contribution. On a geographical basis, revenue rose substantially in the EMEA region, while it declined clearly in the Americas and Asia, Australia. The SGRE segment’s service revenue significantly increased in the fiscal year 2019 to € 1,617 million by € 190 million, or 13.3%, from € 1,427 million in the fiscal year 2018. Growth was driven by a significant expansion in the sale of

maintenance contracts and by the sale of value-added solutions during the fiscal year. This led to a service share of 15.8% of the SGRE segment's total revenue in the fiscal year 2019, slightly above the level of 15.6% the fiscal year 2018.

The following table shows the revenue of Siemens Energy by region (as measured by location of customers) in the fiscal years 2019 and 2018:

Revenue by location of customers	For the Fiscal Year ended September 30,		Change (%) (unaudited)
	2019	2018	
	(audited, unless otherwise indicated)		
	(in € million)		
EMEA . . . . .	15,756	14,881	5.9
therein: Germany . . . . .	2,525	2,479	1.9
Americas . . . . .	8,222	7,796	5.5
therein: U.S. . . . .	5,067	4,264	18.8
Asia, Australia . . . . .	4,819	5,346	(9.9)
therein: China and Taiwan (unaudited) . . . . .	1,762	1,676	5.1
<b>Siemens Energy . . . . .</b>	<b>28,797</b>	<b>28,023</b>	<b>2.8</b>

In the fiscal year 2019, revenue in the EMEA region amounted to € 15,756 million, corresponding to a share of 54.7% of revenue of Siemens Energy. Revenue in this region was up from € 14,881 million in the fiscal year 2018 by € 875 million or 5.9%. A decrease of revenue of the Gas and Power segment due to the projects in Egypt was more than offset by substantial revenue growth in the SGRE segment.

Revenue in the Americas amounted to € 8,222 million in the fiscal year 2019, corresponding to a share of 28.6% of revenue of Siemens Energy in the fiscal year 2019, up by € 426 million, or 5.5%, from € 7,796 million in the fiscal year 2018. The increase was driven by an increase in revenue in the Gas and Power segment, which more than offset a clear decline of revenue in the SGRE segment. Revenues in Americas were mainly driven by a significant revenue increase in the U.S., which compensated substantial decreases in Canada.

Increases in revenue in the EMEA region and the Americas were partly offset by decreases of revenue in the Asia, Australia region, which amounted to € 4,819 million in the fiscal year 2019, corresponding to a share of 16.7% of revenue of Siemens Energy in the fiscal year 2019. Revenue in this region declined from € 5,346 million in the fiscal year 2018 by € 527 million, or 9.9%. Revenues in Asia, Australia decreased mainly due to a strong decline in Thailand. With regard to China and Taiwan, the Gas and Power segment's slight decline and the SGRE segment's substantial decrease of revenue in China were more than compensated by the positive development of the SGRE segment in Taiwan.

#### 9.7.3.3 Cost of Sales

Cost of sales increased from € 23,876 million in the fiscal year 2018 by € 739 million, or 3.1%, to € 24,615 million in the fiscal year 2019. In the fiscal year 2019, the SGRE segment posted significant higher cost of sales mainly due to project mix effects, negative impacts from project execution (especially in Northern Europe and India) and a higher impact from restructuring and integration costs as well as costs related to strategic portfolio decisions. This was partly offset by a slight decrease in cost of sales in the Gas and Power segment compared to the fiscal year 2018. Positive effects from project execution and completion, less project-related quality issues as well as substantially lower severance charges improved the Generation division's cost of sales. In addition, in the fiscal year 2019, the Generation division could realize sharply higher cost savings from the "PG 2020" program, when compared to the prior fiscal year. The overall positive effects from decreasing costs was limited by severance charges in connection with the "GP2020+" program in the Transmission division (see "9.4.10 Integration and Operational Improvement Measures; Special Items") as well as by reduced capacity utilization. Cost of sales before

amortization of intangible assets acquired in business combinations and goodwill impairments amounted to € 24,367 million (thereof € 15,403 million in the Gas and Power segment, € 9,104 million in the SGRE segment and € (140) million in Reconciliation) and € 23,627 million (thereof € 15,695 million in the Gas and Power segment, € 8,007 million in the SGRE segment and € (75) million in Reconciliation) in the fiscal years 2019 and 2018, respectively. Amortization of intangible assets acquired in business combinations and goodwill impairments included in cost of sales amounted to € 248 million (thereof Gas and Power segment: € 74 million; SGRE segment: € 174 million) and € 249 million (thereof Gas and Power segment: € 79 million; SGRE segment: € 169 million) in the fiscal years 2019 and 2018, respectively. Special Items within cost of sales amounted to € 317 million (thereof € 187 million in the Gas and Power segment and € 130 million in the SGRE segment) and € 399 million (thereof € 290 million in the Gas and Power segment and € 109 million in the SGRE segment) in the fiscal years 2019 and 2018, respectively. Cost of sales before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items amounted to € 24,050 million (thereof € 15,216 million in the Gas and Power segment and € 8,974 million in the SGRE segment and Reconciliation € (140) million) and € 23,228 million (thereof € 15,405 million in the Gas and Power segment and € 7,898 million in the SGRE segment and Reconciliation of € (75) million) in the fiscal years 2019 and 2018, respectively. This resulted in cost of sales before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items as a percentage of total revenue of 83.5% (81.3% in the Gas and Power segment and 87.7% in the SGRE segment) and 82.9% (81.2% in the Gas and Power segment and 86.6% in the SGRE segment) in the fiscal years 2019 and 2018, respectively.

#### 9.7.3.4 *Gross profit*

Gross profit slightly increased from € 4,147 million in the fiscal year 2018 by € 34 million, or 0.8%, to € 4,181 million in the fiscal year 2019, reflecting the slightly higher absolute increase in revenue when compared with the absolute increase in cost of sales during the fiscal year 2019. Gross profit attributable to the Gas and Power segment slightly increased compared to the fiscal year 2018. In this segment, lower costs of sales were largely offset by negative effects from lower revenue and price declines. Gross profit attributable to the SGRE segment came in slightly above prior year levels as higher revenue was mostly offset by price declines and higher cost of sales. The gross profit margin (calculated as the ratio of gross profit to revenue) of Siemens Energy for the fiscal year 2019 of 14.5% was nearly level with 14.8% in the fiscal year 2018.

#### 9.7.3.5 *Research and development expenses*

Research and development expenses decreased from € 1,069 million in the fiscal year 2018 by € 68 million, or 6.4%, to € 1,001 million in the fiscal year 2019. A significant decline of research and development expenses of the Gas and Power segment due to adjustment of capacities to lower volumes in shrinking markets as well as lower severance charges and cost savings due to the "PG 2020" program was partly offset by increases at the SGRE segment, related to investment in growth. Research and development expenses before amortization of intangible assets acquired in business combinations and goodwill impairments amounted to € 995 million (thereof € 787 million in the Gas and Power segment, € 208 million in the SGRE segment and € (0) million in Reconciliation) and € 1,062 million (thereof € 897 million in the Gas and Power segment, € 166 million in the SGRE segment and € (1) million in Reconciliation) in the fiscal years 2019 and 2018, respectively. Amortization of intangible assets acquired in business combinations and goodwill impairments included in research and development expenses amounted to € 6 million (thereof Gas and Power segment: € 6 million) and € 7 million (thereof Gas and Power segment: € 7 million) in the fiscal year 2019 and 2018, respectively. Special Items within research and development expenses amounted to € 42 million (thereof Gas and Power segment: € 10 million; SGRE segment: € 32 million) and € 50 million (thereof Gas and Power segment: € 32 million; SGRE segment: € 18 million) in the fiscal year 2019 and 2018, respectively. Research and development expenses before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items amounted to € 953 million (thereof

Gas and Power segment: € 777 million; SGRE segment: € 176 million; Reconciliation € 0 million) and € 1,012 million (thereof Gas and Power segment: € 865 million; SGRE segment € 148 million; Reconciliation € (1) million) in the fiscal years 2019 and 2018, respectively. This resulted in research and development expenses before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items as a percentage of total revenue of 3.3% (4.2% in the Gas and Power segment and 1.7% in the SGRE segment) and 3.6% (4.6% in the Gas and Power segment and 1.6% in the SGRE segment) in the fiscal years 2019 and 2018, respectively.

#### 9.7.3.6 *Selling and general administrative expenses*

Selling and general administrative expenses decreased from € 2,739 million in the fiscal year 2018 by € 92 million, or 3.4%, to € 2,647 million in the fiscal year 2019. In the fiscal year 2019, selling and general administrative expenses were down in both segments compared to the fiscal year 2018. While the extent of decline in the Gas and Power segment was in line with the revenue development and in part due to lower severance charges, the SGRE segment posted a clear decrease in selling and general administrative expenses, mainly due to improvements in productivity and fix costs under its "L3AD2020" program (see "9.4.10 Integration and Operational Improvement Measures; Special Items"). Selling expenses before € 152 million of amortization of intangible assets acquired in business combinations and goodwill impairments in the Gas and Power segment in the fiscal year 2019 amounted to € 1,657 million and accounted for 83.1% of the segment's selling and general administrative expenses before amortization of intangible assets acquired in business combinations and goodwill impairments totaling € 1,993 million. Selling and general administrative expenses before amortization of intangible assets acquired in business combinations and goodwill impairments amounted to € 2,402 million (thereof € 1,993 million in the Gas and Power segment, € 405 million in the SGRE segment and € 4 million in Reconciliation) and € 2,449 million (thereof € 2,015 million in the Gas and Power segment, € 426 million in the SGRE segment and Reconciliation of € 8 million) in the fiscal years 2019 and 2018, respectively. Amortization of intangible assets acquired in business combinations included in selling and general administrative expenses amounted to € 245 million (thereof Gas and Power segment: € 152 million; SGRE segment: € 92 million) and € 290 million (thereof Gas and Power segment: € 154 million; SGRE segment: € 136 million) in the fiscal years 2019 and 2018, respectively. Special Items within selling and general administrative expenses amounted to € 75 million (thereof € 50 million in the Gas and Power segment and € 25 million in the SGRE segment) and € 96 million (thereof € 53 million in the Gas and Power segment and € 43 million in the SGRE segment) in the fiscal years 2019 and 2018, respectively. Selling and general administrative expenses before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items amounted to € 2,327 million (thereof € 1,943 million in the Gas and Power segment; € 380 million in the SGRE segment; Reconciliation € 4 million) and € 2,353 million (thereof € 1,962 million in the Gas and Power segment; € 383 million in the SGRE segment; Reconciliation € 8 million) in the fiscal years 2019 and 2018, respectively. This resulted in selling and general administrative expenses before amortization of intangible assets acquired in business combinations and goodwill impairments and before Special Items as a percentage of total revenue of 8.1% (10.4% in the Gas and Power segment and 3.7% in the SGRE segment) and 8.4% (10.3% in the Gas and Power segment and 4.2% in the SGRE segment) in the fiscal years 2019 and 2018, respectively.

#### 9.7.3.7 *Other operating income (expenses), net*

Other operating income (expenses), net decreased from a net income of € 117 million in the fiscal year 2018 by € 164 million to net expenses of € 47 million in the fiscal year 2019. Other operating income fell from € 231 million in the fiscal year 2018 by € 170 million, or 73.6%, to € 61 million in the fiscal year 2019, primarily as the fiscal year 2018 included gains totaling € 165 million from two divestments in the Gas and Power segment, both attributable to the Industrial Applications division (see "9.4.8.2 Disposal of the Single-stage and Wastewater Compressor and Small Steam Turbines Business" and "9.4.8.3 Disposal of Parts of the Government Business and U.S. Navy Service Centers"). Other operating expenses decreased moderately from



€ 114 million in the fiscal year 2018 by € 6 million, or 5.3%, to € 108 million in the fiscal year 2019. The fiscal year 2019 included a loss of € 54 million from the sale of a site for packaging and service of rotating equipment in Hengelo, Netherlands, of the Industrial Applications division in the Gas and Power segment.

#### *9.7.3.8 Income (loss) from investments accounted for using the equity method, net*

Income (loss) from investments accounted for using the equity method, net increased from a loss of € 85 million in the fiscal year 2018 by € 196 million to an income of € 111 million in the fiscal year 2019. This increase resulted primarily from an impairment in the amount of € 154 million in the fiscal year 2018 relating to an at-equity investment in a provider of rotating equipment services allocated to Other Operations in the Gas and Power segment, whereas the fiscal year 2019 included a € 55 million gain from a partial sale of an at-equity investment presented in the Gas and Power segment's Transmission division.

#### *9.7.3.9 Financial result*

Negative financial result increased from € 219 million in the fiscal year 2018 by € 61 million, or 27.9%, to € 280 million in the fiscal year 2019. Interest income remained flat at € 107 million in the fiscal year 2019 compared to € 109 million in the fiscal year 2018. Interest expenses increased from € 324 million in the fiscal year 2018 by € 31 million, or 9.6%, to € 355 million in the fiscal year 2019, mainly driven by higher expenses related to the partial early termination and repayment (at the end of the fiscal year 2019) of USD-denominated loans granted by Siemens to Siemens Energy's subsidiary Dresser-Rand Group Inc. to finance the acquisition of Dresser-Rand in May 2015 (the "**Dresser-Rand Loans**"). Other financial income (expenses), net increased from expenses of € 4 million in the fiscal year 2018 by € 28 million to expenses of € 32 million in the fiscal year 2019, particularly due to raised expenses for the interest component on provisions.

#### *9.7.3.10 Income before income taxes*

Income before income taxes increased from € 151 million in the fiscal year 2018 by € 166 million to € 317 million in the fiscal year 2019. Since the total of financial result and depreciation and amortization remained at a stable level in the fiscal years 2018 and 2019, the development of income before income taxes was primarily determined by the patterns as discussed for Adjusted EBITA (see "*9.7.3.13 Adjusted EBITA and Adjusted EBITA before Special Items*" below).

#### *9.7.3.11 Income tax (expenses) / gains*

In the fiscal year 2019, income tax expenses amounted to € 35 million, compared to income tax gains of € 493 million in the fiscal year 2018. The change was attributable to the development of current tax expenses, which increased from € 160 million in the fiscal year 2018 by € 309 million to € 469 million in the fiscal year 2019, and deferred tax benefits, which decreased from € 653 million in the fiscal year 2018 by € 220 million to € 433 million in the fiscal year 2019. In the fiscal year 2019, current tax expenses included expenses of € 44 million due to adjustments recognized for current tax expenses of prior years, while the fiscal year 2018 was influenced from the reassessment of tax positions in different tax jurisdictions, which led to a net benefit of € 325 million. Deferred tax net benefits in the fiscal year 2018 were primarily influenced by the revaluation of deferred taxes in an amount of € 264 million caused by the U.S. Tax Cuts and Jobs Act (see "*9.4.12 Taxation*") and the accompanying reduction of the corporate income tax on the federal level from 35% to 21%.

#### *9.7.3.12 Net income*

As a result of the factors discussed above, net income declined from € 645 million in the fiscal year 2018 by € 363 million, or 56.3%, to € 282 million in the fiscal year 2019.

#### *9.7.3.13 Adjusted EBITA and Adjusted EBITA before Special Items*

Adjusted EBITA of Siemens Energy increased from € 905 million in the fiscal year 2018 by € 159 million, or 17.6%, to € 1,064 million in the fiscal year 2019. The Gas and Power segment

reported an improved Adjusted EBITA despite declining sales. In total, negative impacts in the fiscal year 2018 resulting from capacity adjustments in connection with personnel restructuring were not recurring to the same extent in the fiscal year 2019. The Adjusted EBITA of the SGRE segment was largely at the prior year level, mainly as positive effects from productivity improvements were offset by price declines, a less favorable project mix and higher impact from restructuring and integration costs combined with costs related to strategic portfolio decisions. Reconciliation items remained largely stable in the fiscal year 2019 when compared with the fiscal year 2018. The Adjusted EBITA Margin of Siemens Energy Group was 3.7% in the fiscal year 2019, after 3.2% in the fiscal year 2018.

Special Items (see "9.4.10 Integration and Operational Improvement Measures; Special Items") at Siemens Energy in the fiscal year 2019 were € 453 million compared to € 551 million in the fiscal year 2018, leading to Adjusted EBITA before Special Items in the fiscal year 2019 of € 1,517 million compared to € 1,456 million in the fiscal year 2018. The respective Adjusted EBITA Margin before Special Items in the fiscal year 2019 was 5.3%, nearly unchanged to the prior fiscal year.

The following table shows the reconciliation of Siemens Energy's Adjusted EBITA (Group) to net income (loss) for the fiscal years 2019 and 2018:

	For the Fiscal Year ended September 30,	
	2019	2018
	(unaudited, unless otherwise indicated) (in € million)	
<b>Net income</b> .....	282*	645*
+/- Income tax (expenses) / gains .....	35*	(493)*
+ Financial result <sup>1)</sup> .....	280	219
- Financial result from operations <sup>2)</sup> .....	(31)	(10)
+ Amortization of intangible assets acquired in business combinations and goodwill impairments .....	499	545
<b>Adjusted EBITA (Siemens Energy)<sup>3)</sup></b> .....	<b>1,064</b>	<b>905</b>
thereof: Gas and Power <sup>3), 4)</sup> .....	589	440
Siemens Gamesa Renewable Energy .....	481	478
Reconciliation to Adjusted EBITA (Siemens Energy) .....	(5)	(13)
thereof: Real Estate Services <sup>5)</sup> .....	13	15
Eliminations, Treasury and other central items <sup>6)</sup> .....	(18)	(28)
+ Special Items .....	453	551
<b>Adjusted EBITA before Special Items (Siemens Energy)</b> .....	<b>1,517</b>	<b>1,456</b>
thereof: Gas and Power .....	836	815
Siemens Gamesa Renewable Energy .....	687	654
Reconciliation to Adjusted EBITA before Special Items (Siemens Energy) .....	(5)	(13)

\* Audited.

1) Financial result represents the sum of (i) interest income, (ii) interest expenses and (iii) other financial income (expenses), net, each as presented in the Combined Statements of Income of our Unaudited Condensed Combined Interim Financial Statements.

2) Financial result from operations as subpart of financial result, is included in Adjusted EBITA. Financial result from operations refers to interest income related to receivables from customers, from cash allocated to the segments and interest expenses on payables to suppliers.

3) Calculated using the definition of Adjusted EBITA as applied from April 1, 2020. Adjusted EBITA for Siemens Energy for the fiscal years 2019 and 2018 and 2017 as originally reported in the segment information of the Audited Combined Financial Statements amounted to € 1,025 million, € 864 million, respectively, Adjusted EBITA for the Gas and Power segment amounted to € 589 million and € 440 million, respectively, and Adjusted EBITA for the SGRE segment amounted to € 481 million and € 478 million, respectively. For more information, see "4.8.1 Definitions".

- 4) The following table shows the contributions of the divisions Transmission, Generation and Industrial Applications to Adjusted EBITA of the Gas and Power segment as well as the total of eliminations, Other Operations, including, among others, our New Energy Business, as well as central Gas and Power functions (Reconciliation to Gas and Power):

	For the Fiscal Year ended September 30,	
	2019	2018
	(unaudited) (in € million)	
Transmission .....	229	265
Generation .....	214	(98)
Industrial Applications .....	202	396
Reconciliation to Gas and Power .....	(56)	(123)

- 5) Real Estate Services manages the Gas and Power segment's real estate business portfolio, operates the properties and is responsible for building projects and the purchase and sale of real estate.
- 6) Comprises consolidation of transactions between the segments, treasury activities and certain reconciliation and reclassification.

*Gas and Power segment* – As Adjusted EBITA decreases in the Industrial Applications and the Transmission divisions were more than offset by an increase in the Generation division, Adjusted EBITA of the Gas and Power segment increased from € 440 million in the fiscal year 2018 by € 149 million, or 33.9%, to € 589 million in the fiscal year 2019. Negative effects from lower revenue and reduced capacity utilization were counterbalanced by a continuing strong contribution from the service business as well as positive effects from project execution and completion. Further, Adjusted EBITA benefited from lower severance charges totaling € 247 million in the fiscal year 2019, mainly related to the Transmission division and only to a lesser extent to the Generation division. In the fiscal year 2018, severance charges of € 375 million were related mainly to division Generation under the "PG 2020" program (see also "9.4.10 Integration and Operational Improvement Measures; Special Items"). In the fiscal year 2019, Adjusted EBITA benefited from the partial sale of an at-equity investment, which resulted in a gain of € 55 million, allocated to the Transmission division, almost compensated by a loss of € 54 million from the sale of a site for packaging and service of rotating equipment in Hengelo, Netherlands, of the Industrial Applications division. In the fiscal year 2018, in contrast, the Industrial Applications division benefited from gains totaling € 165 million from the disposal of two businesses (see "9.4.8.2 Disposal of the Single-stage and Wastewater Compressor and Small Steam Turbines Business" and "9.4.8.3 Disposal of Parts of the Government Business and U.S. Navy Service Centers").

In total, the Gas and Power segment's Adjusted EBITA Margin increased to 3.1% in the fiscal year 2019, compared to 2.3% in the fiscal year 2018.

Special Items in the Gas and Power segment in the fiscal year 2019 were € 247 million, compared to € 375 million in the fiscal year 2018, leading to Adjusted EBITA before Special Items in the fiscal year 2019 of € 836 million, compared to € 815 million in the fiscal year 2018. The respective Adjusted EBITA Margin before Special Items in the fiscal year 2019 was 4.5%, moderately increased from 4.3% in the fiscal year 2018.

*SGRE segment* – Adjusted EBITA of the SGRE segment remained nearly stable at € 481 million in the fiscal year 2019, up by € 3 million, or 0.6%, from € 478 million in the fiscal year 2018. Positive effects from productivity improvements that were partially related to the "L3AD2020" program (see "9.4.10 Integration and Operational Improvement Measures; Special Items") and higher revenue were offset by price declines, a less favorable project mix due to a higher volume of lower margin onshore projects and in total higher impacts from restructuring and integration costs of € 141 million together with costs related to strategic portfolio decisions of € 65 million in the fiscal year 2019 compared to only restructuring and integration costs of € 176 million in the fiscal year 2018. While severance charges, in particular related to capacity adjustments, decreased to € 32 million in the fiscal year 2019 from € 86 million in the fiscal year 2018, integration costs increased to € 109 million in the fiscal year 2019 from € 90 million in the fiscal

2018, primarily related to the acceleration of the product portfolio simplification. The Adjusted EBITA Margin for the fiscal year 2019 of 4.7% decreased clearly from 5.2% in the fiscal year 2018.

Special Items in the SGRE segment in the fiscal year 2019 were € 206 million compared to € 176 million in the fiscal year 2018, leading to Adjusted EBITA before Special Items in the fiscal year 2019 of € 687 million, compared to € 654 million in the fiscal year 2018. The respective Adjusted EBITA Margin before Special Items in the fiscal year 2019 was 6.7%, clearly decreased from 7.2% in the fiscal year 2018.

#### 9.7.4 Comparison of the Results of Operations for the Fiscal Years 2018 and 2017

The following table sets forth our Orders and Combined Statements of Income for the fiscal years 2018 and 2017:

	For the Fiscal Year ended September 30,		Change in % (unaudited)
	2018 (audited, unless otherwise indicated) (in € million)	2017	
<b>Orders</b>			
Orders .....	31,046	29,673	4.6
<b>Combined Statements of Income</b>			
Revenue .....	28,023	30,086	(6.9)
Cost of Sales .....	(23,876)	(24,832)	(3.8)
<b>Gross profit</b> .....	<b>4,147</b>	<b>5,254</b>	<b>(21.1)</b>
Research and development expenses .....	(1,069)	(1,111)	(3.8)
Selling and general administrative expenses .....	(2,739)	(2,631)	4.1
Other operating income (expenses), net (unaudited) .....	117	(88)	(233.0)
thereof: Other operating income .....	231	38	507.9
Other operating expenses .....	(114)	(126)	(9.5)
Income (loss) from investments accounting for using the equity method, net .....	(85)	65	(230.8)
Financial result (unaudited) .....	(219)	(181)	(21.0)
thereof: Interest income .....	109	111	(1.8)
Interest expenses .....	(324)	(298)	8.7
Other financial income (expenses), net .....	(4)	5	(180.0)
<b>Income before income taxes</b> .....	<b>151</b>	<b>1,309</b>	<b>(88.5)</b>
Income tax (expenses) / gains .....	493	(349)	(241.3)
<b>Net Income</b> .....	<b>645</b>	<b>960</b>	<b>(32.8)</b>

##### 9.7.4.1 Orders

Orders of Siemens Energy in the fiscal year 2018 of € 31,046 million were up by 1,373 million, or 4.6%, from € 29,673 million in the fiscal year 2017. A clear decrease of Orders in the Gas and Power segment was more than offset by a substantial order growth at SGRE. While Order growth in the SGRE segment largely benefited from the merger that led to the formation of SGRE S.A. in the fiscal year 2017 (see "9.4.8.1 Merger of Gamesa and Siemens Wind Power into SGRE and Acquisition of Iberdrola's 8.1% Shareholding in SGRE"), Orders of the Gas and Power segment showed a clear decrease mainly due to a substantially lower volume from large Orders in the solutions business of the Transmission division. Total Segments' Orders from service clearly increased in the fiscal year 2018 to € 11,776 million by € 722 million, or 6.5%, from € 11,054 million in the fiscal year 2017. This led to a service share of 37.8% of Total Segments' Orders in the fiscal year 2018, slightly above the level of 37.1% in the fiscal year 2017.

Total Order intake led to a Book-to-Bill Ratio in the fiscal year 2018 of 1.1 for Siemens Energy, and the Order Backlog at the end of the fiscal year 2018 amounted to € 71 billion.

The following table shows the reconciliation of Orders of the two segments to total Orders of Siemens Energy for the fiscal years 2018 and 2017:

Orders	For the Fiscal Year ended September 30,		Change (%)
	2018	2017	
	(audited) (in € million)	(unaudited)	(unaudited)
Gas and Power <sup>1)</sup> .....	19,283	21,029	(8.3)
Siemens Gamesa Renewable Energy .....	11,875	8,768	35.4
<b>Total Segments</b> .....	<b>31,157</b>	<b>29,796</b>	<b>4.6</b>
Reconciliation to Combined Financial Statements .....	(112)	(124)	—
<b>Siemens Energy</b> .....	<b>31,046</b>	<b>29,673</b>	<b>4.6</b>

1) The following table shows the contributions of the divisions Transmission, Generation and Industrial Applications to Orders of the Gas and Power segment as well as the total of eliminations of interdivision Orders and Orders of Other Operations including, among others, our New Energy Business, as well as Orders of central Gas and Power functions (Reconciliation to Gas and Power):

	For the Fiscal Year ended September 30,		Change (%)
	2018	2017	
	(unaudited) (in € million)	(unaudited)	(unaudited)
Transmission .....	5,030	7,012	(28.3)
Generation .....	8,848	8,455	4.6
Industrial Applications .....	5,994	5,897	1.6
Reconciliation to Gas and Power .....	(589)	(336)	—

*Gas and Power segment* – Orders of the Gas and Power segment decreased clearly from € 21,029 million in the fiscal year 2017 by € 1,746 million, or 8.3%, to € 19,283 million in the fiscal year 2018. This was mainly due to a substantially lower volume from large Orders in the solutions business of the Transmission division, resulting from delays of tenders for large projects by customers. The Gas and Power segment's service Orders moderately increased in the fiscal year 2018 to € 9,323 million by € 341 million, or 3.8%, from € 8,982 million in the fiscal year 2017, driven by the Generation division, which were related to the projects in Egypt. This led to a service Orders share of 48.3% of the segment's Orders in the fiscal year 2018, significantly above the level of 42.7% the fiscal year 2017.

Orders for the divisions Generation and Industrial Applications developed positively, with the major contribution from the Generation division's service business. Large Orders of both these divisions were up in the EMEA region, while Orders declined in the other two reporting regions, the Americas and Asia, Australia. In the fiscal year 2017, the Generation division had contracted several Orders for CCPPs in Thailand, Hong Kong and Pakistan. In contrast, the Transmission division showed a weak intake of large Orders in the EMEA region, where in the fiscal year 2017 it recorded an order totaling about € 0.8 billion for an offshore grid connection project in Germany, an Order totaling about € 0.6 billion for substations in Qatar and further three HVDC Orders in the EMEA region.

Based on such Order intake, Gas and Power reached a Book-to-Bill Ratio in the fiscal year 2018 of 1.0. The Order Backlog was € 48 billion as of September 30, 2018.

*SGRE segment* – Orders of the SGRE segment increased from € 8,768 million in the fiscal year 2017 by € 3,107 million, or 35.4%, to € 11,875 million in the fiscal year 2018. Orders benefited substantially from the merger in the fiscal year 2017 (see "9.4.8.1 Merger of Gamesa and Siemens



*Wind Power into SGRE and Acquisition of Iberdrola's 8.1% Shareholding in SGRE*). The recovery in the onshore market was the first lever driving growth in the SGRE segment's Order intake, benefitting from the reactivation of major wind markets such as Brazil, Spain, India and South Africa. In addition, the segment's strong competitive position, which was reinforced by the merger and the launch of the new product portfolio, played a significant role in Order growth. Service Orders increased in the fiscal year 2018 to € 2,453 million by € 381 million, or 18.4%, from € 2,072 million in the fiscal year 2017. This led to a service Orders share of 20.7% of the segment's total Orders, significantly below the level of 23.6% in the fiscal year 2017.

Orders in the fiscal year 2018 included a substantially higher volume from large Orders, among them an order for an offshore wind power plant, including service, in the United Kingdom worth about € 1.3 billion. Order growth in the Americas and Asia, Australia was driven by Orders from the United States and India, which continued to be the most important markets for the onshore business.

Based on such Order intake, the SGRE segment reached a Book-to-Bill Ratio in the fiscal year 2018 of 1.3. The Order Backlog was € 23 billion as of September 30, 2018.

The following table shows Orders of Siemens Energy by region (as measured by location of customers) in the fiscal years 2018 and 2017:

Orders by location of customers	For the Fiscal Year ended September 30,		Change (%) (unaudited)
	2018	2017	
	(unaudited) (in € million)	(unaudited) (in € million)	
EMEA .....	16,110	17,046	(5.5)
therein: Germany .....	1,397	4,343	(67.8)
Americas .....	9,208	7,920	16.3
therein: U.S. ....	5,218	4,727	10.4
Asia, Australia .....	5,728	4,707	21.7
therein: China and Taiwan .....	1,968	1,580	24.6
<b>Siemens Energy</b> .....	<b>31,046</b>	<b>29,673</b>	<b>4.6</b>

#### 9.7.4.2 Revenue

Revenue of Siemens Energy decreased from € 30,086 million in the fiscal year 2017 by € 2,063 million, or 6.9%, to € 28,023 million in the fiscal year 2018. The fiscal year 2017 represented an unusually high basis of comparison, as the fiscal year 2017 had included a major share of revenue from the execution of the project in Egypt (see "9.4.5.1 Project Business"). The share of revenue of this project more than halved in the fiscal year 2018. As a result, the Gas and Power segment posted a significant revenue decrease. This decrease was partly offset by significant revenue growth year-over-year in the SGRE segment, benefitting from the merger leading to the formation of SGRE S.A. in the fiscal year 2017. Total Segments' revenue from service in the fiscal year 2018 reached € 9,056 million and was with € 146 million, or 1.6%, slightly above € 8,910 million in the fiscal year 2017. This led to a service revenue share of 32.2% of Total Segments' total revenue, clearly above the level of 29.6% in the fiscal year 2017.

The following table shows the reconciliation of the total revenue of our segments Gas and Power and SGRE to revenue of Siemens Energy in the fiscal years 2018 and 2017:

Total revenue	For the Fiscal Year ended September 30,		Change (%) (unaudited)
	2018	2017	
	(audited) (in € million)	(unaudited) (in € million)	
Gas and Power <sup>1)</sup> .....	18,982	22,228	(14.6)
Siemens Gamesa Renewable Energy .....	9,122	7,922	15.1
<b>Total Segments</b> .....	<b>28,104</b>	<b>30,150</b>	<b>(6.8)</b>
Reconciliation to Combined Financial Statements .....	(82)	(64)	—
<b>Siemens Energy</b> .....	<b>28,023</b>	<b>30,086</b>	<b>(6.9)</b>

1) The following table shows the contributions of the divisions Transmission, Generation and Industrial Applications to total revenue of the Gas and Power segment as well as the total of eliminations of interdivision revenue and revenue of Other Operations, including, among others, our New Energy Business, as well as revenue of central Gas and Power functions (Reconciliation to Gas and Power):

	For the Fiscal Year ended September 30,		Change (%) (unaudited)
	2018	2017	
	(unaudited) (in € million)	(unaudited) (in € million)	
Transmission .....	5,870	6,107	(3.9)
Generation .....	8,472	10,940	(22.6)
Industrial Applications .....	5,163	5,567	(7.3)
Reconciliation to Gas and Power .....	(523)	(387)	—

**Gas and Power segment** – Total revenue of the Gas and Power segment fell from € 22,228 million in the fiscal year 2017 by € 3,246 million, or 14.6%, to € 18,982 million in the fiscal year 2018. In contracting gas and power markets caused by trends impacting the segment's markets (see "9.4.1.1 Trends Impacting the Gas and Power Segment"), the overall decrease was driven by the solutions business of the Generation division. The Generation division and, to a limited extent the Transmission division, had recorded significant revenue from the execution of large Orders related to the projects in Egypt in the fiscal year 2017 (see "9.4.5.1 Project Business"), which more than halved in the fiscal year 2018. The contribution of revenue from large Orders decreased generally driven by weaker Order intake in prior years, particularly in the fiscal year 2017, as the power generation market had declined significantly since the fiscal year 2016, leading to lower Orders and revenue in the following years. Moreover, the Transmission division's business was impacted by market cycles of turnkey substations. The Gas and Power segment's revenue from service slightly decreased in the fiscal year 2018 to € 7,629 million by € 147 million, or 1.9%, from € 7,776 million in the fiscal year 2017, mainly attributable by the Generation division's lower revenue contribution following lower Order intake in the fiscal year 2017. This led to a service revenue share of 40.2% of the segment's total revenue, significantly above the level of 35.0% in the fiscal year 2017.

**SGRE segment** – Total revenue of the SGRE segment increased from € 7,922 million in the fiscal year 2017 by € 1,200 million, or 15.1%, to € 9,122 million in the fiscal year 2018. Revenue growth in the fiscal year 2018 benefited significantly from the merger in the fiscal year 2017 that led to the formation of SGRE S.A. (see "9.4.8.1 Merger of Gamesa and Siemens Wind Power into SGRE and Acquisition of Iberdrola's 8.1% Shareholding in SGRE"). The reported increase of total revenue in the fiscal year 2018 was driven by strong growth in the onshore business, which offset a price decline. In addition, strong project execution in the offshore business, as well as higher revenue of value-added solutions from the service business, driven by growth of the fleet under maintenance, supported the revenue increase. On a geographical basis, growth was mainly

coming from the region Asia, Australia, in particular from India where the market in the prior year was impacted by the introduction of an auction system for wind power plant tenders (see "9.4.1.2 Trends Impacting the SGRE Segment"). Excluding effects from acquisitions and disposals, revenue would have decreased clearly year-over-year, negatively affected by currency translation effects, the project mix, a slower pace of onshore installations and a smaller offshore scope compared to the fiscal year 2017. Our SGRE segment's service revenue substantially increased in the fiscal year 2018 to € 1,427 million by € 293 million, or 25.8%, from € 1,134 million in the fiscal year 2017, including extraordinary effects from acquisitions and disposals. This led to a service revenue share of 15.6% of the segment's total revenue, clearly above the level of 14.3% in the fiscal year 2017.

The following table shows the revenue of Siemens Energy by region (as measured by location of customers) in the fiscal years 2018 and 2017:

Revenue by location of customers	For the fiscal year ended September 30,		Change (%) (unaudited)
	2018	2017	
	(audited, unless otherwise indicated) (in € million)		
EMEA . . . . .	14,881	16,471	(9.7)
therein: Germany . . . . .	2,479	2,597	(4.5)
Americas . . . . .	7,796	9,112	(14.4)
therein: U.S. . . . .	4,264	5,361	(20.5)
Asia, Australia . . . . .	5,346	4,503	18.7
therein: China and Taiwan (unaudited) . . . . .	1,676	1,648	1.7
<b>Siemens Energy . . . . .</b>	<b>28,023</b>	<b>30,086</b>	<b>(6.9)</b>

In the fiscal year 2018, revenue in the EMEA region amounted to € 14,881 million, corresponding to a share of 53.1% of total revenue of Siemens Energy. Revenue in this region was down from € 16,471 million in the fiscal year 2017 by € 1,590 million or 9.7%, as less revenue from the projects in Egypt could not be compensated by other projects. Substantial growth in the SGRE segment, mainly due to the merger that led to the formation of SGRE S.A. (see "9.4.8.1 Merger of Gamesa and Siemens Wind Power into SGRE and Acquisition of Iberdrola's 8.1% Shareholding in SGRE"), was more than offset by a decrease of revenues in the Gas and Power segment in the EMEA region.

The Americas contributed € 7,796 million, corresponding to a share of 27.8%, to revenue of Siemens Energy in the fiscal year 2018, down by € 1,316 million, or 14.4%, from € 9,112 million in the fiscal year 2017. Revenue development in this region followed the segment pattern of the EMEA region, as the decrease in the Gas and Power segment more than offset a substantial increase in the SGRE segment. The decline in the region was mainly related to significantly reduced revenue in the U.S.

Decreases in revenue in the EMEA region and the Americas were partly offset by increases of revenue in the Asia, Australia region, which amounted to € 5,346 million in the fiscal year 2018, corresponding to a share of 19.1% of revenue of Siemens Energy in the fiscal year 2018. While revenue in China and Taiwan was nearly level, compared to the prior fiscal year, total revenue in Asia, Australia increased from € 4,503 million in the fiscal year 2017 by € 843 million, or 18.7%. The revenue growth was primarily driven by the SGRE segment, in particular from India where the market in the prior year was impacted by the introduction of an auction system for wind power plant tenders. Revenue of the Gas and Power segment was down year-over-year in the Asia, Australia region.

#### 9.7.4.3 Cost of Sales

Cost of sales decreased from € 24,832 million in the fiscal year 2017 by € 956 million, or 3.8%, to € 23,876 million in the fiscal year 2018. In the fiscal year 2018, the Gas and Power segment posted a clear cost reduction on declining revenue. However, the cost reduction was held back by factors predominantly effective in the Generation division, including sharply higher severance charges and reduced capacity utilization, as well as impacts from project-related quality issues and negative effects related to project execution. The SGRE segment recorded significant higher cost of sales broadly in line with the revenue development in the fiscal year 2018. Savings, including synergies, from the transformation program within SGRE's "L3AD2020" strategy program (see "9.4.10 Integration and Operational Improvement Measures; Special Items") partly offset integration and restructuring costs. Cost of sales before amortization of intangible assets acquired in business combinations and goodwill impairments amounted to € 23,627 million (thereof € 15,695 million in the Gas and Power segment, € 8,007 million in the SGRE segment and € (75) million in Reconciliation) and € 24,521 million (thereof € 17,551 million in the Gas and Power segment, € 7,036 million in the SGRE segment and € (66) million in Reconciliation) in the fiscal years 2018 and 2017, respectively. Amortization of intangible assets acquired in business combinations and goodwill impairments included in cost of sales amounted to € 249 million (thereof Gas and Power segment: € 79 million; SGRE segment: € 169 million) and € 311 million (therein Gas and Power segment: € 218 million; SGRE segment € 93 million) in the fiscal years 2018 and 2017, respectively. Special Items within cost of sales amounted to € 399 million (thereof Gas and Power segment: € 290 million; SGRE segment: € 109 million) and € 28 million (thereof Gas and Power segment: € 28 million) in the fiscal years 2018 and 2017, respectively. Cost of sales before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items amounted to € 23,228 million (thereof Gas and Power segment: € 15,405 million; SGRE segment: € 7,898 million; Reconciliation € (75) million) and € 24,493 million (thereof Gas and Power segment: € 17,523 million; SGRE segment: € 7,036 million; Reconciliation € (66) million) in the fiscal years 2018 and 2017, respectively. This resulted in cost of sales before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items as a percentage of total revenue of 82.9% (81.2% in the Gas and Power segment and 86.6% in the SGRE segment) and 81.4% (78.8% in the Gas and Power segment and 88.8% in the SGRE segment) in the fiscal years 2018 and 2017, respectively.

#### 9.7.4.4 Gross profit

Gross profit fell from € 5,254 million in the fiscal year 2017 by € 1,107 million, or 21.1%, to € 4,147 million in the fiscal year 2018. This decrease was mainly driven by the Gas and Power segment and its Generation division with a substantial reduction of its gross profit on lower revenue and price declines combined with a less favorable cost position and due to sharply higher severance charges. The SGRE segment posted a significantly improved gross profit on increased revenue with a higher share from the service business, combined with an under-proportional increase in cost of sales. The gross profit margin (calculated as the ratio of gross profit to revenue) of Siemens Energy for the fiscal year 2018 of 14.8% decreased significantly, compared to 17.5% in the fiscal year 2017.

#### 9.7.4.5 Research and development expenses

Research and development expenses decreased from € 1,111 million in the fiscal year 2017 by € 42 million, or 3.8%, to € 1,069 million in the fiscal year 2018. Research and development expenses declined in both segments in the fiscal year 2018. While SGRE improved its cost position (in terms of revenues), in the Gas and Power segment, the cost reduction was held back by higher severance charges year-over-year, mainly caused by the Generation division. Research and development expenses before amortization of intangible assets acquired in business combinations and goodwill impairments amounted to € 1,062 million (thereof € 897 million in the Gas and Power segment, € 166 million in the SGRE segment and € (1) million in Reconciliation) and € 1,110 million (thereof € 921 million in the Gas and Power segment,

€ 189 million in the SGRE segment and € (0) million in Reconciliation) in the fiscal years 2018 and 2017, respectively. Amortization of intangible assets acquired in business combinations and goodwill impairments included in research and development expenses amounted to € 7 million (thereof Gas and Power segment: € 7 million) and € 1 million (thereof Gas and Power segment: € 1 million) in the fiscal years 2018 and 2017, respectively. Special Items within research and development expenses amounted to € 50 million (thereof Gas and Power segment: € 32 million; SGRE segment: € 18 million) and € 3 million (thereof Gas and Power segment: € 3 million) in the fiscal years 2018 and 2017, respectively. Research and development expenses before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items amounted to € 1,012 million (thereof Gas and Power segment: € 865 million; SGRE segment: € 148 million; Reconciliation € (1) million) and € 1,107 million (thereof Gas and Power segment: € 918 million; SGRE segment: € 189 million; Reconciliation € 0 million) in the fiscal years 2018 and 2017, respectively. This resulted in research and development expenses before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items as a percentage of total revenue of 3.6% (4.6% in the Gas and Power segment and 1.6% in the SGRE segment) and 3.7% (4.1% in the Gas and Power segment and 2.4% in the SGRE segment) in the fiscal years 2018 and 2017, respectively.

#### *9.7.4.6 Selling and general administrative expenses*

Selling and general administrative expenses increased from € 2,631 million in the fiscal year 2017 by € 108 million, or 4.1%, to € 2,739 million in the fiscal year 2018. The increase was mainly driven by additional expenses in relation to the Gas and Powers segment's measures to improve its competitiveness, as well as integration and restructuring measures in the SGRE segment. Selling and general administrative expenses before expenses before amortization of intangible assets acquired in business combinations and goodwill impairments amounted to € 2,449 million (thereof € 2,015 million in the Gas and Power segment, € 426 million in the SGRE segment and Reconciliation of € 8 million) and € 2,436 million (thereof € 2,086 million in the Gas and Power segment, € 343 million in the SGRE segment and Reconciliation of € 7 million) in the fiscal years 2018 and 2017, respectively. Amortization of intangible assets acquired in business combinations included in selling and general administrative expenses amounted to € 290 million (thereof Gas and Power: € 154 million; SGRE segment: € 136 million) and € 195 million (thereof Gas and Power segment: € 47 million, SGRE segment: € 148 million) in the fiscal years 2018 and 2017, respectively. Special items within selling and general administrative expenses amounted to € 96 million (thereof Gas and Power segment: € 53 million; SGRE segment: € 43 million) and € 34 million (thereof Gas and Power segment: € 12 million; SGRE segment: € 22 million) in the fiscal years 2018 and 2017, respectively. Selling and general administrative expenses before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items amounted to € 2,353 million (thereof Gas and Power segment: € 1,962 million; SGRE segment: € 383 million; Reconciliation € 8 million) and € 2,402 million (thereof € 2,074 million in the Gas and Power segment and € 321 million in the SGRE segment; Reconciliation € 7 million) in the fiscal years 2018 and 2017, respectively. This resulted in selling and general administrative expenses before amortization of intangible assets acquired in business combinations and goodwill impairments and Special Items as a percentage of total revenue of 8.4% (10.3% in the Gas and Power segment and 4.2% in the SGRE segment) and 8.0% (9.3% in the Gas and Power segment and 4.1% in the SGRE segment) in the fiscal years 2018 and 2017, respectively.

#### *9.7.4.7 Other operating income (expenses), net*

Other operating income (expenses), net increased from expenses of € 88 million in the fiscal year 2017 by € 205 million to income of € 117 million in the fiscal year 2018. Other operating income increased from € 38 million in the fiscal year 2017 by € 193 million to € 231 million in the fiscal year 2018. The increase was due to € 165 million gains related to the sale of businesses at the Gas and Power segment (see "9.4.8.2 Disposal of the Single-stage and Wastewater Compressor and Small Steam Turbines Business" and "9.4.8.3 Disposal of Parts of the Government Business and U.S. Navy Service Centers"), both allocated to the Industrial Applications division. Other



operating expenses decreased from € 126 million in the fiscal year 2017 by € 12 million, or 9.5%, to € 114 million in the fiscal year 2018.

#### *9.7.4.8 Income (loss) from investments accounted for using the equity method, net*

Income (loss) from investments accounted for using the equity method, net decreased from an income of € 65 million in the fiscal year 2017 by € 150 million to a loss of € 85 million in the fiscal year 2018. This swing was mainly due to an impairment loss of € 154 million related to an at-equity investment in a provider of rotating equipment services allocated to Other Operations in the Gas and Power segment. The impairment based on the continuing adverse market environment.

#### *9.7.4.9 Financial result*

Negative financial result increased from € 181 million in the fiscal year 2017 by € 38 million, or 21.0%, to € 219 million in the fiscal year 2018. Interest income slightly decreased from € 111 million in the fiscal year 2017 by € 2 million, or 1.8%, to € 109 million in the fiscal year 2018. Interest expenses increased from € 298 million in the fiscal year 2017 by € 26 million, or 8.7%, to € 324 million in the fiscal year 2018. This increase was primarily related to higher interest paid to banks and interest related expenses, mainly in the SGRE segment and primarily related to the merger that led to the formation of SGRE S.A. Other financial income (expenses), net decreased from income of € 5 million in the fiscal year 2017 by € 9 million to expenses of € 4 million in the fiscal year 2018.

#### *9.7.4.10 Income before income taxes*

Income before income taxes fell from € 1,309 million in the fiscal year 2017 by € 1,158 million to € 151 million in the fiscal year 2018. Since the total of financial result and depreciation and amortization remained broadly stable in the fiscal years 2017 and 2018, the development of income before income taxes is determined by the patterns as discussed for Adjusted EBITA (see "9.7.4.13 Adjusted EBITA and Adjusted EBITA before Special Items" below).

#### *9.7.4.11 Income tax (expenses) / gains*

In the fiscal year 2018, income tax gains of € 493 million were recognized while income tax expenses in the fiscal year 2017 amounted to € 349 million. The change was attributable to the development of current tax expenses, which decreased from € 536 million in the fiscal year 2017 by € 376 million to € 160 million in the fiscal year 2018, and deferred tax benefits, which increased from € 188 million in the fiscal year 2017 by € 465 million to € 653 million in the fiscal year 2018. The current tax expenses in the fiscal year 2018 were influenced from reassessment of tax positions in different tax jurisdictions in the fiscal year 2018, which led to a tax net benefit of € 325 million, compared to adjustments recognized for current taxes of prior years resulting in income tax expenses of € 39 million in the fiscal year 2017. The deferred tax net benefits in the fiscal year 2018 were primarily influenced by the revaluation of deferred taxes in an amount of € 264 million caused by the U.S. Tax Cuts and Jobs Act (see "9.4.12 Taxation") and the accompanying reduction of the corporate income tax on the federal level from 35% to 21%.

#### *9.7.4.12 Net income*

As a result of the factors discussed above, net income fell from € 960 million in the fiscal year 2017 by € 315 million, or 32.8%, to € 645 million in the fiscal year 2018.

#### *9.7.4.13 Adjusted EBITA and Adjusted EBITA before Special Items*

Adjusted EBITA of Siemens Energy sharply fell from € 2,028 million in the fiscal year 2017 by € 1,123 million to € 905 million in the fiscal year 2018. This drop was mainly attributable to the Gas and Power segment's decline in Adjusted EBITA, which primarily resulted from the decrease of gross profit and sharply increased severance charges across all functional costs, as well as a major impairment. This decrease was only partially offset by the increase of the SGRE segment's

Adjusted EBITA driven by higher revenues, a more favorable business mix and operational improvements during the fiscal year 2018 as well as lower asset write-downs. Reconciliation items remained largely stable in the fiscal year 2018 when compared with the fiscal year 2017. The Adjusted EBITA Margin of Siemens Energy for the fiscal year 2018 of 3.2% decreased sharply, compared to 6.7% in the fiscal year 2017.

Special Items (see "9.4.10 Integration and Operational Improvement Measures; Special Items") of Siemens Energy in the fiscal year 2018 were € 551 million compared to € 146 million in the fiscal year 2017, leading to Adjusted EBITA before Special Items in the fiscal year 2018 of € 1,456 million, compared to € 2,174 million in the fiscal year 2017. The respective Adjusted EBITA Margin before Special Items in the fiscal year 2018 was 5.2% and substantially decreased from 7.2% in the fiscal year 2017.

The following table shows the reconciliation of Siemens Energy's Adjusted EBITA (Group) to net income (loss) for the fiscal years 2018 and 2017:

	For the Fiscal Year ended September 30,	
	2018	2017
	(unaudited, unless otherwise indicated) (in € million)	
<b>Net income</b> .....	645*	960*
+/- Income tax (expenses) / gains .....	(493)*	349*
+ Financial result <sup>1)</sup> .....	219	181
- Financial result from operations <sup>2)</sup> .....	(10)	31
+ Amortization of intangible assets acquired in business combinations and goodwill impairments .....	545	507
<b>Adjusted EBITA (Siemens Energy)<sup>3)</sup></b> .....	<b>905</b>	<b>2,028</b>
thereof: Gas and Power <sup>3), 4)</sup> .....	440	1,703
Siemens Gamesa Renewable Energy .....	478	330
Reconciliation to Adjusted EBITA (Siemens Energy) .....	(13)	(5)
thereof: Real Estate Services <sup>5)</sup> .....	15	13
Eliminations, Treasury and other central items <sup>6)</sup> .....	(28)	(19)
+ Special Items .....	551	146
<b>Adjusted EBITA before Special Items (Siemens Energy)</b> .....	<b>1,456</b>	<b>2,174</b>
thereof: Gas and Power .....	815	1,746
Siemens Gamesa Renewable Energy .....	654	433
Reconciliation to Adjusted EBITA before Special Items (Siemens Energy) .....	(13)	(5)

\* Audited.

1) Financial result represents the sum of (i) interest income, (ii) interest expenses and (iii) other financial income (expenses), net, each as presented in the Combined Statements of Income of our Unaudited Condensed Combined Interim Financial Statements.

2) Financial result from operations as subpart of financial result, is included in Adjusted EBITA. Financial result from operations refers to interest income related to receivables from customers, from cash allocated to the segments and interest expenses on payables to suppliers.

3) Calculated using the definition of Adjusted EBITA as applied from April 1, 2020. Adjusted EBITA for Siemens Energy for the fiscal years 2018 and 2017 as originally reported in the segment information of the Audited Combined Financial Statements amounted to € 864 million and € 1,991 million, respectively, Adjusted EBITA for the Gas and Power segment amounted to € 440 million and € 1,703 million, respectively, and Adjusted EBITA for the SGRE segment amounted to € 478 million and € 330 million, respectively. For more information, see "4.8.1 Definitions".

- 4) The following table shows the contribution of the divisions Transmission, Generation and Industrial Applications to Adjusted EBITA of the Gas and Power segment as well as the total of eliminations, Other Operations, including, among others, our New Energy Business, as well as central Gas and Power functions (Reconciliation to Gas and Power):

	For the Fiscal Year ended September 30,	
	2018	2017
	(unaudited) (in € million)	
Transmission .....	265	247
Generation .....	(98)	1,012
Industrial Applications .....	396	431
Reconciliation to Gas and Power .....	(123)	13

- 5) Real Estate Services manage the Gas and Power segment's real estate business portfolio, operates the properties and is responsible for building projects and the purchase and sale of real estate.
- 6) Comprises consolidation of transactions between the segments, treasury activities and certain reconciliation and reclassification.

**Gas and Power segment** – Despite a continuing strong contribution from the services business, Adjusted EBITA of the Gas and Power segment sharply fell from € 1,703 million in the fiscal year 2017 by € 1,263 million, or 74.2%, to € 440 million in the fiscal year 2018. This was mainly due to the contribution of the Generation division and to a lesser extent of the Industrial Applications division, while the Transmission division posted an improvement. The drop in the Gas and Power segment's Adjusted EBITA was primarily due to reduced capacity utilization, lower revenue, price declines and negative effects from project-related quality issues, cost increases as well as contract penalties. Furthermore, the segment's Adjusted EBITA was impacted by the impairment of an at-equity investment in a provider of rotating equipment services of € 154 million allocated to Other Operations in the Gas and Power segment as well as restructuring costs related to measures to improve the segment's competitiveness. The segment's burdens from severance charges increased sharply from € 43 million in the fiscal year 2017 to € 375 million in the fiscal year 2018, and were predominantly related to the Generation division (see also "9.4.10 Integration and Operational Improvement Measures; Special Items"). These negative effects were partly offset by gains totaling € 165 million from the disposal of two businesses (see "9.4.8.2 Disposal of the Single-stage and Wastewater Compressor and Small Steam Turbines Business" and "9.4.8.3 Disposal of Parts of the Government Business and U.S. Navy Service Centers") of the Industrial Applications division. The Adjusted EBITA Margin of the Gas and Power segment for the fiscal year 2018 of 2.3% decreased sharply from 7.7% in the fiscal year 2017.

Special Items of the Gas and Power segment in the fiscal year 2018 were € 375 million, compared to € 43 million in the fiscal year 2017, leading to Adjusted EBITA before Special Items in the fiscal year 2018 of € 815 million, compared to € 1,746 million in the fiscal year 2017. The respective Adjusted EBITA Margin before Special Items of the Gas and Power segment in the fiscal year 2018 was 4.3%, sharply decreased from 7.9% in the fiscal year 2017.

**SGRE segment** – Adjusted EBITA of the SGRE segment increased from € 330 million in the fiscal year 2017 by € 148 million, or 44.8%, to € 478 million in the fiscal year 2018, was primarily driven by the revenue increase, a higher services revenue, and operational improvements. These factors were partially offset by price declines, especially in the onshore markets. In the prior year, Adjusted EBITA was burdened by expenses totaling € 134 million primarily from inventory write-downs. Both years were impacted by significant restructuring and integration costs totaling € 176 million and € 103 million in the fiscal year 2018 and the fiscal year 2017, respectively, and mainly related to post-merger integration after the formation of SGRE S.A. (see "9.4.8.1 Merger of Gamesa and Siemens Wind Power into SGRE and Acquisition of Iberdrola's 8.1% Shareholding in SGRE" and also "9.4.10 Integration and Operational Improvement Measures; Special Items"). Restructuring and integration costs in the fiscal years 2017 and 2018 were targeted at bringing forward synergy delivery with a focus on reduction of employment positions and product

portfolio adaptations. The SGRE segment's Adjusted EBITA Margin for the fiscal year 2018 of 5.2% increased substantially from 4.2% in the fiscal year 2017.

Special Items of the SGRE segment in the fiscal year 2018 were € 176 million, compared to € 103 million in the fiscal year 2017, leading to Adjusted EBITA before Special Items of the SGRE segment in the fiscal year 2018 of € 654 million, compared to € 433 million in the fiscal year 2017. The respective Adjusted EBITA Margin before Special Items of the SGRE segment in the fiscal year 2018 was 7.2%, substantially increased from 5.5% in the fiscal year 2017.

## 9.8 Financial Position

### 9.8.1 Overview

The following section presents Siemens Energy Group's financial position in the periods presented. The following table sets forth the Combined Statements of Financial Position of Siemens Energy Group as of September 30, 2019, 2018 and 2017 and as of June 30, 2020:

Combined Statements of Financial Position	As of September 30,			As of June 30,
	2019	2018	2017	2020
	(audited) (in € million)			(unaudited) (in € million)
<b>Assets</b>				
Cash and cash equivalents	1,871	2,544	1,850	2,352
Trade receivables <sup>1)</sup>	5,097	5,405	4,679	4,205
Other current financial assets	730	454	588	529
Contract assets	5,230	4,593	4,293	4,805
Receivables from Siemens Group	3,402	5,138	6,324	3,894
Inventories	7,148	6,607	7,350	7,250
Current income tax assets	329	431	462	432
Other current assets	1,093	833	776	1,023
Assets classified as held for disposal	16	—	147	—
<b>Total current assets</b>	<b>24,917</b>	<b>26,006</b>	<b>26,470</b>	<b>24,491</b>
Goodwill	9,815	9,462	9,541	9,593
Other intangible assets	4,743	4,967	5,449	4,016
Property, plant and equipment	3,275	3,085	3,178	4,790
Investments accounted for using the equity method	818	784	933	762
Other financial assets	437	427	523	502
Other receivables from Siemens Group	3	3	0	—
Deferred tax assets	742	686	833	1,052
Other assets	291	342	365	217
<b>Total non-current assets</b>	<b>20,124</b>	<b>19,757</b>	<b>20,821</b>	<b>20,933</b>
<b>Total assets</b>	<b>45,041</b>	<b>45,763</b>	<b>47,290</b>	<b>45,424</b>

1) Referred to as trade and other receivables in the Unaudited Condensed Combined Interim Financial Statements.

Combined Statements of Financial Position	As of September 30,			As of June 30,
	2019	2018	2017	2020
	(audited) (in € million)			(unaudited) (in € million)
<b>Liabilities and equity</b>				
Short-term debt and current maturities of long-term debt	359	1,000	819	787
Trade payables	4,698	4,303	4,175	4,595
Other current financial liabilities	614	375	287	483
Payables to Siemens Group	2,960	3,958	2,624	979
Contract liabilities	9,337	8,077	8,351	10,417
Current provisions	1,872	2,089	2,246	1,678
Current income tax liabilities	372	373	583	489
Other current liabilities	3,267	3,244	3,085	3,004
Liabilities associated with assets classified held for disposal	8	—	50	—
<b>Total current liabilities</b>	<b>23,487</b>	<b>23,418</b>	<b>22,221</b>	<b>22,432</b>
Long-term debt	547	877	505	1,690
Provisions for pensions and similar obligations	1,960	1,622	1,692	1,095
Deferred tax liabilities	1,102	1,195	1,904	586
Provisions	2,072	2,400	2,664	2,158
Other financial liabilities	447	359	418	543
Other liabilities	729	615	612	669
Other liabilities to Siemens Group	1,608	4,576	5,957	—
<b>Total non-current liabilities</b>	<b>8,465</b>	<b>11,644</b>	<b>13,752</b>	<b>6,741</b>
<b>Total liabilities</b>	<b>31,952</b>	<b>35,062</b>	<b>35,973</b>	<b>29,173</b>
<b>Total equity</b>	<b>13,089</b>	<b>10,701</b>	<b>11,318</b>	<b>16,250</b>
<b>Total liabilities and equity</b>	<b>45,041</b>	<b>45,763</b>	<b>47,290</b>	<b>45,424</b>

## 9.8.2 Assets

### 9.8.2.1 Comparison as of June 30, 2020 and September 30, 2019

Siemens Energy applied IFRS 16 for the first time from October 1, 2019. First time application affected the assets of Siemens Energy as set out under "9.5 Key Factors Affecting Comparability" above. Since Siemens Energy applied the "modified retrospective approach", there is limited comparability of the assets as of September 30, 2019 and June 30, 2020.

Total assets increased from € 45,041 million as of September 30, 2019 by € 383 million, or 0.9%, to € 45,424 million as of June 30, 2020. This development was mainly due to financing-related topics and the first-time adoption of IFRS 16 as Carve-Out-related activities resulted in increased financing-related balances with Siemens Group and the application of IFRS 16 led to the initial recognition of right-of-use assets. These increases were partly offset by decreases due to changes in the operating net working capital and certain individual topics.

Total current assets of € 24,917 million as of September 30, 2019 remained broadly unchanged at € 24,491 million as of June 30, 2020. Receivables from Siemens Group, mostly comprising financing related balances, rose from € 3,402 million as of September 30, 2019 by € 492 million, or 14.5%, to € 3,894 million as of June 30, 2020, mainly related to Carve-Out-related activities during the first nine months of the fiscal year 2020 (see "9.9.6.1 Financial Liabilities"). Cash and cash equivalents, mostly comprising cash and cash equivalents from the SGRE segment, increased from € 1,871 million as of September 30, 2019 by € 481 million, or 25.7%, to € 2,352 million as of June 30, 2020. These increases were largely offset by a decrease in components of operating net working capital (for a discussion, see "9.9.3 Operating Net Working Capital" below).

Total non-current assets increased from € 20,124 million as of September 30, 2019 by € 809 million, or 4.0%, to € 20,933 million as of June 30, 2020. This change primarily resulted



from an increase in property, plant and equipment from € 3,275 million as of September 30, 2019 by € 1,515 million, or 46.3%, to € 4,790 million as of June 30, 2020, mainly as a result of the initial recognition of right-of-use assets with regard to the adoption of IFRS 16, the transfer of real estate assets previously leased from Siemens Real Estate to Siemens Energy and other Carve-Out-related asset transfers, and to a minor extent related to the acquisition of the European service business of Servion in the SGRE segment (see “9.4.8.4 Acquisition of Servion Group Assets”), less regular depreciations. In addition, deferred tax assets increased from € 742 million as of September 30, 2019 by € 310 million, or 41.8%, to € 1,052 million as of June 30, 2020, due to Carve-out-related tax benefits, e.g., the early termination and repayment of the last outstanding loan of the Dresser-Rand Loans, and tax loss carryforwards. These increases were partly offset by decreases in goodwill and other intangible assets from together € 14,558 million as of September 30, 2019 by € 949 million, or 6.5%, to € 13,609 million as of June 30, 2020. The decrease of goodwill was mainly due to currency translation differences, partly offset by goodwill resulting from the acquisition of the European service business of Servion and Carve-Out-related asset transfers. Other intangible assets declined as a result of regular amortizations and impairments of intellectual property rights in relation to intangible assets acquired in business combinations in the Gas and Power segment in an amount of € 476 million, less additions with regard to internally generated technology as well as customer relationships and the Order Backlog related to the acquisition of the European service business of Servion, both in the SGRE segment (see “9.4.8.4 Acquisition of Servion Group Assets”).

#### 9.8.2.2 Comparison as of September 30, 2019 and September 30, 2018

Total assets decreased from € 45,763 million as of September 30, 2018 by € 722 million, or 1.6%, to € 45,041 million as of September 30, 2019. The main drivers for this development were financing related topics and the change in operating net working capital. Reduced financing related balances with Siemens Group, and the SGRE segment optimizing its cash position led to a decrease in total assets, while an overall increase of assets within operating net working capital partly offset this reduction.

Total current assets decreased from € 26,006 million as of September 30, 2018 by € 1,089 million, or 4.2%, to € 24,917 million as of September 30, 2019. This decrease resulted, among others, from a decrease in cash and cash equivalents, mostly comprising cash and cash equivalents from the SGRE segment, from € 2,544 million as of September 30, 2018 by € 673 million, or 26.5%, to € 1,871 million as of September 30, 2019, which was largely driven by a reduction in the use of its credit lines to optimize available cash as reflected in the reduction of short-term debt and current maturities of long-term debt and long-term debt (as described under “9.8.3.2 Comparison as of September 30, 2019 and September 30, 2018” below). Receivables from Siemens Group, mostly comprising financing related balances, fell from € 5,138 million as of September 30, 2018 by € 1,736 million, or 33.8%, to € 3,402 million as of September 30, 2019, partially related to the partial early termination and repayment of Dresser-Rand Loans. These decreases were partially offset by increases in components of operating net working capital (for a discussion, see “9.9.3 Operating Net Working Capital” below). Other current financial assets increased from € 454 million as of September 30, 2018 by € 276 million, or 60.8%, to € 730 million as of September 30, 2019, mostly driven by changes in fair value of embedded and currency derivatives. Other current assets increased from € 833 million as of September 30, 2018 by € 260 million, or 31.2%, to € 1,093 million as of September 30, 2019, mainly driven by an increase in sales tax receivables.

Total non-current assets increased from € 19,757 million as of September 30, 2018 by € 367 million, or 1.9%, to € 20,124 million as of September 30, 2019. This change primarily resulted from an increase in goodwill from € 9,462 million as of September 30, 2018 by € 353 million or 3.7%, to € 9,815 million as of September 30, 2019, mostly due to currency translation differences. In addition, property, plant and equipment increased from € 3,085 million as of September 30, 2018 by € 190 million, or 6.2%, to € 3,275 million as of September 30, 2019. This increase largely resulted from transfers of assets as part of the carve-out of the Siemens Energy business in the U.S. These increases were partially offset by a decrease in

other intangible assets from € 4,967 million as of September 30, 2018 by € 224 million, or 4.5%, to € 4,743 million as of September 30, 2019, primarily due to regular amortizations of assets, the effect of which were less pronounced when compared to the fiscal year 2018 due to advantageous translation differences.

#### **9.8.2.3 Comparison as of September 30, 2018 and September 30, 2017**

Total assets decreased from € 47,290 million as of September 30, 2017 by € 1,527 million, or 3.2%, to € 45,763 million as of September 30, 2018. The decline in total assets was mainly due to a reduced level of financing related balances with Siemens Group and the regular ongoing business, including amortization of other intangible assets and the impairment of an at-equity investment.

Total current assets decreased from € 26,470 million as of September 30, 2017 by € 464 million, or 1.8%, to € 26,006 million as of September 30, 2018. That mainly resulted from a decrease in receivables from Siemens Group, mostly comprising financing related balances, which fell from € 6,324 million as of September 30, 2017 by € 1,186 million, or 18.8%, to € 5,138 million as of September 30, 2018. This decrease was partially offset by increases in components of operating net working capital (for a discussion, see "9.9.3 Operating Net Working Capital" below) and an increase in cash and cash equivalents from € 1,850 million as of September 30, 2017 by € 694 million, or 37.5%, to € 2,544 million as of September 30, 2018, comprising mostly cash and cash equivalents from the SGRE segment, which was largely driven by SGRE drawing from a new multi-currency revolving credit facility as reflected in the increase in short-term debt and current maturities of long-term debt and long-term debt (as described under "9.8.3.3 Comparison as of September 30, 2018 and September 30, 2017" below).

Total non-current assets decreased from € 20,821 million as of September 30, 2017 by € 1,064 million, or 5.1%, to € 19,757 million as of September 30, 2018. That was mainly due to a decrease in other intangible assets, which decreased from € 5,449 million as of September 30, 2017 by € 482 million, or 8.8% to € 4,967 million September 30, 2018 due to regular amortization charges and a decrease in investments accounted for using the equity method from € 933 million as of September 30, 2017, by € 149 million, or 16.0%, to € 784 million as of September 30, 2018, mainly related to an impairment loss of € 154 million with regard to an at-equity investment in a provider of rotating services allocated to Other Operations in the Gas and Power segment.

### **9.8.3 Liabilities**

#### **9.8.3.1 Comparison as of June 30, 2020 and September 30, 2019**

Siemens Energy applied IFRS 16 for the first time from October 1, 2019. First time application affected the liabilities of Siemens Energy as set out under "9.5 Key Factors Affecting Comparability" above. Since Siemens Energy applied the "modified retrospective approach", there is limited comparability of the liabilities as of September 30, 2019 and June 30, 2020.

Total liabilities decreased from € 31,952 million as of September 30, 2019 by € 2,779 million, or 8.7%, to € 29,173 million as of June 30, 2020. Therein reflected are to a wide extent the same reasons as for the development of total assets, in particular regarding Carve-Out-related activities (see "9.9.6.1 Financial Liabilities") and the first-time adoption of IFRS 16, which led to the initial recognition of lease liabilities within short- and long-term debt. Carve-Out related activities lead to a reduction in financing related balances with Siemens Group and a decline in pension liabilities, partly offset by the effects of IFRS 16 and changes in the operating net working capital.

Total current liabilities decreased from € 23,487 million as of September 30, 2019 by € 1,055 million, or 4.5%, to € 22,432 million as of June 30, 2020. Short-term debt and current maturities of long-term debt increased from € 359 million as of September 30, 2019 by € 428 million, or 119.2%, to € 787 million as of June 30, 2020 primarily due to recognized lease liabilities with regard to the adoption of IFRS 16 and an increase mainly in the SGRE segment

which is related to increased cash and cash equivalents of the SGRE segment (see *"9.8.2.1 Comparison as of June 30, 2020 and September 30, 2019"*). Furthermore, increases in components of operating net working capital (for a discussion, see *"9.9.3 Operating Net Working Capital"* below) resulted in an increase of total current liabilities. These increases were more than offset by the diminishing effects related to payables to Siemens Group, mostly comprising financing related balances, which decreased from € 2,960 million as of September 30, 2019 by € 1,981 million, or 66.9%, to € 979 million as of June 30, 2020, and reduced other current liabilities, which decreased from € 3,267 million as of September 30, 2019 by € 263 million, or 8.1%, to € 3,004 million as of June 30, 2020, mainly due to declined liabilities to personnel and sales tax liabilities.

Total non-current liabilities decreased from € 8,465 million as of September 30, 2019 by € 1,724 million, or 20.4%, to € 6,741 million as of June 30, 2020. This was mainly due to a decrease in other liabilities to Siemens Group, mostly comprising financing related balances, from € 1,608 million as of September 30, 2019 to zero as of June 30, 2020. The decrease was due to the early termination and repayment of the last outstanding loan of the Dresser-Rand Loans (see *"9.9.6.1 Financial Liabilities"*). Provisions for pensions and similar obligations decreased from € 1,960 million as of September 30, 2019 by € 865 million, or 44.1%, to € 1,095 million as of June 30, 2020 mainly due a funding of the pension obligations of German Group companies by approximately € 915 million (see *"9.9.6.2 Pensions and Similar Obligations"*). In addition, deferred tax liabilities decreased from € 1,102 million as of September 30, 2019 by € 516 million, or 46.8%, to € 586 million as of June 30, 2020, due to, amongst others, impairments of intellectual property rights not recognized for tax purposes. These decreases were partially offset by an increase in long-term debt which increased from € 547 million as of September 30, 2019 by € 1,143 million to € 1,690 million as of June 30, 2020, primarily due to recognized lease liabilities with regard to the adoption of IFRS 16 and an increase mainly in the SGRE segment, which is related to increased cash and cash equivalents of the SGRE segment (see *"9.8.2.1 Comparison as of June 30, 2020 and September 30, 2019"*).

#### 9.8.3.2 Comparison as of September 30, 2019 and September 30, 2018

Total liabilities decreased from € 35,062 million as of September 30, 2018 by € 3,110 million, or 8.9%, to € 31,952 million as of September 30, 2019. The change in total liabilities mirrored the development of total assets regarding financing related topics and operating net working capital mentioned above. This was reflected in a decrease in the SGRE segment's debt and reduced financing related balances with Siemens Group, partly offset by increased liabilities within the operating net working capital.

Total current liabilities slightly increased from € 23,418 million as of September 30, 2018 by € 69 million, or 0.3%, to € 23,487 million as of September 30, 2019. Short-term debt and current maturities of long-term debt, which mostly relate to the SGRE segment, decreased from € 1,000 million as of September 30, 2018 by € 641 million, or 64.1%, to € 359 million as of September 30, 2019, as SGRE reduced its use of its credit lines to optimize available cash, as reflected in the reduction of cash and cash equivalents (as described under *"9.8.2.2 Comparison as of September 30, 2019 and September 30, 2018"* above). Payables to Siemens Group, mostly comprising financing related balances, decreased from € 3,958 million as of September 30, 2018 by € 998 million, or 25.2%, to € 2,960 million as of September 30, 2019. These decreases were more than offset by increases in components of operating net working capital (for a discussion, see *"9.9.3 Operating Net Working Capital"* below).

Total non-current liabilities decreased from € 11,644 million as of September 30, 2018 by € 3,179 million, or 27.3%, to € 8,465 million as of September 30, 2019. This was mainly due to a decrease in other liabilities to Siemens Group, mostly comprising financing related balances, from € 4,576 million as of September 30, 2018, by € 2,968 million, or 64.9%, to € 1,608 million as of September 30, 2019. This decrease was mainly driven by the partial early termination and repayment of Dresser-Rand Loans. Long-term debt, which mainly relates to the SGRE segment, decreased from € 877 million as of September 30, 2018 by € 330 million, or 37.6%, to

€ 547 million as of September 30, 2019 as SGRE reduced the use of its credit lines, as also reflected in the reduction of cash and cash equivalents (as described under “9.8.2.2 Comparison as of September 30, 2019 and September 30, 2018” above). Provisions decreased from € 2,400 million as of September 30, 2018 by € 328 million, or 13.7%, to € 2,072 million as of September 30, 2019, mostly driven by provisions for order-related losses and risks. These decreases were partially offset by the increase in provisions for pensions and similar obligations, which increased from € 1,622 million as of September 30, 2018 by € 338 million, or 20.8%, to € 1,960 million as of September 30, 2019 due to a lower discount rate partially offset by positive returns on plan assets.

#### 9.8.3.3 Comparison as of September 30, 2018 and September 30, 2017

Total liabilities decreased from € 35,973 million as of September 30, 2017 by € 911 million, or 2.5%, to € 35,062 million as of September 30, 2018. The change in total liabilities reflects regular ongoing business, including a decrease of deferred tax liabilities as well as reduced provisions, mainly in the SGRE segment.

Total current liabilities increased from € 22,221 million as of September 30, 2017 by € 1,197 million, or 5.4%, to € 23,418 million as of September 30, 2018. This increase mainly resulted from an increase in payables to Siemens Group, mostly comprising financing related balances, which increased from € 2,624 million as of September 30, 2017 by € 1,334 million, or 50.8%, to € 3,958 million as of September 30, 2018. This increase was offset to a lower extent by a decrease in components of operating net working capital (for a discussion, see “9.9.3 Operating Net Working Capital” below). Short-term debt and current maturities of long-term debt, which primarily relate to the SGRE segment, increased from € 819 million as of September 30, 2017 by € 181 million, or 22.1%, to € 1,000 million as of September 30, 2018 as SGRE drew loans under a new multi-currency revolving credit facility (see also “9.9.1.2 Financing Structure of the SGRE Segment”).

Total non-current liabilities decreased from € 13,752 million as of September 30, 2017 by € 2,108 million, or 15.3%, to € 11,644 million as of September 30, 2018. This was mainly due to a decrease in other liabilities to Siemens Group, mostly comprising financing-related balances, from € 5,957 million as of September 30, 2017, by € 1,381 million, or 23.2%, to € 4,576 million as of September 30, 2018, primarily related to the partial early termination and repayment of the Dresser-Rand Loans. Deferred tax liabilities decreased from € 1,904 million as of September 30, 2017 by € 709 million, or 37.2%, to € 1,195 million as of September 30, 2018, mainly driven by the revaluation of deferred tax liabilities caused by the U.S. Tax Cuts and Jobs Act (see also “9.4.12 Taxation”). These decreases were partly offset by increased long-term debt, which mainly relate to the SGRE segment, from € 505 million as of September 30, 2017 by € 372 million, or 73.7%, to € 877 million as of September 30, 2018, as SGRE drew loans under a new multi-currency revolving credit facility (see also “9.9.1.2 Financing Structure of the SGRE Segment”). Provisions decreased from € 2,664 million as of September 30, 2017 by € 264 million, or 9.9%, to € 2,400 million as of September 30, 2018, mainly related to the SGRE segment and in particular with regard to reduced provisions for warranties and order-related losses and risks.

#### 9.8.4 Equity

Total equity increased from € 13,089 million as of September 30, 2019 by € 3,161 million, or 24.2%, to € 16,250 million as of June 30, 2020. The decrease in the earnings development, reflected by total comprehensive loss of € 2,135 million in the nine-month period ended June 30, 2020, was more than offset by increases which were mainly due to effects from applying the combination rules described in Note 1 to the Unaudited Condensed Combined Interim Financial Statements. These effects resulted in a net increase of total equity of € 5,521 million and were mainly related to transactions in the course of the formation of the Group, in particular (i) the funding of the pension obligations of the German Group entities (see “9.9.6.2 Pensions and Similar Obligations”), (ii) Carve-Out-related asset transfers and (iii) transactions for the purpose of achieving the envisaged capital structure and liquidity position of Siemens Energy.



Total equity increased from € 10,701 million as of September 30, 2018 by € 2,388 million, or 22.3%, to € 13,089 million as of September 30, 2019. Besides the earnings development, reflected by total comprehensive income of € 479 million in the fiscal year 2019, the increase was mainly due to effects from applying the combination rules described in Note 1 to the Audited Combined Financial Statements. These effects resulted in a net increase of total equity of € 2,201 million (as presented in the line item Other changes in the Combined Statements of Changes in Invested Equity for the fiscal year ended September 30, 2019). Those mainly relate to considerations given in the course of the formation of the Group, in particular for the partial early termination and repayment of Dresser-Rand Loans.

Total equity decreased from € 11,318 million as of September 30, 2017 by € 617 million, or 5.5%, to € 10,701 million as of September 30, 2018. The decrease results from dividends and profit and loss transfers with owners of € 415 million, as well as effects from applying the combination rules described in Note 1 to the Audited Combined Financial Statements, resulting in an equity reduction of € 228 million, mainly in conjunction with taxes incurred by Siemens Group related to Siemens Energy operations, and changes in the conversion of receivables and payables to cash related to Siemens Energy operations.

## 9.9 Liquidity and Capital Resources

### 9.9.1 Overview

The following section presents Siemens Energy Group's liquidity situation and capital resources in the periods presented by segment. For information regarding financial liabilities and Net Debt of Siemens Energy, see "9.9.6.1 Financial Liabilities".

#### 9.9.1.1 Financing Structure of the Gas and Power Segment

##### 9.9.1.1.1 Financing Structure Prior to the Spin-Off

The Gas and Power segment has historically financed its capital expenditures and working capital requirements through a combination of cash flows from operating activities and intercompany financing from Siemens Group. Until Spin-Off Completion, it will continue to participate in Siemens Group's intercompany funding program, which includes certain intercompany loans and deposits, cash management and cash pooling arrangements as well as indirect financing via local banks backed by global letters of support issued by Siemens. The cash management system provides, among others, a Siemens Group-wide system for clearing and settlement of payables and receivables between Siemens Energy Group and Siemens Group. In addition, such cash management system is, for example, used for the Group's payment and receipt of funds to and from external parties.

Siemens Energy's payables to the Siemens Group from financing activities slightly decreased from € 8,519 million as of September 30, 2017 by € 25 million, or 0.3%, to € 8,494 million as of September 30, 2018 and decreased by € 3,959 million to € 4,535 million as of September 30, 2019. The decrease as of September 30, 2019 compared to September 30, 2018 was mainly attributable to the partial early termination and repayment of Dresser-Rand Loans. The remaining outstanding loan in an amount of € 1,571 million was terminated in February 2020 and has been repaid without impact on the Combined Statements of Income. With this and associated with certain capitalization measures during the nine-month period ended June 30, 2020 (see "9.9.6.1 Financial Liabilities"), payables to Siemens Group from financing activities to the Siemens Group further decreased as of June 30, 2020 to € 862 million.

Siemens Energy also had short-term receivables from Siemens Group amounting to € 322 million as of September 30, 2019 (September 30, 2018: € 2,220 million; September 30, 2017: € 2,678 million). The decrease in the fiscal year 2019 related mainly to the partial early termination and repayment of Dresser-Rand Loans. In February 2020, the last outstanding loan of the Dresser-Rand Loans was terminated early and repaid in an amount of € 1,571 million.



#### 9.9.1.1.2 Financing Structure Following to the Spin-Off

In connection with the Spin-Off, the previous intercompany financing program of Siemens Group will be replaced by a similar intercompany financing program operated by Siemens Energy that will provide cash management and pooling arrangements, clearing and settlement of intra-group and external payables and receivables, financing and liquidity investment opportunities to participating Siemens Energy Group companies (excluding SGRE). In July 2020, SE Global GmbH & Co. KG and Siemens Energy Finance B.V. as initial borrowers and a syndicate of international banks as lenders have concluded a facility agreement including a € 3.0 billion revolving credit facility to be used for general corporate purposes. The facility may be drawn in different currencies, including euro, British Pound or U.S. dollar. The facility agreement has an initial term of three years, with two extension options for one year each, which are however at the discretion of the lenders. Siemens Energy AG is required to accede to the facility agreement shortly after Spin-Off Completion. As of the date of this Prospectus, no amounts have been drawn under the facility agreement. For further information on the facility agreement, see "*12.9.1 Siemens Energy Facility Agreement*".

For an overview of Siemens Energy's financial liabilities as of June 30, 2020, see "*9.9.6.1 Financial Liabilities*".

#### 9.9.1.2 Financing Structure of the SGRE Segment

The SGRE segment did not participate in Siemens Group's intercompany funding program mentioned above, especially with regard to cash pooling arrangements. The SGRE segment is financed at the level of SGRE. The short-term debt and current maturities of long-term debt as well as long-term debt as presented in the Combined Statements of Financial Position as of September 30, 2019 and September 30, 2018 mainly relate to a multi-currency revolving credit facility and a loan signed as of May 30, 2018 by SGRE, amounting both to a total of € 2,500 million, which replaced a € 750 million credit facility from 2017. The facility was renegotiated in December 2019 with extended maturity dates and includes a term loan tranche of € 500 million maturing in 2022 (previously maturing in 2021) and a revolving credit line tranche of € 2,000 million maturing in 2024 (previously maturing in 2023) with two one-year extension options. As of June 30, 2020, € 500 million (September 30, 2019: € 500 million; September 30, 2018: € 700 million) have been drawn. The facility may be used for general corporate purposes and to refinance outstanding debt.

In January 2020, SGRE signed two new loans amounting to € 240 million, both with maturity in 2023. Additionally, in May 2020, two new bilateral short-term credit lines amounting to € 125 million were signed, which will mature in 2021.

In March and May 2019, SGRE signed new bilateral credit lines amounting to € 512 million, of which € 412 million mature in 2020 and € 100 million are extendable by tacit agreement until 2022, accruing an average interest rate of 0.33%. During the nine-month period ended June 30, 2020, the € 412 million credit lines were extended until 2021. As of June 30, 2020, SGRE has not drawn any amount related to these credit lines. In July 2020, SGRE increased a bilateral credit line included in the € 512 million from € 100 million to € 150 million.

As of September 30, 2019, SGRE has bilateral credit lines in India with annual maturities for an amount of € 304 million. As of June 30, 2020, these credit lines amounted to € 414 million, of which € 386 million were drawn.

As of September 30, 2019, SGRE units had been granted loans and had drawn from credit facilities that accounted for 23% of the total financing granted to them maturing between 2019 and 2029 (September 30, 2018: 46% granted; maturing between 2018 and 2026, September 30, 2017: 48% granted; maturing between 2017 and 2026).

As of September 30, 2017, SGRE was using loan agreements amounting to € 424 million with certain obligations as the compliance with financial ratios throughout the life of the agreement relating to the capacity to generate resources in the operations, to the debt level and financial duties. Also, these arrangements established certain limits to the arrangement of additional borrowings and to the distribution of dividends, as well as other conditions. Not meeting these

contractual conditions would have enabled the banks to demand early repayment. As of September 30, 2017, the established financial ratios were met. As of September 30, 2019 and September 30, 2018, the loans were no longer outstanding and accordingly, the conditions do no longer apply.

As of June 30, 2020, total existing credit lines of the SGRE segment amounted to € 4,006 million of which € 2,837 million were unused.

For more information on SGRE's financing agreements, see "12.9.2 Certain SGRE Financing Agreements".

### 9.9.2 Cash Flows

The following table sets forth financial information taken from the Combined Statements of Cash Flows of Siemens Energy Group for the fiscal years ended September 30, 2019, 2018 and 2017 and for the nine-month periods ended June 30, 2020 and 2019:

Combined Statements of Cash Flows	For the Fiscal Year ended September 30,			For the Nine- Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited) (in € million)			(unaudited) (in € million)	
Cash flows from operating activities .....	1,694	844	686	561	(585)
Cash flows from investing activities .....	(797)	(429)	(835)	(653)	(503)
Cash flows from financing activities .....	(1,597)	330	1,890	674	(395)
Effect of changes in exchange rates on cash and cash equivalents .....	26	(60)	(60)	(102)	15
Effect from Cash and cash equivalents of assets classified as held for disposal .....	—	9	(9)	—	—
Change in cash and cash equivalents .....	(673)	694	1,671	481	(1,468)
Cash and cash equivalents at beginning of period .....	2,544	1,850	179	1,871	2,544
Cash and cash equivalents at end of period .....	1,871	2,544	1,850	2,352	1,076

The following table sets forth financial information based on the Combined Statements of Cash Flows of Siemens Energy Group for the fiscal years ended September 30, 2019, 2018 and 2017 and for the nine-month periods ended June 30, 2020 and 2019:

Free Cash Flow	For the Fiscal Year ended September 30,			For the Nine- Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited) (in € million)			(unaudited) (in € million)	
Cash flows from operating activities .....	1,694	844	686	561	(585)
Additions to intangible assets and property, plant and equipment .....	(818)	(764)	(807)	(543)	(515)
Free Cash Flow <sup>1)</sup> .....	876	80	(121)	18	(1,099)

- <sup>1)</sup> The following table shows the contributions of the segments Gas and Power, SGRE and Reconciliation to Combined Financial Statements or Combined Interim Financial Statements to Free Cash Flow:

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited) (in € million)			(unaudited) (in € million)	
Gas and Power .....	651	212	722	133	(416)
Siemens Gamesa Renewable Energy .....	407	373	(288)	17	(618)
Reconciliation to Combined Financial Statements or Combined Interim Financial Statements <sup>a)</sup> .....	(182)	(504)	(555)	(131)	(65)

<sup>a)</sup> Therein included are income taxes paid for the fiscal years ended September 30, 2019, 2018 and 2017 and the nine-month period ended June 30, 2020 and 2019 of € 287 million, € 541 million and € 618 million, and € 254 million and € 147 million, respectively.

Since cash flows from financing activities of the Gas and Power segment were mainly determined by inter-company financing from Siemens Group, we believe that cash flows from financing activities shown in the table above and discussed below are not indicative for Siemens Energy's future cash flows from financing activities from a stand-alone perspective.

#### 9.9.2.1 Comparison of Cash Flows in the Nine-Month Periods ended June 30, 2020 and 2019

##### 9.9.2.1.1 Cash Flows From Operating Activities

Cash flows from operating activities of negative € 585 million in the nine-month period ended June 30, 2019 swung to positive cash flows from operating activities of € 561 million in the same period of the fiscal year 2020. This was mainly due to a positive change in operating net working capital and despite the negative profit development. The improvement of operating net working capital was across all its components and particularly due to the development of inventories and contract liabilities. In total, the change in operating net working capital resulted in net cash inflows in the nine-month period ended June 30, 2020 of € 879 million compared to net cash outflows of € 875 million in the same period of fiscal year 2019. Furthermore, cash outflows from the change in other assets and liabilities improved sharply to € 296 million in the nine-month period ended June 30, 2020 from € 953 million in the same period of the fiscal year 2019, related to miscellaneous topics, amongst others, due to the change in provisions for order related losses and risks as well as in value added and sales tax receivables. This was partially offset from cash outflows from income taxes paid of € 254 million, sharply increased compared to outflows of € 147 million in the nine-month period ended June 30, 2019 since the lower cash outflows of the prior year period were primarily attributable to a refund of income taxes from the tax group with Siemens Industrial in the U.S.

##### 9.9.2.1.2 Cash Flows From Investing Activities

Cash flows from investing activities substantially decreased to cash outflows of € 653 million in the nine-month period ended June 30, 2020, compared to cash outflows of € 503 million in the same period of fiscal year 2019. This decrease resulted mainly from acquisitions of businesses, net of cash acquired, as SGRE acquired selected European assets of Senvion Group during the nine-month period ended June 30, 2020 (see "9.4.8.4 Acquisition of Senvion Group Assets"), which led to cash outflows of € 177 million. Furthermore, additions to intangible assets and property, plant and equipment moderately increased from € 515 million in the nine-month period ended June 30, 2019 by € 28 million to € 543 million in the same period of the fiscal year 2020. This was partly offset by cash inflows from disposal of businesses, net of cash disposed, which swung from cash outflows of € 58 million in the nine-month period ended June 30, 2019 to cash inflows of € 39 million in the same period of fiscal year 2020, the latter related to the sale of minor business activities of the divisions Transmission and Industrial Applications of the Gas and Power segment in the U.S. and France which is aimed for streamlining their business portfolios.

#### 9.9.2.1.3 Cash Flows From Financing Activities

Cash flows from financing activities amounted to cash inflows of € 674 million in the nine-month period ended June 30, 2020, which corresponded to an increase of € 1,069 million from cash outflows from financing activities of € 395 million in the same period of fiscal year 2019. Cash flow improved due to the change in debt and other financing activities, mostly related to financing activities of the SGRE segment.

#### 9.9.2.1.4 Free Cash Flow

Free Cash Flow (the balance of cash flows from operating activities and additions to intangible assets and property, plant and equipment) in the nine-month period ended June 30, 2020 improved sharply by € 1,117 million to positive € 18 million from negative € 1,099 million in the same period of the fiscal year 2019. This change is primarily a result of the positive swing from cash outflows from operating activities in the nine-month period ended June 30, 2019 to cash inflows in the same period of the fiscal year 2020 (as described above). From a reportable segment point of view, this was due to a sharp improvement in both reportable segments, each posting a positive swing with cash inflows in the nine-month period ended June 30, 2020, after cash outflows in the same period of fiscal year 2019, mainly due to cash inflows from a reduction of operating net working capital.

### 9.9.2.2 Comparison of Cash Flows in the Fiscal Years 2019 and 2018

#### 9.9.2.2.1 Cash Flows From Operating Activities

Cash flows from operating activities increased from cash inflows of € 844 million in the fiscal year 2018 by € 850 million to cash inflows of € 1,694 million in the fiscal year 2019. This increase was mainly attributable to the change in operating net working capital which resulted in cash inflows in the fiscal year 2019 totaling € 938 million compared to cash outflows of € 245 million in the fiscal year 2018, and lower cash outflows from income taxes paid (primarily attributable to a refund of income taxes in the fiscal year 2019 from the tax group with Siemens Industrial in the U.S.). Within operating net working capital, the improvements primarily resulted from asset management initiatives of the Gas and Power segment. In total, € 1,174 million of the higher cash inflows year-over-year are attributable to the changes in contract assets and contract liabilities, which were in part offset by increased cash outflows from change in other assets and liabilities due to cash outflows related to restructuring measures. Cash inflows from change in other components of operating net working capital in total remained nearly unchanged when compared with the fiscal year 2018, as higher cash outflows from inventories in the fiscal year 2019 were offset by increased cash inflows from trade and other receivables as well as trade payables.

#### 9.9.2.2.2 Cash Flows From Investing Activities

Cash flows from investing activities amounted to cash outflows of € 797 million in the fiscal year 2019, which corresponded to an increase in cash outflows of € 368 million, or 85.8%, from cash outflows of € 429 million in the fiscal year 2018. This increase in cash outflows from investing activities resulted mainly from changes in cash flows from the disposal of businesses, net of cash disposed, which fell from a net cash inflow of € 350 million in the fiscal year 2018 by € 400 million to a net cash outflow of € 50 million in the fiscal year 2019. In the fiscal year 2018, cash flows from the disposal of businesses, net of cash disposed were unusually high, as Siemens Energy sold its single-stage and wastewater compressor business and its small steam turbine business, both including service, for € 193 million, increasing cash and cash equivalents, respectively (see "9.4.8.2 Disposal of the Single-stage and Wastewater Compressor and Small Steam Turbines Business"), and parts of its government business and U.S. Navy service centers for € 174 million in cash and cash equivalents (see "9.4.8.3 Disposal of Parts of the Government Business and U.S. Navy Service Centers"). Both of these disposals contributed to cash flows from the disposal of businesses, net of cash disposed in the fiscal year 2018.

#### 9.9.2.2.3 Cash Flows From Financing Activities

Cash flows from financing activities amounted to cash outflows of € 1,597 million in the fiscal year 2019 compared to cash inflows from financing activities of € 330 million in the fiscal year 2018. This decrease resulted mainly from a decrease in change in debt and other financing activities, which turned from cash inflows of € 527 million in the fiscal year 2018 by € 1,492 million to cash outflows of € 965 million. The change in cash flows related to the SGRE segment's reduced use of its credit lines to optimize available cash. Other transactions/financing with Siemens Group changed from cash inflows of € 44 million in the fiscal year 2018 to cash outflows of € 367 million in the fiscal year 2019.

#### 9.9.2.2.4 Free Cash Flow

Free Cash Flow (the balance of cash flows from operating activities and additions to intangible assets and property, plant and equipment) increased from € 80 million in the fiscal year 2018 by € 796 million to € 876 million in the fiscal year 2019. This change is primarily a result of the increase of cash flows from operating activities (as described above). On the reportable segment level, this increase was mainly driven by an increase of Free Cash Flow of the Gas and Power segment, which increased from € 212 million in the fiscal year 2018 to € 651 million in the fiscal year 2019, and a decrease in cash outflows in Reconciliation to Combined Financial Statements, which decreased from cash outflows of € 504 million in the fiscal year 2018 to cash outflows of € 182 million in the fiscal year 2019. The increased Free Cash Flow of the Gas and Power segment mainly resulted from improvements of cash inflows of operating net working capital, while the decrease in cash outflows in Reconciliation to Combined Financial Statements mainly related to tax-induced cash outflows, which had a smaller effect in the fiscal year 2019 than in the fiscal year 2018. This Free Cash Flow development led to a Cash Conversion Rate of 0.8 in the fiscal year 2019, compared to 0.1 in the fiscal year 2018.

#### 9.9.2.3 Comparison of Cash Flows in the Fiscal Years 2018 and 2017

##### 9.9.2.3.1 Cash Flows From Operating Activities

Cash flows from operating activities increased from € 686 million in the fiscal year 2017 by € 158 million, or 23.0%, to € 844 million in the fiscal year 2018. This increase was mainly due to changes in operating net working capital which resulted in reduced cash outflows in the fiscal year 2018 totaling € 245 million compared to cash outflows of € 1,445 million in the fiscal year 2017. Both reportable segments contributed to the improvement with different focuses and with the higher contribution of the SGRE segment. While the Gas and Power segment reduced cash outflows year-over-year primarily from contract assets and liabilities, the SGRE segment reduced its cash outflows particularly by a positive cash flow swing from inventories. On that basis, the negative effects from the decreasing profit development (including the negative impact of non-cash income tax expenses) were more than offset.

##### 9.9.2.3.2 Cash Flows From Investing Activities

Cash flows from investing activities amounted to cash outflows of € 429 million in the fiscal year 2018, which corresponded to a decrease in cash outflows of € 406 million, or 48.6%, from cash outflows of € 835 million in the fiscal year 2017. This change was mainly driven by the sale of Siemens Energy's single-stage and wastewater compressor business and its small steam turbine business, both including service, resulting in cash inflows of € 193 million, and parts of its government business and U.S. Navy service centers resulting in cash inflows of € 174 million (see "9.4.8.2 Disposal of the Single-stage and Wastewater Compressor and Small Steam Turbines Business" and "9.4.8.3 Disposal of Parts of the Government Business and U.S. Navy Service Centers"), which contributed to cash inflows from the disposal of businesses, net of cash disposed in the fiscal year 2018.



### 9.9.2.3.3 Cash Flows From Financing Activities

Cash flows from financing activities fell from € 1,890 million in the fiscal year 2017 by € 1,560 million, or 82.5%, to € 330 million in the fiscal year 2018. This decrease resulted mainly from other transactions/financing with Siemens Group, which fell from cash inflows of € 1,868 million in the fiscal year 2017 to cash inflows of € 44 million in the fiscal year 2018, due to the change of financing-related balances, primarily related to the partial early termination and repayment of Dresser-Rand Loans. This decrease was partially offset by change in cash flows from debt and other financing activities, which increased from € 292 million in the fiscal year 2017 by € 235 million, or 80.5%, to € 527 million in the fiscal year 2018.

### 9.9.2.3.4 Free Cash Flow

Free Cash Flow (the balance of cash flows from operating activities and additions to intangible assets and property, plant and equipment) increased from cash outflows of € 121 million in the fiscal year 2017 to cash inflows of € 80 million in the fiscal year 2018. Overall, this change is mainly due to the increase of cash flows from operating activities (as described above). From a reportable segment perspective, Free Cash Flow of the Gas and Power segment fell from € 722 million in the fiscal year 2017 to € 212 million in the fiscal year 2018, primarily related to the decreasing profit development, Free Cash Flow of the SGRE segment increased from cash outflows of € 288 million in the fiscal year 2017 to cash inflows of € 373 million in the fiscal year 2018. The positive swing at SGRE was mainly due to cash inflows from change in operating net working capital, particularly inventories, as well as strict control of capital expenditures. Cash outflows from Reconciliation to Combined Financial Statements remained largely stable. This Free Cash Flow development led to a Cash Conversion Rate of 0.1 in the fiscal year 2018, compared to (0.1) in the fiscal year 2017.

## 9.9.3 Operating Net Working Capital

The table below shows our operating net working capital as of September 30, 2019, 2018 and 2017, as well as of June 30, 2020.

	As of September 30,			As of
	2019	2018	2017	June 30,
	(audited, unless otherwise indicated) (in € million)			2020
				(unaudited) (in € million)
Trade receivables (adjusted) (unaudited) <sup>1)</sup>	5,141	5,439	5,091	5,213
Inventories	7,148	6,607	7,350	7,250
Trade payables (adjusted) (unaudited) <sup>2)</sup>	(4,732)	(4,343)	(4,237)	(4,712)
Contract assets	5,230	4,593	4,293	4,805
Contract liabilities (adjusted) (unaudited) <sup>3)</sup>	(8,923)	(7,653)	(7,986)	(9,972)
<b>Operating net working capital (unaudited)<sup>4), 5)</sup></b>	<b>3,864</b>	<b>4,643</b>	<b>4,511</b>	<b>2,584</b>

<sup>1)</sup> This item includes trade receivables as of September 30, 2019, 2018 and 2017 with an amount of € 5,097 million, € 5,405 million and € 4,679 million, respectively, and trade and other receivables as of June 30, 2020, with an amount of € 4,205 million (amounts as presented in the Audited Combined Financial Statements as well as in the Unaudited Condensed Combined Interim Financial Statements) and receivables from Siemens Group (other items) which are presented in the Audited Combined Financial Statements and Unaudited Condensed Combined Interim Financial Statements as part of the line item receivables from Siemens Group, as of September 30, 2019, 2018 and 2017 with an amount of € 44 million, € 34 million and € 27 million, respectively, and as of June 30, 2020, with an amount of € 1,009 million. As of September 30, 2017, receivables from Siemens Group from financing activities were also allocated to operating net working capital with an amount of € 385 million which related to a factoring agreement with Siemens Credit Warehouse.

<sup>2)</sup> This item includes trade payables as of September 30, 2019, 2018 and 2017 with an amount of € 4,698 million, € 4,303 million and € 4,175 million, respectively, and as of June 30, 2020, with an amount of € 4,595 million (amounts as presented in the Audited Combined Financial Statements as well as in the Unaudited Condensed Combined Interim Financial Statements) and payables to Siemens Group (other items) which are presented in the Audited Combined Financial Statements and the Unaudited Condensed Combined Interim Financial Statements as part of the line item payables to Siemens Group, as of September 30, 2019, 2018 and 2017 with an amount of € 33 million, € 40 million and € 62 million, respectively, and as of June 30, 2020 with an amount of € 117 million.

- 3) Amounts for contract liabilities in the table differ from € 9,337 million, € 8,077 million and € 8,351 million, as well as € 10,417 million as of September 30, 2019, 2018 and 2017, and as of June 30, 2020, respectively (amounts as presented in the Audited Combined Financial Statements as well as in the Unaudited Condensed Combined Interim Financial Statements), since Siemens Energy defines contract liabilities for operating net working capital purposes excluding certain items which, in management's assessment, do not belong to operating activities, such as accruals for penalties or refund liabilities. As of September 30, 2019, 2018 and 2017, these excluded items amounted to € 414 million, € 424 million and € 365 million, respectively, and as of June 30, 2020 the amount was € 444 million.
- 4) The following table shows the contributions of the segments Gas and Power and Siemens Gamesa Renewable Energy to operating net working capital as of September 30, 2019, 2018 and 2017, and as of June 30, 2020. The figures in the table below are based on the segment's definition of operating net working capital which corresponds to the Asset definition of the segments as determined by the management (see "9.9.4 Net Capital Employed"). Therefore, by definition, such figures are not to be reconciled for each line item to figures presented in the Audited Combined Financial Statements as well as in the Unaudited Condensed Combined Interim Financial Statements:

	As of September 30,			As of
	2019	2018	2017	June 30,
	(unaudited) (in € million)			2020 (unaudited) (in € million)
<b>Gas and Power segment</b>	<b>4,127</b>	<b>4,567</b>	<b>4,107</b>	<b>3,543</b>
thereof: Trade receivables (adjusted)	3,853	4,325	4,010	3,973
Inventories	5,294	5,118	5,262	5,196
Trade payables (adjusted)	(2,102)	(1,908)	(1,942)	(2,066)
Contract assets	3,173	3,021	3,052	3,089
Contract liabilities (adjusted)	(6,091)	(5,989)	(6,275)	(6,649)
<b>Siemens Gamesa Renewable Energy segment</b>	<b>(258)</b>	<b>83</b>	<b>410</b>	<b>(956)</b>
thereof: Trade receivables (adjusted)	1,287	1,114	1,081	1,175
Inventories	1,854	1,489	2,087	2,054
Trade payables (adjusted)	(2,623)	(2,428)	(2,288)	(2,580)
Contract assets	2,056	1,572	1,241	1,715
Contract liabilities (adjusted)	(2,832)	(1,664)	(1,711)	(3,320)
Corporate and other reconciling items	(6)	(6)	(7)	(3)
<b>Siemens Energy</b>	<b>3,864</b>	<b>4,643</b>	<b>4,511</b>	<b>2,584</b>

<sup>5)</sup> The following table shows the operating net working capital (and for the Gas and Power segment its components) in % of revenue for the fiscal years ended September 30, 2019, 2018 and 2017 and the nine-month period ended June 30, 2020:

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,
	2019	2018	2017	2020
	(unaudited) (in %)			(unaudited) (in %) <sup>a)</sup>
<b>Gas and Power segment</b>				
Operating net working capital in % of Gas and Power segment's total revenue . . . . .	22.1	24.1	18.5	18.9
Trade receivables (adjusted) in % of Gas and Power segment's total revenue . . . . .	20.6	22.8	18.0	21.2
Inventories in % of Gas and Power segment's total revenue . . . . .	28.3	27.0	23.7	27.8
Trade payables (adjusted) in % of Gas and Power segment's total revenue . . . . .	(11.2)	(10.1)	(8.7)	(11.0)
Contract assets in % of Gas and Power segment's total revenue . . . . .	17.0	15.9	13.7	16.5
Contract liabilities (adjusted) in % of Gas and Power segment's total revenue . . . . .	(32.6)	(31.6)	(28.2)	(35.5)
<b>Siemens Gamesa Renewable Energy segment</b>				
Operating net working capital in % of SGRE segment's total revenue . . . . .	(2.5)	0.9	5.2	(10.0)
<b>Siemens Energy</b>				
Operating net working capital in % of Siemens Energy's total revenue . . . . .	13.4	16.6	15.0	9.2

<sup>a)</sup> For purposes of this calculation, for the nine-month period ended June 30, 2020, total revenue for the last twelve months is used, which is calculated by total revenue for the nine-month period ended June 30, 2020 plus total revenue for the fiscal year 2019 minus total revenue for the nine-month period ended June 30, 2019.

#### 9.9.3.1 Comparison as of June 30, 2020 and as of September 30, 2019, 2018 and 2017

Operating net working capital substantially decreased from € 3,864 million as of September 30, 2019 by € 1,280 million, or 33.1%, to € 2,584 million as of June 30, 2020. The development was mainly due to higher advance payments from customers (reflected in significantly increased contract liabilities) and a clear reduction of contract assets. A slight inventory build-up and increase of trade receivables as well as slightly declined trade payables offset the improvements only to a minor extent. Both segments contributed to this development.

Operating net working capital decreased from € 4,643 million in the fiscal year 2018 by € 779 million, or 16.8%, to € 3,864 million in the fiscal year 2019. The development reflects the success of asset management measures, initiated during the fiscal year 2019. The Gas and Power segment's cash initiative started early in the fiscal year 2019. The measures taken led to an improvement of its operating net working capital, mainly by a reduction of overdue accounts receivable. Also, the SGRE segment strengthened its working capital management with a strong control program with focus on advance payments, payment terms renegotiation and project execution, leading to an improvement of its operating net working capital, mainly driven by contract asset and liabilities and particularly related to project progress and advance payments.

Operating net working capital increased from € 4,511 million in the fiscal year 2017 by € 132 million, or 2.9%, to € 4,643 million in the fiscal year 2018. Reductions in the SGRE segment were driven by a substantial reduction of inventory levels as a result of asset management measures taken, mainly due to project progress and sale of finished goods. This improvement was more than offset by an increase of operating net working capital in the Gas and Power segment in the fiscal year 2018, which was driven by higher receivables mainly due to shifted or delayed

milestone payments and a reduction in contract liabilities (mainly due to volume decrease, unfavorable payment conditions and execution of pre-financed projects).

#### **9.9.3.2 Ongoing Programs to Improve Operating Net Working Capital Management**

To improve its operating net working capital position, Siemens Energy has ongoing asset management measures in place, especially in (but not limited to) the Gas and Power segment. Siemens Energy's asset management initiative commenced in the second half of the fiscal year 2019 and was gradually transferred into the full responsibility of the operative business units in May 2020. Furthermore, additional measures are planned for the fiscal year 2021. In this context, determined operating net working capital targets focus on the reduction of hardware inventory with low turns and demands in both new unit plants and service warehouses (e.g., improvement of forecasting process with external vendors and internal users, development of "Exchangium" platform for offering surplus material to potentially internal/external users). In addition, special emphasis is given on the stringent reduction of accounts receivables overdue, whilst measures are initiated to better payment terms in the marketing and selling process (higher advance payments, strive for cash positive throughout entire contract term) as well as in the procurement process (avoidance of discounts, more favorable payment terms). Measures taken are systematically monitored by newly developed automated tools and harmonized cockpits that have been adopted to enable maximum transparency and comparability on the development of operating net working capital. Operating net working capital numbers are regularly reported to and discussed with the management. Mandatory cash awareness webinars and cash rewarding projects are contemplated to be available in early fiscal year 2021.

Until the end of the fiscal year 2023 at the latest, in particular for our Gas and Power segment, we aim for a reduction of its operating net working capital of approximately € 1.2 billion, compared to September 30, 2019. Therefore, we strive for trade receivables, inventories and trade payables of the Gas and Power segment reaching no more than 19%, 22% and at least 11%, respectively, of its revenue, at the end of the fiscal year 2023.

#### **9.9.4 Net Capital Employed**

Net capital employed is Siemens Energy's measure to assess capital intensity of the segments. Its definition corresponds to the Adjusted EBITA measure except for amortization expenses of intangible assets acquired in business combinations and goodwill impairments which are not part of Adjusted EBITA, however, the related intangible assets are included in the segments' assets. Segment net capital employed is based on total assets of the Combined Statements of Financial Position, primarily excluding financing receivables from Siemens Group, tax related assets and assets of discontinued operations, since the corresponding positions are excluded from Adjusted EBITA. The remaining assets are reduced by non-interest-bearing liabilities other than tax related liabilities, e.g., trade payables and contract liabilities, to derive net capital employed. Net capital employed of Siemens Gamesa Renewable Energy includes real estate, while real estate of Gas and Power is carried centrally at Real Estate Services.

The table below shows a detailed view of the net capital employed of the Gas and Power segment and the SGRE segment as of June 30, 2020. The figures in the table below are based on the above mentioned definition of the segment's Assets as determined by the management. Therefore, by definition, such figures are not to be reconciled for each line item to figures presented in the Unaudited Condensed Combined Interim Financial Statements, but rather are reconciled to Total Assets of Siemens Energy as reported in Note 8 to the Unaudited Condensed Combined Interim Financial Statements.

Net Capital Employed	As of June 30, 2020	
	(unaudited)	
	(in € million)	
	Gas and Power	Siemens Gamesa Renewable Energy
Property, plant and equipment .....	1,352	2,127
Operating net working capital .....	3,543	(956)
Investments accounted for using the equity method .....	696	66
Other assets (adjusted) <sup>1)</sup> .....	1,168	977
Provisions (current and non-current) (adjusted) .....	(1,617)	(2,180)
Accruals (current and non-current) <sup>2)</sup> .....	(1,608)	(254)
Other liabilities (adjusted) <sup>3)</sup> .....	(2,110)	(1,058)
<b>Subtotal</b> .....	<b>1,424</b>	<b>(1,278)</b>
Goodwill .....	6,770	2,823
Other intangible assets .....	2,183	1,833
<b>Net capital employed<sup>4)</sup></b> .....	<b>10,378</b>	<b>3,378</b>

<sup>1)</sup> This item includes cash and cash equivalents of € 1 million and € 0 million, other current financial assets of € 284 million and € 208 million, other current assets of € 410 million and € 584 million, other financial assets of € 312 million and € 181 million, and other assets of € 162 million and € 5 million for the Gas and Power segment and the SGRE segment, respectively.

<sup>2)</sup> Included in line items other current liabilities and other liabilities as presented in the Unaudited Condensed Combined Interim Financial Statements, mainly associated with personnel-related liabilities.

<sup>3)</sup> This item includes other current financial liabilities of € (333) million and € (138) million, contract liabilities (not included in operating net working capital) of € (402) million and € (42) million, other current liabilities (excluding current accruals) of € (891) million and € (686) million, other financial liabilities of € (262) million and € (143) million, and other liabilities (excluding accruals) of € (221) million and € (49) million for the Gas and Power segment and the SGRE segment, respectively.

<sup>4)</sup> Corresponds to segment Assets as reported in Note 8 to the Unaudited Condensed Combined Interim Financial Statements.



### 9.9.5 Capital Expenditures

Our capital expenditures comprise additions to intangible assets and property, plant and equipment as shown in our Combined Statements of Cash Flows.

#### 9.9.5.1 Past Capital Expenditures

For the periods presented below, including our ongoing investments described below, our capital expenditures have been and continue to be funded by cash flows from operating activities and financing arrangements with Siemens.

	For the Fiscal Year ended September 30,			For the Nine- Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited, unless otherwise indicated) (in € million, unless otherwise indicated)			(unaudited) (in € million, unless otherwise indicated)	
<b>Additions to intangible assets and property, plant and equipment (capital expenditures)<sup>1), 2)</sup> . . . . .</b>	<b>818</b>	<b>764</b>	<b>807</b>	<b>543</b>	<b>515</b>
thereof: additions to other intangible assets <sup>1)</sup> . . .	166	139	82	144	126
thereof: additions to property, plant and equipment (excluding additions to assets leased to third parties and finance leases) (unaudited) . . . . .	652	625	725	399	389
<i>As a percentage of revenue (in %) (unaudited) . .</i>	<i>2.8</i>	<i>2.7</i>	<i>2.7</i>	<i>2.7</i>	<i>2.5</i>
<b>Amortization, depreciation and impairments<sup>3)</sup> . . . . .</b>	<b>(1,209)</b>	<b>(1,281)</b>	<b>(1,139)</b>	<b>(1,656)</b>	<b>(858)</b>
thereof: amortization and impairments of other intangible assets . . . . .	(551)	(576)	(536)	(986)	(404)
therein: amortization of intangible assets acquired in business combinations . . . . .	(499)	(545)	(507)	(363)	(379)
thereof: depreciation and impairments of property, plant and equipment . . . . .	(658)	(705)	(604)	(670)	(454)
<i>Additions to intangibles assets and property,         plant and equipment as a percentage of         amortization, depreciation and impairments         (in %) (unaudited) . . . . .</i>	<i>67.7</i>	<i>59.6</i>	<i>70.9</i>	<i>32.8</i>	<i>60.0</i>

<sup>1)</sup> Amounts as shown in the combined statements of cash flows. Such amounts do not include additions to assets leased to third parties contrary to the respective amounts shown in Note 11 to the Audited Consolidated Financial Statements. Finance leases are only relevant for the fiscal years 2019, 2018 and 2017 and the nine-month period ended June 30, 2019.

- 2) The following table shows the contributions of the segments Gas and Power, SGRE and Reconciliation to Combined Financial Statements or Combined Interim Financial Statements to additions to intangible assets and property, plant and equipment:

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited, unless otherwise indicated) (in € million)			(unaudited) (in € million)	
Gas and Power .....	317	343	315	181	197
thereof: additions to other intangible assets (unaudited) .....	6	9	6	5	5
thereof: additions to property, plant and equipment (excluding additions to assets leased to third parties and finance leases) (unaudited) <sup>a)</sup> ..	311	334	308	176	192
Siemens Gamesa Renewable Energy .....	498	415	476	352	316
thereof: additions to other intangible assets (unaudited) .....	160	129	76	138	121
thereof: additions to property, plant and equipment (excluding additions to assets leased to third parties and finance leases) (unaudited) <sup>b)</sup> ..	338	286	400	214	195
Reconciliation to Combined Financial Statements or Combined Interim Financial Statements .....	4	6	16	9	2

a) Additions to property, plant and equipment (excluding additions to assets leased to third parties and finance leases) as a percentage of total revenue for the Gas and Power segment in the fiscal years 2019, 2018 and 2017 were 1.7%, 1.8% and 1.4%, respectively.

b) Additions to property, plant and equipment (excluding additions to assets leased to third parties and finance leases) as a percentage of total revenue for the SGRE segment in the fiscal years 2019, 2018 and 2017 were 3.3%, 3.1% and 5.1%, respectively.

- 3) The following table shows the contributions of the segments Gas and Power, SGRE and Reconciliation to Combined Financial Statements or Combined Interim Financial Statements to amortization, depreciation and impairments:

	For the Fiscal Year ended September 30,			For the Nine-Month Period ended June 30,	
	2019	2018	2017	2020	2019
	(audited) (in € million)			(unaudited) (in € million)	
Gas and Power .....	547	617	610	899	404
Siemens Gamesa Renewable Energy .....	647	645	510	644	443
Reconciliation to Combined Financial Statements and Combined Interim Financial Statements .....	16	19	19	113	12

Additions to other intangible assets primarily relate to capitalized research and development expenses.

Capital expenditures of the Gas and Power segment, presented as additions to intangible assets and property, plant & equipment in the Audited Combined Financial Statements, amounted to € 317 million in the fiscal year 2019, € 343 million in the fiscal year 2018, € 315 million in the fiscal year 2017, and € 181 million in the nine-month period ended June 30, 2020. The investments of Gas and Power were focused on development of new or improvement of existing products, enhancing productivity through automation, expansion and replacement of capacities and increasing customer proximity via strategic localization of capacity (see "9.4.6 Technological Innovation"). The largest investment projects were the development of a next generation product portfolio for future H- and J-class CCPPs and packages, which resulted, among others, in the development of the new SGT-9000HL turbine model that was brought to market in the fiscal year 2018 (see "9.4.6 Technological Innovation"), and capital expenditures for manufacturing and engineering of the casting of turbine blades and vanes via a joint venture.

Capital expenditures of the SGRE segment, presented as additions to intangible assets and property, plant & equipment in the Audited Combined Financial Statements, amounted to € 498 million in the fiscal year 2019, € 415 million in the fiscal year 2018 and € 476 million in the fiscal year 2017, and € 352 million in the nine-month period ended June 30, 2020. The investments of SGRE were focused on production equipment for new blade types and capacity

expansion in its factories. Other investments were related to development of new wind turbine platforms, logistic and construction tools in the onshore business, and special equipment for testing and installation of newly launched products in the offshore business (see "9.4.6 Technological Innovation"). Major investment projects are the onshore blades factory Tangier, Morocco, and the offshore nacelles factory in Cuxhaven, Germany. The increase of additions to other intangible assets since the fiscal year 2017 related to internally generated technology as the SGRE segment reported a continued increase in the capitalized development costs due to the development of new wind turbine models, software and the optimization of the components' performance.

#### 9.9.5.2 Ongoing and Planned Capital Expenditures

For the fiscal year 2020, we have budgeted capital expenditures in an amount of over € 900 million and expect capital expenditures for intangible assets and property, plant and equipment as a percentage of revenue to be approximately 3%, and in our fiscal year 2020 to be higher than in the fiscal year 2019. Our capital expenditures were and still are impacted by COVID-19, which will result, to a certain extent, in shifts to the fiscal year 2021.

In our Gas and Power segment, ongoing material investments are:

- Continued investments in the segment's next generation product portfolio for future H- and J-class gas turbine CCPPs and packages with a cross-divisional focus including all components of a CCPP and package. These investments are made in Germany and the United States.
- Continued investments in manufacturing and engineering capabilities regarding casting of turbine blades and vanes via a joint venture, including investments in manufacturing facilities, tooling equipment and the development of IP. The investments are made in the United States.
- Investments in energy assets for independent power production regarding plant projects for a customer in Brazil in which the Gas and Power segment is acting as a seller, service provider and operator of motors running on diesel and liquefied natural gas ("LNG") to generate electricity for rural areas without connection to Brazil's national power grid.
- Furthermore, the Gas and Power segment invest in a tooling and repair center in Egypt.

In our SGRE segment, ongoing material investments relate to a new manufacturing facility for wind turbine blades as well as nacelles in France (for more details on the investment, see "12.4.3.2 Manufacturing").

Planned capital expenditures for material investments of our Gas and Power segment relate to the capacity expansion of a manufacturing facility for dry type transformers of the Transmission division in China and the capacity expansion of a facility for the manufacture of electrolyzers of the New Energy Business in Germany. In the course of its project business, the Gas and Power segment also expects to contribute development funding and make equity investments in project undertakings on a selective basis. In the SGRE segment, planned capital expenditures for material investments primarily relate to the capacity expansion of nacelle assembly facilities for the offshore business in Taiwan and Le Havre (see "12.4.3.2 Manufacturing") as well as to product developments in the offshore business (e.g., SG 14-222 DD, see "12.4.1.3 Offshore Wind Turbines") and the onshore business (e.g., Siemens Gamesa 5.X Platform, see "12.4.1.2.4 Siemens Gamesa 5.X Platform").

Both segments invest in regular maintenance, optimizations and capacity enhancements. Our SGRE segment is committed to capital expenditures that correspond to a mid-single-digit percentage of its revenues. Currently, we do not plan any major acquisitions, although we will continue to evaluate bolt-on acquisitions.

Capital expenditures for all ongoing and planned investments, including material investments, have been funded or are intended to be funded from cash flows from operating activities and existing liquidity, respectively. If necessary, planned capital expenditures may be partly funded by drawing on credit facilities.

## 9.9.6 Financial Liabilities and Other Financial Commitments

### 9.9.6.1 Financial Liabilities

In the periods presented, the Gas and Power segment was included in Siemens Group's intercompany financing, including cash pooling and cash management and will continue to be included in such program until Spin-Off Completion. In addition, Siemens Group provided short- and long-term loans (see "9.9.1.1.1 Financing Structure Prior to the Spin-Off"), while Siemens Energy's financing from third-party sources mainly relates to the financing of our SGRE segment (as set out in the table below).

Siemens Energy's (Net Cash) / Net Debt represents total debt (short-term debt and current maturities of long-term debt plus long-term debt plus payables to Siemens Group from financing activities) minus total liquidity (cash and cash equivalents plus receivables from Siemens Group from financing activities). Since, until Spin-Off Completion, (Net Cash) / Net Debt of the Gas and Power segment was mainly composed of liabilities to and receivables from the Siemens Group, we believe the historical balances shown in the table below as of September 30, 2019, 2018 and 2017 are of limited information for Siemens Energy's financing structure from a stand-alone perspective. During the nine-month period ended June 30, 2020, certain transactions concerning (Net Cash) / Net Debt and Adjusted (Net Cash) / Net Debt, respectively, have occurred in connection with the formation as well as future funding of the Siemens Energy Group. These transactions were intended to settle financing balances of entities allocated to the Gas and Power segment with Siemens Group and to provide the Gas and Power segment with an adequate net cash position. We therefore believe figures as of June 30, 2020 are of higher information value with regard to our future financing structure. Among the transactions were the following:

- In January 2020, a contractual trust arrangement ("CTA") that acts as the pension trust for German Group companies to finance their pension obligations was funded with assets of approximately € 0.9 billion by way of contribution from Siemens (see also below "9.9.6.2 Pensions and Similar Obligations").
- In February 2020, the last outstanding loan of the Dresser-Rand Loans was terminated early and fully repaid in a nominal equivalent amount of € 1,571 million which resulted in other liabilities to Siemens Group (long-term) of zero as of June 30, 2020.
- Until June 30, 2020, Siemens provided to Siemens Energy for the purpose of achieving the envisaged capital structure of Siemens Energy Group via clearing accounts approximately € 3.4 billion (thereof € 3.2 billion in the second quarter of the fiscal year 2020 and another € 0.1 billion in the third quarter of the fiscal year 2020). This capitalization is in addition to approximately € 3.0 billion provided by Siemens with regard to purchase price obligations for the legal transfer of assets to Siemens Energy which are already included in the Combined Financial Statements (see "5.2.2 Rest of World Carve-Out"). The capitalization comprises a sum in the amount of € 0.4 billion which is planned for the implementation of a share buy-back program of Siemens Energy AG in the near future (a period of presumably six months is envisaged for the share buy-back) related to a stock-based compensation program. The capitalization of € 3.4 billion was on a gross basis, hence, before the repayment of various remaining (short-term) financing arrangements with Siemens existing as of March 31, 2020. On balance, the capitalization resulted in sizeable net cash of € 2.2 billion as of June 30, 2020 of Siemens Energy (excluding SGRE business activities), which we believe forms the basis for a strong financing structure of Siemens Energy.
- In addition, Siemens provided funds of € 0.2 billion during the second quarter of fiscal year 2020 to fund deferred Carve-Out activities for which the related assets to be acquired are not included in our Combined Financial Statements.
- After Spin-Off Completion, then still existing balances with Siemens from the ongoing business after March 31, 2020 will be offset and settled against cash and cash equivalents, except receivables from Siemens Group of approximately € 0.9 billion as of June 30, 2020, relating to

certain trade contracts which remain at Siemens and then will be reclassified to trade and other receivables.

The following table provides an overview of (Net Cash) / Net Debt and Adjusted (Net Cash) / Net Debt of Siemens Energy as of September 30, 2019, 2018 and 2017, and as of June 30, 2020:

	As of September 30,			As of June 30,	
	2019	2018	2017	2020	
	(audited, unless otherwise indicated) (in € million)			(unaudited) (in € million)	
	Siemens Energy			Siemens Energy	Siemens Energy excl. SGRE business activities <sup>3)</sup>
Short-term debt and current maturities of long-term debt	359	1,000	819	787	241
+ Long-term debt	547	877	505	1,690	451
+ Payables to Siemens Group from financing activities	4,535	8,494	8,519	862	661
<b>Total debt (unaudited)</b>	<b>5,441</b>	<b>10,371</b>	<b>9,843</b>	<b>3,339</b>	<b>1,353</b>
Cash and cash equivalents	1,871	2,544	1,850	2,352	657
+ Receivables from Siemens Group from financing activities	3,361	5,107	6,297	2,885	2,849
<b>Total liquidity (unaudited)</b>	<b>5,232</b>	<b>7,651</b>	<b>8,147</b>	<b>5,237</b>	<b>3,506</b>
<b>(Net Cash) / Net Debt<sup>1)</sup> (unaudited)</b>	<b>209</b>	<b>2,720</b>	<b>1,696</b>	<b>(1,898)</b>	<b>(2,153)</b>
+ Provisions for pensions and similar obligations	1,960	1,622	1,692	1,095	1,079
<b>Adjusted (Net Cash) / Net Debt<sup>2)</sup> (unaudited)</b>	<b>2,169</b>	<b>4,342</b>	<b>3,388</b>	<b>(803)</b>	<b>(1,074)</b>

<sup>1)</sup> (Net Cash) / Net Debt represents total debt minus total liquidity.

<sup>2)</sup> Adjusted (Net Cash) / Net Debt represents (Net Cash) / Net Debt plus provisions for pensions and similar obligations.

<sup>3)</sup> Underlying figures for SGRE reflect SGRE business activities in total and do not represent the Siemens Gamesa Renewable Energy segment figures as reported within segment reporting of Siemens Energy.

With its future financing structure (under a stand-alone perspective), Siemens Energy Group aims for a balanced capital structure based on the capitalization described above which allows for a solid investment grade rating, so as to ensure sufficient flexibility for ready access to bank and capital markets, to sustain the ability to repay and service its debt obligations over time, and to be a reliable long-term partner to its customers. The main performance measure used to assess our capital structure is the Adjusted (Net Cash) / Net Debt to EBITDA Ratio. The ratio indicates the approximate number of years that would be needed to cover the Adjusted (Net Cash) / Net Debt through income from continuing operations, without taking into account interest, taxes, depreciation and amortization. We strive to maintain our solid investment grade rating and do not steer our capital structure according to a specific target ratio. As a general guidance, an Adjusted (Net Cash) / Net Debt to EBITDA Ratio below 1.5 may be considered to be consistent with the aim of a solid investment grade rating. Our SGRE segment has committed to capital structure targets which are fully aligned with our efforts in this regard.



The following table shows Adjusted (Net Cash) / Net Debt, EBITDA and Adjusted (Net Cash) / Net Debt to EBITDA Ratio as of September 30, 2019, 2018 and 2017, as well as of June 30, 2020:

	As of and for the Fiscal Year ended September 30,			As of and for the Nine-Month Period ended June 30,
	2019	2018	2017	2020
	(unaudited) (in € million, except ratios)			(unaudited) (in € million, except ratios)
Adjusted (Net Cash) / Net Debt .....	2,169	4,342	3,388	(803)
EBITDA .....	1,806	1,652	2,630	103
Adjusted (Net Cash) / Net Debt to EBITDA Ratio .....	1.2	2.6	1.3	(1.5) <sup>1)</sup>

<sup>1)</sup> For purposes of calculating the Adjusted (Net Cash) / Net Debt to EBITDA Ratio for the nine-month period ended June 30, 2020, EBITDA for the last twelve months is used, which is calculated as EBITDA for the nine-month period ended June 30, 2020 plus EBITDA for the fiscal year 2019 less EBITDA for the nine-month period ended June 30, 2019. For information to the effect of the first time application of IFRS 16 on the Adjusted (Net Cash) / Net Debt to EBITDA Ratio see "9.5 Key Factors Affecting Comparability".

The following table sets forth our current and non-current debt from sources outside of Siemens as of September 30, 2019, 2018 and 2017 and June 30, 2020:

	As of September 30,			As of June 30,
	2019	2018	2017	2020
	(audited) (in € million)			(unaudited) (in € million)
Loans from banks .....	325	986	810	525
Lease liabilities <sup>1)</sup> .....	—	—	—	259
Other financial indebtedness (incl. obligations under finance leases) <sup>2)</sup> .....	34	14	10	3
<b>Total current debt</b> .....	<b>359</b>	<b>1,000</b>	<b>819</b>	<b>787</b>
Loans from banks .....	494	792	459	731
Lease liabilities <sup>1)</sup> .....	—	—	—	945
Other financial indebtedness (incl. obligations under finance leases) <sup>2)</sup> .....	53	84	47	14
<b>Total non-current debt</b> .....	<b>547</b>	<b>877</b>	<b>505</b>	<b>1,690</b>

<sup>1)</sup> Due to the first time application of IFRS 16 from October 1, 2019 (see "9.5 Key Factors Affecting Comparability"), there are no lease liabilities relating to right-of-use assets as of September 30, 2019, 2018 and 2017.

<sup>2)</sup> Figures as of June 30, 2020 do not include obligations under finance leases due to application of IFRS 16 from October 1, 2019 (see "9.5 Key Factors Affecting Comparability") since there is no longer a distinction between operating and finance leases.

In the fiscal years 2019, 2018 and 2017, and in the nine-month period ended June 30, 2020, loans from banks mainly related to the financing of our SGRE segment.

#### 9.9.6.2 Pensions and Similar Obligations

Siemens Energy provides post-employment defined benefit plans or defined contribution plans to almost all domestic employees and the majority of the foreign employees.

##### 9.9.6.2.1 Defined Benefit Plans

In most countries, our employees historically participated in the Siemens Group pension plans. For these plans, pension benefits are administered by the Siemens Group. As a result of the Carve-Out, pension assets and obligations relating to the Group's current and former employees have been transferred to separate Group pension plans and, in most countries, separate pension trusts or will be transferred in the near future. In Germany, pension obligations towards passive employees of the Energy business have not been transferred and will be retained by the Siemens Group.

As of September 30, 2019, we had defined benefit obligations ("DBO") of € 3,310 million, of which 44.0% related to Germany, 29.4% to the United States and 10.1% to the United Kingdom, while the remaining 16.6% related to certain other countries.

As the majority of the Siemens Energy pension liabilities derives from three major countries, further information on the pension landscape in these three countries is given below:

- *Germany* – In Germany, the Siemens Group provides pension benefits through the following plans: BSAV (*Beitragsorientierte Siemens Altersversorgung*, "**BSAV**"), closed legacy plans and deferred compensation. Siemens Energy has set up a CTA which acts as pension trust (GP Trust e.V.). Siemens Energy acts as sole trustor for the BSAV and the closed legacy plans, while for the deferred compensation plan the participating Group entities are acting as trustors. This CTA has been funded with assets that had a fair value of approximately € 915 million as at January 2, 2020. Due to market volatility the fair value of these assets is subject to change.
- *United States* – In the United States, Siemens Energy currently participates in the defined benefit plans sponsored by Siemens Group, which for the most part have been frozen to new entrants and to future benefit accruals, except for interest credits on cash balance accounts. Prior to the setup of separate pension plans, the Group participated, amongst others, in the Siemens Pension Plan as the main pension plan for the Siemens Group. A separate pension trust for our U.S. entities (the "**Siemens Energy U.S. Trust**") to which our pension liabilities and related assets will be transferred from the Siemens trust in the U.S. (the "**Siemens U.S. Trust**") is expected to be set up in September 2020. The allocation of the U.S. pension assets currently held by the Siemens U.S. Trust for the Siemens Pension Plan to be transferred to the Siemens Energy U.S. Trust will be calculated in accordance with Internal Revenue Code Section 414(l). The calculation can result in a different amount of assets compared to the current asset allocation in the audited combined financial statements. The result of the 414(l) calculation is the final amount of assets which will be physically transferred to the Siemens Energy U.S. Trust after it has been set up.
- *United Kingdom* – In the United Kingdom, pension benefits are mainly offered through the VA Tech U.K. Pension Scheme which transfers to Siemens Energy completely. From April 2013 the trustee arranged investments in insurance policies covering pensions in payment due to members, which significantly reduced the longevity and investment risks for the scheme and provided additional security for members.

For detailed information on our defined benefit plans see the following table and Note 14 to the Audited Combined Financial Statements. The figures presented in the table below include to a limited extent pension obligations of the SGRE segment (mainly with regard to Germany):

	Defined benefit obligation (DBO)			Fair value of plan assets			Net defined benefit balance <sup>1)</sup>		
	(I)			(II)			(I – II)		
	As of September 30,								
(in € million, audited)	2019	2018	2017	2019	2018	2017	2019	2018	2017
Balance at fiscal year-end . . . .	3,310	2,831	2,961	1,357	1,236	1,290	1,953	1,599	1,675

<sup>1)</sup> As of September 30, 2019, 2018 and 2017, the increasing effects of asset ceiling of € 0 million, € 3 million and € 3 million, respectively, are included. The underfunding of Siemens Energy's pension plans, calculated as the difference between the DBO and the fair value of plan assets amounted to € 1,953 million, as of September 30, 2019.

As of June 30, 2020, the DBO and the fair value of plan assets amounted to € 3,380 million (thereof: Germany € 1,473 million, United States € 988 million, United Kingdom € 328 million and other countries € 591 million) and € 2,315 million (thereof: Germany € 1,031 million, United States € 617 million, United Kingdom € 330 million and other countries € 337 million), respectively. Including the increasing effect of asset ceiling of € 1 million, this led to a net defined benefit balance of € 1,067 million. Therefore, as of June 30, 2020, Siemens Energy posted provisions for pensions and similar obligations of € 1,095 million, compared to € 1,960 million as of September 30, 2019. The change is mainly related to the funding of the CTA in Germany in January 2020. Plans with net assets were recognized in other assets with an amount of € 29 million. The estimated assumption for the discount rate was 1.8% and pension-related interest expense in the nine-month period ended June 30, 2020 was € 44 million.

#### 9.9.6.2.2 Defined Contribution Plans and State Plans

The amount recognized as expense for defined contribution plans amounted to € 201 million in the fiscal year 2019 (fiscal year 2018: € 208 million and fiscal year 2017: € 233 million). Contributions to state plans amounted to € 431 million in the fiscal year 2019 (fiscal year 2018: € 399 million and fiscal year 2017: € 365 million).

#### 9.9.6.2.3 Sensitivity Analysis

Our DBO amounted to € 3,310 million as of September 30, 2019 (September 30, 2018: € 2,831 million; September 30, 2017: € 2,961 million). The measurement of the DBO depends on certain actuarial assumptions, including discount rate, rate of compensation increase, rate of pension progression and mortality rates as further set out in Note 14 to the Audited Combined Financial Statements. A one-half-percentage point change in the assumptions for the discount rate, the rate of compensation increase and the rate of pension progression set out in the table below would have resulted in the following increase (decrease) of our DBO:

(in € million, audited)	As of September 30,					
	2019		2018		2017	
	increase	decrease	increase	decrease	increase	decrease
Discount rate . . . . .	(209)	246	(174)	193	(192)	212
Rate of compensation increase . . . . .	17	(15)	16	(15)	14	(13)
Rate of pension progression . . . . .	79	(72)	56	(53)	59	(56)

The effect of a 10% reduction in mortality rates for all beneficiaries would result in an increase of the DBO of € 79 million as of September 30, 2019 (September 30, 2018: € 62 million; September 30, 2017: € 71 million).

Sensitivities reflect changes in our DBO solely for the assumption changed. For more information, see Note 14 to our Audited Combined Financial Statements.

In connection with the Spin-off, Siemens Energy will appoint new providers for mortality tables in Germany as well as for the discount rates of the main currency zones.

### 9.9.6.3 Commitments and Contingencies

Siemens Energy issues guarantees of third-party performance, which mainly include performance bonds and guarantees of advanced payments in a consortium. In the event of non-fulfillment of contractual obligations by the consortium partner(s), Siemens Energy will be required to pay up to the agreed-upon maximum amount of € 399 million as of June 30, 2020 (September 30, 2019: € 147 million; September 30, 2018: € 139 million; September 30, 2017: € 145 million). These agreements typically have terms of up to ten years.

Siemens Energy also issued guarantees for own joint ventures amounting to € 144 million as of September 30, 2019 (September 30, 2018: € 135 million; September 30, 2017: € 133 million).

Besides the guarantees issued by Siemens Energy described above, Siemens Group issued collaterals and credit letters in favor of Siemens Energy and Siemens Energy's investments. For further details, please see Note 17 and Note 26 to the Audited Combined Financial Statements. Under the Master Separation Agreement, SE Global GmbH & Co. KG has agreed with Siemens AG to be jointly and severally liable for certain securities issued or procured by Siemens, including guarantees. SE Global GmbH & Co. KG upon request shall use commercially reasonable efforts to procure that Siemens Group Companies are discharged from the above-mentioned Securities. Under the German Contribution Agreement, SE Global GmbH & Co. KG has assumed also *vis-à-vis* Siemens AG the obligation to use commercially reasonable efforts to procure that SGRE discharges securities granted under a guarantee facility agreement with Siemens and has assumed joint and several liability towards Siemens AG for SGRE's payment obligations, in particular for the payment of due security provision fees, expenses and other costs. See also "18.1.1.3(1) Securities issued by banks or the Siemens Group".

Future payment obligations under non-cancellable operating leases<sup>1)</sup> are:

	As of September 30,		
	2019	2018	2017
	(audited, in € million)		
Within one year . . . . .	350	328	310
After one year but no more than five years . . . . .	606	490	600
More than five years . . . . .	603	488	517
Total . . . . .	1,559	1,306	1,427

<sup>1)</sup> Due to the first time application of IFRS 16 from October 1, 2019 (see "9.5 Key Factors Affecting Comparability"), there is no longer a distinction between operating and finance leases. All payment obligations from leases with a term of more than twelve months, were recognized and a separate disclosure of future payment obligations is obsolete (see also Note 1 to the Unaudited Condensed Combined Interim Financial Statements).

Total operating rental expense (including operating expenses and service charges for real estate leasing contracts with Siemens Group) for the year ended September 30, 2019 were € 753 million (September 30, 2018: € 879 million, 2017: € 815 million).

Siemens Energy is jointly and severally liable and has capital contribution obligations as a partner in commercial partnerships.

## 9.10 Disclosure About Market and Other Financial Risks

During the fiscal years 2019, 2018 and 2017 and the nine-month period ended June 30, 2020, Siemens Energy managed and controlled its financial risks in accordance with Siemens Group policies. Siemens Energy (except SGRE business) also delegated responsibilities to central functions of Siemens Group. Following Spin-Off Completion, Siemens Energy will manage its financial risks independently from Siemens Group with substantially similar procedures to the procedures described below. Financial risk management for the SGRE business is separately done on the level of SGRE.

### 9.10.1 Market Risk

Increasing market fluctuations may result in significant earnings and cash flow volatility risk for Siemens Energy. The Siemens Energy business as well as its investment and financing activities are

affected particularly by changes in foreign exchange rates and interest rates. In order to optimize the allocation of financial resources across Siemens Energy's segments and entities, as well as to achieve its aims, Siemens Energy identifies, analyzes and manages the associated market risks. Siemens Energy seeks to manage and control these risks primarily through its regular operating and financing activities and uses derivative financial instruments when deemed appropriate.

In order to quantify market risks Siemens Energy utilized a system based on Value at Risk ("VaR"), which is also used for internal management of Siemens Group Corporate Treasury activities. The VaR figures are calculated based on historical volatilities and correlations of various risk factors, a ten days holding period, and a 99.5% confidence level. This risk measurement approach might be changed in the future.

Actual results that are included in the Combined Statements of Income or Combined Statements of Comprehensive Income may differ substantially from VaR figures due to fundamental conceptual differences. While the Combined Statements of Income and Combined Statements of Comprehensive Income are prepared in accordance with IFRS, the VaR figures are the output of a model with a purely financial perspective and represent the potential financial loss which will not be exceeded within ten days with a probability of 99.5%. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations including the following. A ten days holding period assumes that it is possible to dispose of the underlying positions within this period. This may not be valid during continuing periods of illiquid markets. A 99.5% confidence level means that there is a 0.5% statistical probability that losses could exceed the calculated VaR. The use of historical data as a basis for estimating the statistic behavior of the relevant markets and finally determining the possible range of the future outcomes on the basis of this statistic behavior may not always cover all possible scenarios, especially those of an exceptional nature.

Any market sensitive instruments, including equity and interest bearing investments related to Siemens Energy pension plans are not included in the following quantitative and qualitative disclosures.

### **9.10.2 Foreign Currency Exchange Rate Risk**

#### **9.10.2.1 Transaction Risk**

Each Siemens Energy unit conducting businesses with international counterparties leading to future cash flows denominated in a currency other than its functional currency is exposed to risks from changes in foreign currency exchange rates. In the ordinary course of business Siemens Energy entities are exposed to foreign currency exchange rate fluctuations, particularly between the euro, U.S. dollar, British Pound, Danish Krone and Renminbi. Foreign currency exchange rate exposure is partly balanced by purchasing of goods, commodities and services in the respective currencies as well as production activities and other contributions along the value chain in the local markets.

The operating units are prohibited from borrowing or investing in foreign currencies on a speculative basis. Financing from Siemens Group or investments of operating units are preferably carried out in their functional currency or on a hedged basis.

According to the Siemens Group policy, Siemens Energy units (without SGRE) are responsible for recording, assessing and monitoring their foreign currency transaction exposure. The net foreign currency position of Siemens Energy (without SGRE) units serves as a central performance measure and has to be hedged within a band of at least 75% but no more than 100%. The future policy of Siemens Energy will deviate from Siemens Group policies to account for Siemens Energy's access to hedging transactions in a stand-alone setup, including its rating as a stand-alone Group.

Generally, until Spin-Off Completion the Siemens Energy units (excluding SGRE and Siemens Energy entities in certain regulated countries, e.g., Brazil, Turkey) concluded and will continue to conclude their hedging activities with Siemens Group Treasury. Since April 1, 2020, SGRE units conclude their hedging activities with external counterparties, only.



As of September 30, 2019, the VaR relating to foreign currency exchange rates was € 10 million (September 30, 2018: € 9 million, September 30, 2017: € 12 million). This VaR was calculated under consideration of items of the Combined Statement of Financial Position in addition to firm commitments which are denominated in foreign currencies, as well as foreign currency denominated cash flows from forecast transactions for the following twelve months.

#### **9.10.2.2 Translation Risk**

Many Siemens Energy units are located outside the Eurozone. Because the financial reporting currency of Siemens Energy is the euro, the financial statements of these subsidiaries are translated into euro for the preparation of the Combined Financial Statements. To consider the effects of foreign currency translation in the risk management, the general assumption is that investments in foreign-based operations are permanent and that reinvestment is continuous. Effects from foreign currency exchange rate fluctuations on the translation of net asset amounts into euro are reflected in the Combined Statements of Changes in Invested Equity.

#### **9.10.3 Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This risk arises whenever interest terms of financial assets and liabilities are different. Siemens Energy's exposure to the risk of changes in market interest rates relates in most parts to financial investments and borrowings to Siemens Group via Siemens Group Treasury, mainly with fixed rates of interest. Historically, long-term liabilities mainly related to loans with Siemens Group (except SGRE business). SGRE mainly uses external sources to finance parts of its operations, with either fixed or variable interest rates.

Siemens Energy (except SGRE business) is mainly financed by Siemens Group Treasury and interest rate risk management is performed at the level of Siemens Group. Consequently, until the Spin-Off Completion, Siemens Energy (except SGRE business) does not manage its interest rate risk actively. SGRE continuously analyses the split of external financing at variable and fixed rates to optimize its interest rate risk exposure.

As of September 30, 2019, the VaR relating to the interest rate was € 157 million (September 30, 2018: € 57 million, September 30, 2017: € 123 million). The changes were mainly driven by changing interest rate volatilities for the US-dollar.

#### **9.10.4 Liquidity Risk**

Liquidity risk results from Siemens Energy's inability to meet its financial liabilities. In the periods presented, Siemens Energy (excluding SGRE) was largely financed by Siemens Group and invested excess liquidity using Siemens Group's cash pooling and cash management systems. Siemens Energy (excluding SGRE) mitigates liquidity risk by the implementation of effective working capital and cash management as well as the arrangement of credit facilities with financial institutions. SGRE manages liquidity risk independently on the level of SGRE, mainly via bank financing, and invests excess liquidity with banks.

The following table reflects Siemens Energy's contractually fixed pay-offs for settlement, repayments and interest. The disclosed expected undiscounted net cash outflows from derivative financial liabilities are determined based on each particular settlement date of an instrument and based on the earliest date on which Siemens Energy could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on the conditions existing at September 30, 2019:

	Fiscal year			
	2020	2021	2022 to 2024	2025 and thereafter
	(audited) (in € million)			
Non-derivative financial liabilities				
Loans from banks	355	—	494	—
Other financial indebtedness (incl. obligations under finance leases)	38	22	19	30
Trade payables <sup>1)</sup>	4,721	11	—	—
Other financial liabilities <sup>2)</sup>	3,086	111	309	3,096
Derivative financial liabilities	494	98	106	116

<sup>1)</sup> Includes payables to Siemens Group.

<sup>2)</sup> Includes other liabilities to Siemens Group.

In the fiscal years 2019, 2018 and 2017, and in the nine-month period ended June 30, 2020, loans from banks mainly related to the financing of our SGRE segment.

#### 9.10.5 Credit Risk

Credit risk is defined as an unexpected loss in financial instruments if the contractual partner is failing to discharge its obligations in full and on time or if the value of collateral declines.

The effective monitoring and controlling of credit risk through credit evaluations and ratings is a core competency of Siemens Energy's risk management system. In this context, until Spin-Off Completion, Siemens Energy is bound to the credit policy implemented by Siemens Group.

Siemens Group maintains a Credit Risk Intelligence Unit to which numerous operating units of Siemens Energy regularly transfer business partner data as a basis for a centralized rating and credit limit recommendation process. Due to the identification, quantification and active management of credit risks, credit risk transparency is increased.

Ratings and individually defined credit limits are based on generally accepted rating methodologies, with information obtained from customers, external rating agencies, data service providers and credit default experiences. The ratings used consider appropriate forward-looking information significant to the specific financial instrument like expected changes in the obligor's financial position, shareholders, management or operational risks, as well as broader forward-looking information, such as expected macroeconomic, industry-related and competitive developments. A country-specific risk component derived from external country credit ratings is also considered.

An exposure is considered defaulted if the obligor is unwilling or unable to pay its credit obligations. A range of internally defined events trigger a default rating, including the opening of bankruptcy proceedings, receivables due past 90 days or a default rating by an external rating agency.

To analyze and monitor credit risks, Siemens Energy applies various systems and processes. Until Spin-Off, a main element is a central IT application of Siemens Group that processes data from operating units together with rating and default information and calculates an estimate which may be used as a basis for individual bad debt provisions. After Spin-Off, Siemens Energy will continue to receive such information from Siemens Group under a service level agreement.

Additionally, qualitative information is considered, to particularly incorporate latest developments.

The carrying amount is the maximum exposure to a financial assets' credit risk. Collateral reduces the valuation allowance to the extent it mitigates credit risk. Collateral needs to be specific, identifiable and legally enforceable to be taken into account.

As of September 30, 2019, collateral of € 97 million (September 30, 2018: € 67 million, September 30, 2017: € 35 million) related to financial assets measured at fair value. Those collaterals are off-setting positions for derivatives providing protection from the risk of a counterparty's insolvency. As of September 30, 2019, collateral held for financial assets measured at amortized cost were € 333 million (September 30, 2018: € 372 million, September 30, 2017: € 283 million), comprising letters of credit, guarantees and credit insurance policies. As of September 30, 2019, collateral held for contract assets were € 14 million (September 30, 2018: € 30 million, September 30, 2017: € 0 million), comprising letters of credit (September 30, 2018: Guarantees).

Trade receivables of Siemens Energy units are generally rated internally; as of September 30, 2019, approximately 38% had an investment grade rating and 62% had a non-investment grade rating. Contract assets generally show similar risk characteristics as trade receivables in operating units.

Amounts above do not represent economic credit risks, since they neither consider collateral held nor valuation allowances already recognized.

#### **9.11 Material Accounting Policies and Critical Accounting Estimates**

See Note 2 of the Audited Combined Financial Statements for a description of material accounting policies and critical accounting estimates.

#### **9.12 Information from the Audited Unconsolidated Financial Statements**

The Audited Unconsolidated Financial Statements were prepared in accordance with the requirements of German commercial law applicable to business corporations (German GAAP) and contain a balance sheet as well as an income statement. During the fiscal year ended September 30, 2019, the Company was a dormant company without any business operations. Therefore, the Company's unconsolidated financial statements for the fiscal year ended September 30, 2019 have limited information value.

In the fiscal year 2019, the Company recorded an accumulated loss of € 14.9 thousand (fiscal year 2018: € 15.7 thousand), mainly due to general administrative expenses related to the procurement of services such as bookkeeping, IT and the auditing of the unconsolidated financial statements, which amounted to € 14.3 thousand in the fiscal year 2019 (fiscal year 2018: € 10.6 thousand). In the fiscal year 2019, other income of € 15.7 thousand was fully offset by loss carryforward. Shareholders' equity and liabilities amounted to € 188.6 thousand as of September 30, 2019 (as of September 30, 2018: € 177.4 thousand). Thereof, shareholders' equity amounted to € 185.1 thousand as of September 30, 2019 (as of September 30, 2018: € 177.3 thousand) and liabilities amounted to € 3.4 thousand as of September 30, 2019 (as of September 30, 2018: € 0 thousand).

For further information on the Audited Unconsolidated Financial Statements of the Company, see pages "F-145" et seq.

## 10 PROFIT FORECAST

*References to the “Siemens Energy Group”, the “Group”, “Siemens Energy”, “we”, “us” or “our” are references to the combined group of entities and business activities comprising the Siemens Energy business, with the Siemens Energy AG (the “Company”) acting as the ultimate holding company as from the completion of the transfer of shareholdings in entities owned by Siemens AG to the Company (“Spin-Off Completion”).*

Our forecast for the Group’s Adjusted EBITA Margin before Special Items and for the Segment’s Adjusted EBITA Margin before Special Items for each of the Group’s two reportable segments Gas and Power (the **“Gas and Power Segment”**) and Siemens Gamesa Renewable Energy (the **“SGRE Segment”**, and the Gas and Power Segment and the SGRE Segment each a **“Segment”**, and together the **“Segments”**) for the fiscal year ending September 30, 2020 (**“fiscal year 2020”**) and the fiscal year ending September 30, 2021 (**“fiscal year 2021”**) (the **“Adjusted EBITA Margin before Special Items Forecast”**, and together with the explanatory notes, hereinafter collectively referred to as the **“Profit Forecast”**) is like any forward-looking statement necessarily based on assumptions and estimates about future events and actions, including management’s assessment of opportunities and risks. Such assumptions and estimates are inherently subject to significant business, operational, economic and competitive uncertainties and contingencies, many of which are beyond our control, and upon assumptions with respect to future business decisions subject to change.

The Profit Forecast is based on the factors and assumptions made by the Company’s executive board (*Vorstand*) (**“Executive Board”**) with respect to the developments of the Group’s Adjusted EBITA Margin before Special Items and the Segment’s Adjusted EBITA Margin before Special Items as set out below. These assumptions relate to (i) factors that are beyond our control and related assumptions and (ii) factors that can be influenced by us and related assumptions. Although we believe that these factors and assumptions are reasonable on the date on which the Profit Forecast is prepared, they may be subsequently proved to be inappropriate or incorrect. If one or more assumptions prove to be inappropriate or incorrect, the actual Group’s Adjusted EBITA Margin before Special Items and the actual Segment’s Adjusted EBITA Margin before Special Items for the fiscal years 2020 and 2021 may deviate materially from the Profit Forecast. Accordingly, prospective investors should treat this information with caution and should not place undue reliance in the Profit Forecast.

The key performance indicator described below may not be comparable to other similar titled measures of other companies, has limitations as analytical measure and should not be considered in isolation or as substitute for an analysis of the Group’s results as reported under International Financial Reporting Standards (**“IFRS”**):

### 10.1 Definition of Adjusted EBITA Margin before Special Items

We use Adjusted EBITA Margin before Special Items as a key performance indicator as we believe it is a meaningful measure to evaluate the performance of our business activities over time. We understand that this measure is broadly used by analysts, and investors in assessing our performance.

Adjusted EBITA Margin before Special Items is used by us as key financial measure to assess the operating performance of our Segments and the Group. The way we measure Adjusted EBITA Margin before Special Items may not be consistent in the way these measures, similar measures or measures with similar names are determined by other companies. Accordingly, Adjusted EBITA Margin before Special Items as presented herein may not be comparable to these measures, similar measures or measures with similar names as presented by other companies.

#### 10.1.1 Group’s Adjusted EBITA Margin before Special Items

For the purpose of our Profit Forecast, Adjusted EBITA before Special Items for the Group is calculated as earnings before financial result without financial result from operations, income taxes, amortization expenses related to intangible assets acquired in business combinations and goodwill impairments as well as Special Items (as defined below) (**“Group’s Adjusted EBITA before Special Items”**).

The following table provides a reconciliation of the Group's net income (loss) to the Group's Adjusted EBITA before Special Items:

**Net income (loss)**

+/- Income tax (expenses) / gains

+/- Financial result<sup>1)</sup>

-/+ Financial result from operations<sup>2)</sup>

+ Amortization of intangible assets acquired in business combinations and goodwill impairments

+ Special Items<sup>3)</sup>

**= Group's Adjusted EBITA before Special Items**

<sup>1)</sup> "Financial result" is defined as the sum of (i) interest income, (ii) interest expenses and (iii) other financial income (expenses), net.

<sup>2)</sup> "Financial result from operations", as subpart of Financial result, is included in Adjusted EBITA. Financial result from operations refers to interest income related to receivables from customers, from cash allocated to the segments and interest expenses on payables to suppliers.

<sup>3)</sup> We use "Special Items" when we refer to the following items:

(i) *Restructuring and integration costs* – Restructuring costs refer to personnel measures leading to severance charges, mainly related to the Gas and Power segment. Integration costs refer to the SGRE segment only and are related mainly to the merger of Gamesa and Siemens Wind Power into SGRE S.A. and, to a lesser extent, to the acquisition of assets from Senvion;

(ii) *Stand-alone costs* – Stand-alone costs relate to the preparation of our separation from Siemens Group and the formation of Siemens Energy as an independent enterprise. They relate to the Carve-Out and Spin-Off of Siemens Energy and include, amongst others, costs for information technology ("IT") applications, external service providers, costs related to the listing, and personnel related costs. For future reporting periods, especially personnel-related costs will be incurred for retention and accelerated vesting of share-based compensation; and

(iii) *Strategic portfolio decisions* – Major asset impairments and write-downs related to Siemens Energy Group strategic portfolio decisions.

In the opinion of Siemens Energy's management, these Special Items affect Adjusted EBITA on a recurring or non-recurring basis. These Special Items are not a recognized term under IFRS. Special Items are subject to certain discretion in the allocation of various income and expenses and the application of discretion may differ from company to company. Special Items also include expenses that will recur in future accounting periods. Specifically, we expect further significant personnel related restructuring costs and to a limited extent stand-alone costs in the coming fiscal years.

The "Group's Adjusted EBITA Margin before Special Items" is defined as the Group's Adjusted EBITA before Special Items divided by revenues of the Group.

### 10.1.2 Segment's Adjusted EBITA Margin before Special Items

For the purpose of our Profit Forecast, Adjusted EBITA before Special Items for the Segments is calculated as earnings before financial result without financial result from operations, income taxes, amortization expenses related to intangible assets acquired in business combinations and goodwill impairments as well as Special Items ("Segment's Adjusted EBITA before Special Items").

The following table provides a reconciliation of the Group's net income (loss) to the Segment's Adjusted EBITA before Special Items:

**Net income (loss)**

+/- Income tax (expenses) / gains

+/- Financial result

-/+ Financial result from operations

+ Amortization of intangible assets acquired in business combinations and goodwill impairments

+ Special Items



-/+ Reconciliation (- income from real estate services + centrally carried pension expense + eliminations, Treasury and other central items)

= **Sum of Segment's Adjusted EBITA before Special Items of Gas and Power Segment and SGRE Segment**

The **"Segment's Adjusted EBITA Margin before Special Items"** is defined as the Segment's Adjusted EBITA before Special Items divided by the respective Segment's total revenue.

The Group's Adjusted EBITA Margin before Special Items and each Segment's Adjusted EBITA Margin before Special Items are collectively referred to as **"Adjusted EBITA Margin before Special Items"**.

## 10.2 Profit Forecast for Siemens Energy AG

The following table summarizes our Adjusted EBITA Margin before Special Items Forecast for the fiscal year 2020 and for the fiscal year 2021:

Adjusted EBITA Margin before Special Items	For the Fiscal Year ended September 30,	
	2020	2021
Group's Adjusted EBITA Margin before Special Items . . . . .	(1)% – 1%	3% – 5%
Segment's Adjusted EBITA Margin before Special Items for the Gas and Power Segment . . . . .	0% – 2%	3.5% – 5.5%
Segment's Adjusted EBITA Margin before Special Items for the SGRE Segment . . . . .	(3)% – (1)%	3% – 5%

## 10.3 Underlying Principles

The Profit Forecast was prepared in accordance with the principles of the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland e. V. – "IDW"*) in IDW Accounting Practice Statement: Preparation of Forecasts and Estimates in Accordance with the Specific Requirements of the Regulation on Prospectuses (IDW AcPS AAB 2.003) (*IDW Rechnungslegungshinweis: Erstellung von Gewinnprognosen und -schätzungen nach den besonderen Anforderungen der Prospektverordnung* (IDW RH HFA 2.003)).

Although Adjusted EBITA Margin before Special Items is not an IFRS measure of operating income, operating performance or liquidity, the Adjusted EBITA Margin before Special Items Forecast was prepared on the basis of IFRS as adopted by the European Union. With respect to the accounting policies applied, reference is made to the Notes to the Audited Combined Financial Statements as of and for the fiscal years ended September 30, 2019, 2018 and 2017 of Siemens Energy and with respect to IFRS 16 – "Leases" applied for the purpose of the Profit Forecast, reference is made to the Unaudited Condensed Combined Interim Financial Statements of Siemens Energy as of and for the nine-month period ended June 30, 2020.

The Profit Forecast has been prepared solely for the inclusion in this Prospectus for the admission to trading of the Company's shares and represents our best estimate as of the date of the Profit Forecast (September 3, 2020). In preparing the Profit Forecast, we have considered a number of factors to take into account the operational and financial performance for the Profit Forecast. The expected development of these factors is based on assumptions made by the Executive Board which are set forth below.

## 10.4 Factors Beyond Our Control and Related Assumptions

The Profit Forecast is subject to factors beyond our control. These factors, and our assumptions taken about their impact, are described below and account for the Group, the Gas and Power Segment and the SGRE Segment:

### A) Unforeseen Events such as Force Majeure

We assume that no material unforeseen events will occur that could result in material or lasting constraints for the ongoing operations of the Group and the Segments, such as force majeure

(e.g., fire, floods, hurricanes, storms, earthquakes, war and acts of terror, pirates or a further pandemic; for COVID-19 please refer to the following section).

#### *B) Economic Development, COVID-19 and Oil Price*

Our business operations cover core markets in nearly all countries / regions all over the world. Changes in economic growth rates in countries or regions might influence the size of our addressed markets, and, as a result, our business volume and profitability levels.

We are directly and, through our customers and supply chain, indirectly exposed to global and local spreads of COVID-19 and the recent oil price developments by impacts on our addressed markets as well as by measures aimed at limiting their impact, including restrictions on travel, imposition of quarantines, prolonged closures of workplaces as well as short-time work and similar measures, curfews or other social distancing measures. We expect the pandemic and lower oil price level to result in volatility for our addressed markets, in particular with respect to customer capital expenditures, supply chain delays and project timing compared to the fiscal year 2019. We assume that the oil price will continue to recover, however will still be substantially below the pre-COVID-19 levels in the fiscal year 2020 and the fiscal year 2021. We assume both the fiscal years 2020 and 2021 to be negatively impacted, however the impact is expected to differ among our businesses. Especially, due to COVID-19, we expect a negative impact on economic growth worldwide. We assume a negative global economic impact for the fiscal year 2020 compared to the fiscal year 2019 and a recovering global economic situation for the fiscal year 2021 compared to the fiscal year 2020. We assume that there is no second wave of COVID-19 or a significant prolongation of the current pandemic leading to comprehensive lockdown measures as experienced in the first half of 2020. Due to our business mix, we expect the impact of COVID-19 and oil price on our business to be less than on our addressed markets.

#### *C) Foreign Currency Translation*

Our Adjusted EBITA Margin before Special Items Forecast is based on exchange rate assumptions and foreign exchange translation from local currency to euro. Based on current forward rates at planning date, we assume the following most relevant average exchanges rates for the fiscal years 2020 and 2021:

	For the Fiscal Year ended September 30,	
	2020	2021
USD / EUR .....	1.12	1.09
DKK / EUR .....	7.46	7.45
GBP / EUR .....	0.88	0.90
CNY / EUR .....	7.87	7.88

#### *D) Foreign Currency Transactions and Hedging*

Hedging of foreign currency transaction risks generally follows Siemens AG guidelines and the Siemens AG hedging approach which enables natural hedges, with anticipation of planned changes for the Siemens Energy hedging approach after Spin-Off. We assume higher costs of hedging related to a different credit rating for Siemens Energy and therefore a negative contribution to our Adjusted EBITA Margin before Special Items in the fiscal year 2021 for both Segments.

Due to Siemens AG ceasing control over Siemens Energy with Spin-Off Completion, significant hedging positions for the Siemens Energy businesses need to be either terminated and re-hedged at market-rates with the central Siemens Energy treasury department or novated to the central Siemens Energy treasury department within a certain period near spin-off date. Based on the market conditions at the date of the Profit Forecast, we assume no significant costs related to the portfolio transfer and therefore no significant effect on our Adjusted EBITA Margin before Special Items in the fiscal year 2020 and the fiscal year 2021. Changes to market conditions until the transfer and associated valuation differences can lead to a positive or negative impact on the actual costs of transfer and thus our Adjusted EBITA Margin before Special Items Forecast.

#### *E) Geopolitical, Legislative and Other Regulatory Measures*

Changes in economic regulations related to monetary and budgetary policy like subsidies, might influence our Adjusted EBITA Margin before Special Items. International trade disputes, sanctions or limitations to market entries might lead to changes in the customer, partner and supplier network and affect negatively our Adjusted EBITA Margin before Special Items.

For the fiscal year 2020 and for the fiscal year 2021, we assume a stable political environment and no material changes in the legal and regulatory framework or regulatory actions to which we are or may become subject to, such as support schemes for renewables, tariffs or tax laws. We assume protective measures due to international trade disputes to remain on the level of the fiscal year 2019. We do not expect to lose our current access to our most relevant markets due to newly imposed trade barriers in the fiscal years 2020 and 2021. Furthermore, we assume no significant adverse effects resulting from political, legislative and other regulatory matters. Moreover, we assume no significant adverse effects resulting from interpretation of existing or new tax regulations.

#### *F) Competition and Pricing*

Price pressure by customers and competitors are major factors to our business. In our service business, we see that competitors are increasingly targeting to grow business related to third-party installations, *i.e.*, also Siemens Energy, which might affect our revenues from the installed base. For selected businesses, we expect a higher price pressure. We assume a negative impact on Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021 compared to the fiscal year 2019.

#### *G) Energy Demand*

We assume an overall lower electricity and gas consumption for the fiscal year 2020 compared to the fiscal year 2019, due to the shutdown effects as a result of the COVID-19 crisis. We also assume that these effects will partially be compensated by a higher energy demand in the field of data center or digital media supply. Overall, we expect a negative impact for our Adjusted EBITA Margin before Special Items Forecast in the fiscal year 2020 compared to the fiscal year 2019.

For the fiscal year 2021, we expect an increased electricity and gas consumption compared to the fiscal year 2020 but still slightly below the electricity and gas consumption of the fiscal year 2019 due to the expected economic recovery as well as from acceleration in digitalization. Overall, we expect a slightly negative impact for our Adjusted EBITA Margin before Special Items Forecast in the fiscal year 2021 compared to fiscal year 2019.

#### *H) Weather Conditions*

We assume weather conditions for the fiscal years 2020 and 2021 similar to those in the fiscal year 2019 and therefore no impact on our Adjusted EBITA Margin before Special Items.

#### *I) Decarbonization and Market Trends*

Driven by global climate change, there is a new trend towards environmentally-friendly technologies. We assume that these market trends are leading to new applications and new business opportunities. To strengthen our decarbonization portfolio, we have laid a focus on new products and projects (*e.g.*, industry greenfield captive power, SF<sub>6</sub>-free high-voltage equipment, utility brownfield transformation for utilities or concepts for fully decarbonized island solutions). Moreover, we built up external partnerships and additional decarbonization specific competencies. We assume continuous growth in these new business areas, depending on the further development of the energy transition, with a positive contribution to Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021 compared to the fiscal year 2019. We further assume a positive impact resulting from our wind power portfolio due to a market shift towards green energy which is expected to positively impact our Adjusted EBITA Margin before Special Items Forecast.

Increasing decarbonization might redirect parts of the customer's capital expenditure towards higher share of renewables (in some of our businesses) and investments in higher efficiency portfolio of our conventional businesses, limit access to financing of fossil fuels and power generation projects, or lead to cancellation of projects. The hydrogen economy offers decarbonization business opportunities while at the same time we need to invest in respective technologies and business models. In certain conventional businesses, we assume that these changes will negatively impact our results and therefore contribute negatively to our Adjusted EBITA Margin before Special Items Forecast compared to the fiscal year 2019.

#### *J) Commodity Prices and Supply of Raw Materials*

The Group purchases a broad range of materials, components and parts relating to its manufacturing activities. Hence, the operating profitability is affected by the volatility and partially by related price hedging in several raw material prices such as copper, aluminum and zinc.

We assume that the commodity prices of some of the most relevant commodities for the fiscal years 2020 and 2021 will on average increase as compared to the fiscal year 2019.

We further assume no severe shortages in the supply of our most relevant commodities for the fiscal years 2020 and 2021 except for temporary shortage due to COVID-19.

#### *K) Workforce*

We assume that we will continue to be able to hire the highly qualified personnel we require in order to ensure that we continue to have adequate technical and operational capabilities as compared to the fiscal year 2019.

#### *L) IT-System and Licenses*

As part of the carve-out several IT-Systems need to be taken over from Siemens AG or are being newly implemented. New IT-licenses for these systems need to be acquired from various vendors. In the past Siemens AG purchased these licenses centrally and realized large volume rebates which we will not be able to realize to this extent. We assume the increased costs for the implementation of our new IT-systems and the purchase of new licenses leading to a decrease in Adjusted EBITA Margin before Special Items Forecast compared to the fiscal year 2019.

#### *M) Rating and Guarantee Costs*

For Siemens Gamesa Renewable Energy, S.A., Zamudio, Spain, which together with its consolidated subsidiaries forms our SGRE Segment, we assume that the pricing of bank guarantees remains substantially unchanged. Siemens Energy AG as a stand-alone entity has been awarded a solid investment-grade rating, however, lower than the rating of Siemens AG. Overall, we expect an increase in commissions for bank guarantees and for remaining guarantees issued by Siemens or under Siemens bank facilities in the lower two-digit basis point area for the fiscal year 2021 compared to the fiscal year 2019. Furthermore, due to increasing costs for project-related guarantees, primarily for guarantees issued by Siemens AG, and therefore a cumulative catch-up impact, we assume a negative impact on our Adjusted EBITA Margin before Special Items for the fiscal year 2020.

#### *N) Partnering*

Despite temporary challenges due to COVID-19, we assume no default or liquidity constraints of any of our partners (including but not limited to Joint Venture Partners, consortium partners, customers and suppliers) at this point in time and that our partners with significant scope are executing according to their legal obligations.

#### *O) Insurance*

From the first fiscal year after Spin-Off Completion, we assume higher insurance costs for Siemens Energy (excluding the SGRE Segment) stand-alone programs due to an expected

hardened insurance market-environment, loss of joint purchasing power and loss of shared capacities with Siemens. We assume a negative impact on Adjusted EBITA Margin before Special Items for the fiscal year 2021.

#### *P) Equity Investments in Shareholding*

We hold interest in minority shareholdings in several entities, from some of which we expect positive returns to positively impact our Adjusted EBITA Margin before Special Items primarily in the fiscal year 2021. Proceeds from those investments depend on the actual performance of the respective entity which is beyond our control and might adversely impact our Adjusted EBITA Margin before Special Items Forecast.

#### *Q) Customer Behavior*

We have some projects in our backlog which currently are being re-evaluated with the customers. We assume a reasonable customer behavior and therefore no negative contribution to Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021.

### **10.5 Factors That Can Be Influenced By Us and Related Assumptions**

In addition to the factors that are beyond our control, the following factors that can be influenced by the Company may also affect the defined Adjusted EBITA Margin before Special Items Forecast:

#### **10.5.1 Gas and Power Segment**

##### *A) Cost Productivity*

We have implemented and will continue to implement several cost efficiency programs to improve the cost of goods sold ratio and the selling, general and administrative expenses ratio compared to the fiscal year 2019. Due to COVID-19, we assume a negative impact on Adjusted EBITA Margin before Special Items for the fiscal year 2020 compared to the fiscal year 2019. For the fiscal year 2021, we assume to achieve the anticipated timing and volume of these cost productivity measures and therefore a positive contribution to Adjusted EBITA Margin before Special Items compared to the fiscal year 2020.

##### *B) Global Footprint Changes*

We have been implementing a series of restructuring programs aimed at optimizing our global footprint, increasing factory utilization rates compared to the fiscal year 2019, streamlining our internal processes, supply chain management, and project execution. Also, we expect to drive the profitability of the divisions through further cost-out programs, optimizing portfolio and enhancing organizational efficiency. We assume that we reach the anticipated timing and the volume of these productivity measures and therefore expect the savings from these measures to have a positive impact on Adjusted EBITA Margin before Special Items while related non-personnel restructuring costs are assumed to have a negative impact on Adjusted EBITA Margin before Special Items, both in the fiscal year 2020 and, to a larger degree, in the fiscal year 2021.

##### *C) Supply Chain*

We have significant quantitative and qualitative dependencies on key suppliers (e.g., single source situation). This could result in a lack of such supplies which could trigger clear additional costs due to delays, rework or redesign. Except for the changes described below, we assume no changes of our cost structure for the fiscal years 2020 and 2021 in this respect compared to the fiscal year 2019.

Furthermore, compared to the fiscal year 2019 we assume a moderate increase in purchasing price for some of our commodities (e.g., specific products like blades) due to consolidation in the respective supplier market leading to a negative contribution to our Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021.



## **10.5.2 SGRE Segment**

### *A) Cost Productivity*

We have implemented and continue to implement cost efficiency programs in the fiscal year 2020 to improve productivity compared to the fiscal year 2019. We assume to reach the anticipated timing and volume of these productivity measures in the fiscal year 2021. We assume these programs to have a positive impact on productivity and will therefore positively contribute to Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021 to the same extent.

### *B) Global Footprint Changes*

We are continuously evaluating our global manufacturing footprint to ensure an efficient and effective setup, however, also ensuring no significant dependency from certain countries. Local content requirements must be taken into account. We assume no changes in impact on our Adjusted EBITA Margin before Special Items Forecast in the fiscal years 2020 and 2021 compared to the fiscal year 2019.

### *C) Business Model in India*

We are currently reshaping our business model in India to lower future risk exposure. We expect that the restructuring program will affect our operational business in India and therefore we assume a negative impact on Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021 compared to the fiscal year 2019.

### *D) Manufacturing Quality*

Product quality weaknesses resulting from design or manufacturing phase may result in cost increases during project execution (installation) and following service tenure. Furthermore, the timing for market entry of new products is decisive for market success and subsequently profitability related. We assume a stable product quality and therefore no changes in impact on Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021 compared to the fiscal year 2019.

### *E) Pricing*

Prices for products and subsequently projects may be underestimated during bidding phase in case of unforeseen events (e.g., raw material cost increases, supply chain shortages). We assume no impact on Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021 compared to the fiscal year 2019.

### *F) Supply Chain*

For certain supplies we have significant dependencies on key suppliers (e.g., single-source situation). This could result in a lack of such supplies which could then trigger significant additional costs due to delays, rework or redesign. We assume no changes of our cost structure and therefore no changes in impact on Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021 compared to the fiscal year 2019.

### *G) Synergies*

We assume first synergies, based on a closer collaboration (e.g., related to procurement and other opportunities) between the SGRE Segment, the Gas and Power Segment and Siemens AG, to have a positive impact on Adjusted EBITA Margin before Special Items in the fiscal year 2021 compared to the fiscal year 2019.

## **10.5.3 Group Level**

### *A) Project Execution*

Project execution issues from our side or the side of our partners might result in non-conformance costs and other project charges. We assume anticipated cost overruns and

various anticipated shifts of project milestones which will negatively impact our Adjusted EBITA Margin before Special Items Forecast for the fiscal years 2020 and 2021 compared to the fiscal year 2019.

#### *B) Technical and Quality Issues*

Products, product groups or solutions – both manufactured and sourced – might face risks associated with technical or quality failures that we mitigate with appropriate levels of project contingencies and warranties. We assume a negative impact on Adjusted EBITA Margin before Special Items Forecast from technical and quality failures for the fiscal years 2020 and 2021 compared to the fiscal year 2019.

#### *C) Equity Investments in Projects*

The Group is considering to selectively invest into (energy) projects with potentially not insignificant amounts. Such equity investments are typically exposed to fluctuations which can impact the Group's profits. Such risks are, inter alia, project-specific risks, country risks and currency risks. The Group's profits can also be impacted positively in case such projects perform above expectations. We assume a positive impact on the Adjusted EBITA Margin before Special Items from all major equity investments for the fiscal years 2020 and 2021.

#### *D) Employee Incentives*

We have implemented and plan to implement several incentive programs including share-based compensation, retention and share matching program. The estimated costs have been reflected in our Adjusted EBITA Margin before Special Items Forecast for the fiscal year 2021. We assume a stable base of entitled employees and participants in the plan. Changes to that base could have a positive or negative impact on the Adjusted EBITA Margin before Special Items.

#### *E) Pensions*

The Group's future costs related to pension plans include estimations of future contributions to defined contribution plans as well as estimation of future service costs for defined benefit plans with an assumed negative impact on the Adjusted EBITA Margin before Special Items for the fiscal years 2020 and 2021. In both cases, the actual future costs may deviate from the estimates. Sources for uncertainty may be market volatility (e.g., changes in discount rates for defined benefit plans), movements in the participating population or changes in the plan rules, either caused by the Company's decision or required by changes in the respective legislation.

In addition to these direct costs of pension plans, the future costs include estimates of future indirect costs such as costs of the Company's pension management function, pension related consulting fees, insolvency protection fees, plan provider costs etc. These indirect costs may also change in the future.

#### *F) IT integration Costs*

We assume ongoing costs for the integration of our new IT Landscape for the fiscal year 2020. We assume these costs to increase in the fiscal year 2021 due to a new function setup and therefore a negative impact on Adjusted EBITA Margin before Special Items for the fiscal year 2021.

#### *G) Rebates by Siemens Group*

We assume rebates being granted by Siemens Group for its shared services for the fiscal year 2021. We assume to achieve the agreed volumes and therefore a positive impact on our Adjusted EBITA Margin before Special Items.

#### *H) Margin-related Brand Fee*

A margin-related brand fee scheme on staggered royalty basis has been implemented from the fiscal year 2020 onwards. We assume a negative impact on our Adjusted EBITA Margin before

Special Items for the fiscal year 2020 and the fiscal year 2021 due to the brand fee payable under this royalty scheme.

#### *I) Stand-Alone Function Setup*

Preparing Siemens Energy as a stand-alone group requires the setup of certain functions and capabilities that were provided by Siemens in the past as described above, e.g., related to corporate activities and governance. Accordingly, we assume certain personnel and non-personnel costs related to the transfer of those functions and capabilities from Siemens AG to Siemens Energy as well as a need to acquire additional resources to manage the systems and processes assumed from Siemens AG during the carve out. This also includes certain corporate services that Siemens AG will provide and charge to Siemens Energy. We assume that our Adjusted EBITA Margin before Special Items will be negatively impacted by related costs for the fiscal years 2020 and 2021 compared to 2019. Furthermore, we also assume to drive profitability by a potential new functional set-up for which we assume restructuring costs in the fiscal year 2021.

#### *J) Acquisitions*

We assume no major acquisitions and divestments scheduled at current with an impact on Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021 compared to the fiscal year 2019.

#### *K) Revenue development*

The factor revenue growth is a key factor to Adjusted EBITA Margin before Special Items and serves the Group and Segments as main planning measure for future business developments.

Revenue Growth Rate for the Group shows the development of our revenue as reported and shown in our financial statements and Revenue Growth Rate for the Segments shows the development of our Segment's reported total revenue. "**Revenue Growth Rate**" is defined as the percentage change year-over-year which is calculated by dividing the absolute revenue difference between a base year and the previous period by the previous period revenue. We do not adjust Revenue Growth Rate for potential effects from portfolio transactions and or implications from currency effects.

We assume Revenue Growth Rates as follows:

Revenue Growth Rate	For the Fiscal Year ending September 30,	
	2020	2021
Group's Revenue Growth Rate .....	(5)% – (2)%	2% – 12%
Segment's Revenue Growth Rate for the Gas and Power Segment .....	(5)% – (3)%	2% – 11%
Segment's Revenue Growth Rate for the SGRE Segment ...	(7)% – (2)%	3% – 12%

#### *(a) Revenue Growth / Development on Gas and Power Level*

We assume that our order backlog that has already been booked represents a solid basis for future revenue generation for the fiscal years 2020 and 2021 and that such order backlog is converted into revenue as anticipated. For our Profit Forecast in the fiscal year 2021 we assume a stable development of our transactional business (especially service) compared to the fiscal year 2020. We also assume a book-to-bill ratio above 1 for the fiscal years 2020 and 2021 and therefore assume a continued expansion of our order backlog.

We assume that our broad and diverse customer base and installed fleet contributes to the resilience of our business in the fiscal years 2020 and 2021. We assume no significant shift in our portfolio mix in the fiscal year 2020 compared to the fiscal year 2019 and for the fiscal year 2021 compared to the fiscal year 2020.

For the fiscal year 2020 we assume a moderate revenue decline compared to the fiscal year 2019, primarily driven by COVID-19 impacts. For the fiscal year 2021, we assume a return to revenue growth compared to the fiscal year 2020 due to expected recovery from the COVID-19 pandemic.

We assume that our existing new unit orders together with our service business form the basis for our revenue growth in the fiscal year 2021 compared to the fiscal year 2020. With more than 40% revenue contribution, we expect our service business to remain a crucial revenue source in the Gas and Power Segment.

We do not assume significant impacts on our Revenue Growth in the fiscal years 2020 and 2021 based on short-term deviations of the oil price.

*(b) Revenue Growth / Development on SGRE Level*

We consider our revenue in the fiscal years 2020 and 2021 to be highly driven by the conversion from our existing order backlog, which presents a solid basis for our revenue development. We assume that such order backlog is converted into revenue as anticipated. We assume that order growth, in particular in the offshore business, supports the revenue development in the fiscal year 2021. For our Profit Forecast for the fiscal year 2021, we further assume a stable development of our service and product business for the remaining portion that is not covered by the already contractually agreed order backlog compared to the fiscal year 2019.

Our revenue sources depend on the SGRE business mix (onshore, offshore and service). For the fiscal year 2020, we assume an increased onshore and service contribution to our overall slightly decreased revenue compared to the fiscal year 2019. We expect that all businesses will positively contribute to our Revenue Growth in the fiscal year 2021 compared to the fiscal year 2020, with offshore and service being the main driver.

The Revenue Growth Rate is influenced by weather conditions. For the fiscal years 2020 and 2021, we assume normal weather conditions compared to the average of the last five to ten years and therefore we assume no impact on our revenue development.

New trends towards environmentally friendly technologies are driven by global climate change. We assume that these market trends are leading to new applications and new business with a positive impact on our revenue development (in onshore, offshore and service) in the fiscal year 2020 compared to the fiscal year 2019 and the fiscal year 2021 compared to the fiscal year 2020.

Regarding the restructuring of our business model in India, we assume a negative impact to our revenue development in the fiscal year 2020 and the fiscal year 2021 compared to the fiscal year 2019 considering latest reduced onshore market development based on market volume and market share assumptions. Moreover, we assume an unfavorable impact on our onshore market developments in Mexico which will negatively impact our revenue development in the fiscal year 2020.

Neither a positive nor a negative contribution to the Revenue Growth Rate with regards to customer behavior is expected as we assume a stable customer behavior (e.g., project scope alterations) for the fiscal year 2020 compared to the fiscal year 2019 and the fiscal year 2021 compared to the fiscal year 2020.

In the fiscal year 2020 we acquired the Senvion Deutschland GmbH as well as the Portuguese blade factory Ria Blades, S.A. We assume a positive contribution from this acquisition to our Revenue Growth Rate in the fiscal years 2020 and 2021 mainly affecting our service business.

*(c) Revenue Growth on Group Level*

As we are exposed to global and local spreads of COVID-19 and the recent oil price developments, project schedules might shift, customer acceptance might be reached at a later stage or projects are already or might be postponed due to customer's capital expenditures. We do not assume a full market recovery with regards to COVID-19 and the oil price until the end of the fiscal year 2021.

We do not assume changes in contract options that will affect our contract volumes and therefore we do not assume an impact on our Revenue Growth Rate. Customers might renegotiate prices for existing contracts (especially long-term projects) which might affect revenues. For selected businesses, we assume a higher price pressure by customers and competitors and therefore a negative impact on our Revenue Growth Rate for the fiscal year 2020 compared to the fiscal year 2019 and the fiscal year 2021 compared to the fiscal year 2020.

We do not assume an impact on Revenue Growth Rate Forecast from project execution for the fiscal years 2020 and 2021 due to unpredictable risks and associated changes in plan costs.

We assume no major acquisitions and divestments with an impact on our Revenue Growth Rate for the remainder of the fiscal years 2020 and 2021, except the once already publicly disclosed (*i.e.*, Servion).

## **10.6 Other Explanatory Notes**

The Profit Forecast and estimate has been compiled and prepared on a basis which is both: (a) comparable with the historical financial information of Siemens Energy and (b) consistent with Siemens Energy AG's accounting policies.

The Profit Forecast covers results from some extraordinary events or results from non-recurring operations within the meaning of IDW RH HFA 2.003, such as effects related to the COVID-19 pandemic, from a cumulative catch-up impact due to increased costs for project guarantees and the change of parts of expenses resulting from cost savings programs to the extent not excluded in the Profit Forecast as stated above.

As the Profit Forecast relates to periods that have not ended yet and is based on several assumptions regarding uncertain future events and actions, it inherently involves considerable uncertainties. As a result of such uncertainties, the actual Group's Adjusted EBITA Margin before Special Items and/or each Segment's Adjusted EBITA Margin before Special Items for the fiscal year 2020 and/or the fiscal year 2021 may deviate from the respective Adjusted EBITA Margin before Special Items Forecast, even substantially.

The Profit Forecast was prepared on September 3, 2020.



## 11 INDUSTRY OVERVIEW

*With our Gas and Power segment (including the Transmission, Generation and Industrial Applications divisions and other operations) and with our SGRE segment, we operate in various markets, mainly relating to the energy sector. As far as we are aware, there are no comprehensive sources describing the precise markets that Siemens Energy covers with its Gas and Power portfolio. However, there are various government, market research and other publicly available sources, including reports by independent industry publications, covering underlying markets, or individual markets or markets segments, which we consider as part of our own market assessment (see also “4.5 Sources of Market Data and other Information from Third Parties”). Where market portions relevant to our business are not separately reported in available market reports or the therein reported scope does not match our portfolio, we use our own proprietary assessments and calculations. The following information on market environment, market developments, market volumes and the competitive situation, in particular the data relating to our Addressed Transmission Market, our Addressed Generation Market and our Addressed Industrial Applications Market, as defined in this chapter, represents our aggregation of diverse external and internal data and estimates. The respective definitions and assessments for our Addressed Transmission Market, our Addressed Generation Market and our Addressed Industrial Applications Market, as defined in this chapter, are largely based on the businesses that we operate in and the main products, solutions and services that we offer and for which we believe a market can be reasonably assessed. Our internal market assessments have not been verified by a third party. The actual market and competitive environment may differ from our assessment and other market participants or market research companies (which may also use a different market definition, product-based split and/or methodology) may have a different view. To the extent not otherwise indicated, the information contained herein with regard to the environment, developments, growth rates, trends and competitors in the markets in which we operate, is based on our assessments. These assessments, in turn, are based in part on our internal observations of the market, independent and publicly available market sources. The information on the wind energy market, relevant to the business of our SGRE reporting segment, is largely based on several third-party reports.*

*In addition, all assessments regarding future developments and trends in the markets described in this chapter are subject to additional uncertainties relating to the impact of the COVID-19 pandemic, a major disruptive factor, and its various related effects: The pandemic creates significant and uncertain volatility in macroeconomic factors such as the development of gross domestic product (“GDP”), oil and natural gas prices, a pronounced decrease in energy demand, country and customer financial capacity, energy investment, government stimulus and energy policies, as well as volatility in the financial markets. In turn, these factors are expected to have a further impact on the market drivers for our business. The above-mentioned factors make our own and market experts’ projections difficult to assess. Our own market assessments for our Addressed Transmission Market, our Addressed Generation Market and our Addressed Industrial Applications Market, as defined in this chapter, are based on our latest comprehensive annual market update, which relates to market data compiled as of February/March 2020; these figures do not consider the potential impact of the COVID-19 pandemic and the most recent development of oil prices. To the extent relevant information was available, certain qualitative updates on expected market development trends were performed thereafter. Similarly, the external sources cited in this chapter, including with respect to the wind energy market relevant to the SGRE business, have been published on different dates (as stated in each case) and such sources have not always published updates to account for later developments, in particular for the COVID-19 pandemic and related factors mentioned above, or have done so to varying extents. Unless otherwise stated, statements in the Prospectus based on sources published before the outbreak of the COVID-19 pandemic and the plummeting of oil prices do not yet consider the impacts related to these factors. Where sources have published updates based on such major disruptive factors, they have generally stated that any forward-looking information is subject to uncertainties, so that such updates may turn out in hindsight to be inaccurate. The markets may turn out to be more deeply affected by such disruptive factors (or other disruptive factors which*

*may arise in the future) than currently anticipated, and the current projections may differ from newer projections which may be released at a later time and from actual developments.*

*References to our market size or market share assessments for a given year (for example, “2019”) relating to our Addressed Transmission Market, our Addressed Generation Market and our Addressed Industrial Applications Market, as defined further below, are references to the twelve-month period beginning on October 1 of the previous calendar year and ending on September 30 of the referenced year (in the example, October 1, 2018 to September 30, 2019), unless otherwise stated. We have used this reference period rather than the calendar year in order to match the period of our fiscal year, thus allowing us to compare market developments with our own development as per our reporting. The market description of the wind energy market relevant to SGRE is based on calendar years.*

## **11.1 Introduction to the Energy Sector**

### **11.1.1 Overview**

The energy sector encompasses all industries involved in the supply of energy and therefore plays a crucial role in infrastructure and the development of societies worldwide. Modern society consumes large amounts of different forms of energy (e.g., fuels, electricity (also referred to as “power”), heat and hydrogen) supplied by energy systems, which are based on fossil, nuclear or renewables. These energy systems target an affordable, reliable and sustainable energy supply.

The common goal to limit GHG emissions, against the background of increasing energy demand, in order to contain global warming has already led to a transition in the energy mix away from conventional fossil fuels and towards renewables. This change requires the integration of renewables and leads to additional complexity of the grid. This transition is accelerated by megatrends such as globalization and global economic growth, urbanization, demographic change, climate change and digitalization. These megatrends lead to four important developments in our markets: demand growth, decarbonization, decentralization and digitalization. All of these provide opportunities and challenges in our main markets, including our addressed markets (which are defined and explained later in this chapter).

The developments in the energy markets and related technologies are in intensive public discussion, strongly linked to climate change and the deployment of renewable technologies. On a long-term perspective (until 2040), there are significantly divergent views regarding the future development of primary energy demand, the fuel mix and the role of fossil fuel in particular. Those views strongly depend on the assumptions taken, often resulting in a considerable gap between the committed policy action of governments (in the form of “National Determined Contributions” (“NDCs”) under the Paris Agreement) and the required action to limit global warming to “well-below 2°C”, as stated in the Paris Agreement as an agreed target.

While there is a wide range of possible long-term developments for primary energy demand in the “World Energy Outlook 2019” report published by the IEA in November 2019 (“WEO 2019”), from 1% growth (2018-2040 CAGR) in the Stated Policies Scenario to a decline of 0.3% (2018-2040 CAGR) in the Sustainable Development Scenario, the outlook for electricity demand is much more resilient for the two scenarios, with a 2018-2040 CAGR of about 2% growth (for more information on the IEA scenarios, see “11.1.3.2 Energy Trends and Transformation of Energy Markets”). This gives an indication that the role of electricity is expected to increase in any scenario and may even develop to become the backbone of energy supply in the foreseeable future. It also reflects the fact that the power sector (“power” is used as a synonym of “electricity”), from which about 40% of global carbon emissions originate (41.6% in 2018, according to WEO 2019), is already quite advanced in integrating renewable power generation technologies, with renewable sources contributing roughly one quarter to the global electricity generation (in Terawatt hours (“TWh”); WEO 2019, data for 2018). Wind power, both onshore and offshore, is taking the leading role within renewables in terms of investments and power generation, while PV may show the largest increase in terms of new installations capacity-wise. For other sectors, e.g., the industry, transport or residential sectors, it is much more difficult to

integrate renewable technology. The concept of sector coupling (also referred to as “sector integration”) takes renewable energy from the power sector and brings it to the other sectors; thus, the power sector contributes to decarbonize these other sectors. Examples include the use of dissipative heat from thermal power generation for district heating (Combined Heat and Power, “CHP”), e-mobility (e-vehicles), but also more innovative technologies such as “power-to-hydrogen” with electrolysis and re-electrification with fuel cells, both for mobility solutions and stationary applications. This underlines the important role of electricity as the backbone of energy supply in a future decarbonized energy system.

While the integration of renewables in the global electricity system has already reached a level of approximately 26% of global electricity generation (in TWh; WEO 2019, data for 2018), further additions of renewable power generation capacity need to ensure reliability of supply and affordability of electricity from a consumer’s perspective. The share of “green” electricity in 2040 may range, globally, from 44% in the Stated Policies Scenario to 67% in the Sustainable Development Scenario (WEO 2019) (whereby the pace of renewable energy integration is expected to vary substantially among different countries and regions), with conventional power generation capacity to take the balance. This requires the power grid to balance more and more intermittency of renewable power generated from wind and PV and maintain the power quality (in terms of stability). In general terms, there are two alternatives to match volatile demand and supply: flexible electricity generation through gas, and storage to match supply with demand. We expect power generation from gas turbines to play an important role to provide dispatchable and reliable power even in a widely decarbonized energy system and to complement the intermittency of renewable power generation. This view is also supported by industry reports: WEO 2019 highlights the importance of considering the potential of future of gas networks to deliver different types of gas in a low emissions future and their role in ensuring energy security. In addition, BNEF expects a 37% rise in combined-cycle gas turbines, as 506 GW could be added until 2050, and a 350% increase in peaking gas plants over the same period, which are expected to account for over 1 TW of capacity by 2050 (source: BNEF, “New Energy Outlook 2019”, Executive Summary). Having an important role also in a low-carbon energy future, gas turbines become a sustainable investment, operating with natural gas as a fuel today, and with green gases such as hydrogen or synthetic methane in the future.

Energy storage is a prerequisite to build a widely decarbonized energy system. The preferred storage technology depends on the individual application and storage time, ranging from seconds to even seasonal storage. Besides battery storage technologies, other forms of energy storage such as mechanical and thermal energy storage may be used. Power-to-hydrogen and water electrolysis, converting electric energy into hydrogen as a chemical storable energy carrier, may develop into a universal conversion and storage technology (see also “11.1.3.2.2 Decarbonization”).

To reduce carbon emissions of fossil, biomass or biogas incineration processes, carbon capture may gain importance, in particular in combination with the development of power-to-hydrogen and the electrolysis technology: Captured carbon dioxide (“CO<sub>2</sub>”) may develop to a valuable feedstock for synthesis with green hydrogen from electrolysis to produce synthetic hydrocarbons.

There is an intensive discussion about hydrogen as a key element of a future decarbonized energy system. Hydrogen can be generated from renewable electricity and electrolysis of water, with electrolyzers as a new and developing technology, or can originate from fossil sources. Hydrogen might be compressed, stored and transported in gas pipelines and used as a fuel for heating or power generation with gas turbines or fuel cells.

### 11.1.2 The Energy Conversion Chain

Within the energy sector, the traditional energy conversion chain can be split into the following steps:

- Exploration, transport and refinement of primary energy carriers (see also “11.4.1.1 The Value Chain of the Oil & Gas Industry Relevant to our Industrial Applications Division”);

- Power generation from fossil fuels (like natural gas, fuel oil or coal), nuclear or renewable sources (see also “11.3.1.1 The Power Generation Industry” and “11.5.2 General Market Characteristics, Trends and Drivers”);
- Power transmission/distribution via the electricity grid (see also “11.2.1.1 Transmission and Distribution as Part of the Electricity Industry”); and
- Power consumption by end-users.

Each part of the energy value chain has its own specific characteristics, business models and industry trends, which can differ from country to country. Some companies in the energy sector are present in only a single part of the value chain, while others cover several parts.

Siemens Energy provides fully integrated products, systems, solutions and services across the energy value chain of electricity generation and oil & gas and other process industries, as well as transmission. In addition, Siemens Energy holds approximately 67% of the shares in SGRE S.A., which (together with its direct and indirect subsidiaries) mainly focuses on products (mainly wind turbines) and services for the wind energy generation industry. This chapter will focus on the markets relevant to the businesses relating to Transmission, Generation and Industrial Applications (including oil & gas, other process industries and the development of a hydrogen economy) of our Gas and Power reporting segment, as well as on the market relevant to our SGRE reporting segment. For more information on Siemens Energy’s Gas and Power and SGRE business, see “12 Business”.

### 11.1.3 General Trends in the Energy Sector

#### 11.1.3.1 Global Megatrends

The energy sector is subject to an ongoing transition from conventional generation to a larger share of renewable energy generation, including topics such as integration of renewables and complexity of the grid (see also “11.1.3.2 Energy Trends and Transformation of Energy Markets”). The following global megatrends are accelerating such transition:

#### **Globalization and Global Economic Growth**

Globalization represents a main driver for the growth of international trade (in terms of average of exports and imports). The global trade volume for goods roughly tripled between 2000 and 2019, from approximately USD 6,453 billion in 2000 to approximately USD 18,889 billion in 2019 (source: UNCTAD statistics for total trade/merchandise, annual world volumes, 1948-2019 database published on UNCTAD’s website). Globalization, including increasing international trade and industrialization as well as an expanding economy, contribute to drive energy demand.

Furthermore, in addition to globalization, a trend towards localization can also be observed in certain countries, which may translate into local production and local content requirements.

According to a UNCTAD global trade update on “COVID-19 causes international trade to collapse”, June 11, 2020, the economic and social disruptions brought by COVID-19 are resulting in a substantial decline in trade. The value of international trade in goods has declined by about 5% in the first quarter of 2020 and was expected to decline by 27% in the second quarter of 2020 as of the date of the report. Assuming persisting uncertainty with respect to the COVID-19 pandemic, UNCTAD expects a decline of around 20% for the year 2020.

According to the IMF, as a result of the pandemic, the global economy is projected to contract by -4.9% in 2020 in terms of real GDP compared to 2019 in a baseline scenario, which assumes a slow recovery path in the second half of 2020 including persistent social distancing, greater scarring from the larger-than-anticipated hit to activity during lockdown in the first half of 2020 and a negative impact on productivity, as well as that the countries where infections have declined will not reinstate stringent lockdowns as seen in the first half of 2020 (source: IMF, “World Economic Outlook Update – A Crisis Like No Other, An Uncertain Recovery”, June 2020). The contractions mostly reflects a downturn in consumption growth, which has been downgraded by the IMF for most economies. According to the same source, the contraction for



2020 will be particularly severe in the advanced economies (-8.0%) and less pronounced in the group of emerging market and developing economies (-3.0%). Under the same scenario, the global economy is projected to grow by 5.4% in 2021 as economic activity normalizes, helped by policy support and expected stable financial conditions. National and regional economic stimulus have been proposed or put in place to mitigate economic downswings.

### ***Urbanization***

Globally, more people live in urban areas than in rural areas, with 55% of the world's population residing in urban areas in 2018. The share of urban population is expected to increase to more than two-thirds (68%) by 2050 (source for all data: United Nations' "World Urbanization Prospects 2018 – Highlights" report ("**WUP 2018**")).

Urbanization is driving demand for food, water and energy in many places across the globe. Over the coming decades, the WUP 2018 expects that the level of urbanization will increase in all regions, but with considerable variation. In addition, both the level and pace of urbanization differ considerably across income groups, according to the WUP 2018. Sustainable urbanization requires, among other measures, that cities provide the necessary infrastructure for energy, transportation and communication (WUP 2018).

### ***Demographic Change***

According to the United Nations' "World Population Prospects 2019 – Highlights" report ("**WPP 2019**"), the world's population continues to grow, albeit at a slower pace than at any time since 1950. From an estimated 7.7 billion people worldwide in 2019, the WPP 2019 projection indicates that the global population could grow to around 8.5 billion in 2030, 9.7 billion in 2050, and 10.9 billion in 2100 (medium-variant scenario).

Another relevant demographic factor relates to the increasing life expectancy. Overall, the WPP 2019 projects that average life expectancy at birth (blended for both sexes, world average) will exceed 77 years in 2050, with regional variations.

A growing population is one of the main factors (together with an expanding global economy) behind the increase in energy demand. For more information, see "*11.1.3.2.1 Demand Growth for Energy and Electricity*". In addition, continued rapid population growth presents challenges for sustainable development. The 47 least developed countries are among the world's fastest growing, putting pressure on already strained resources and challenging policies aimed at achieving the United Nations' Sustainable Development Goals ("**SDGs**") (source: WPP 2019).

### ***Climate Change***

The "State of the Climate in 2019" report, published August 2020 by the American Meteorological Society ("**SOTC 2019**") provides a detailed update on global climate indicators, among others, and shows patterns, changes and trends of the global climate system. According to the SOTC 2019, the dominant GHG released into the Earth's atmosphere – CO<sub>2</sub>, methane and others – continued to increase in 2019. The annual global average CO<sub>2</sub> concentration at the Earth's surface was the highest in the modern instrumental record as well as in ice core records dating back 800,000 years. Combined, GHG and several halogenated gases show an increase of 45% increase since 1990. In addition, in 2019 sea levels rose to record levels for the eighth consecutive year, the number of tropical storms was well above the 1981-2010 average and alpine glacier mass continued to decline for the 32<sup>nd</sup> consecutive year (source for all above statements: SOTC 2019).

In the Paris Agreement agreed in December 2015, 197 parties (196 states plus the European Union) agreed, among others, to limit global warming to "well below 2°C" above pre-industrial levels and to pursue efforts to limit warming to 1.5°C. The participating countries have binding emission reduction targets. However, as stated in the "Global warming of 1.5°C" report published by the IPCC on October 8, 2018 ("**IPCC Report**"), without increased and urgent mitigation ambition in the coming years, leading to a sharp decline in GHG emissions by 2030,



global warming will surpass 1.5°C in the following decades, leading to irreversible loss of the most fragile ecosystems, and crisis after crisis for the most vulnerable people and societies.

Climate change and decarbonization discussions and the commitment to low or zero emission standards by countries and companies are gaining traction. The IPCC has stated that emissions must be cut-down to net zero by around 2050 in order to reach a maximum global warming of 1.5°C (source: IPCC Report).

In addition, sustainability and corporate responsibility have become a widespread focus of attention for companies across different industries, with emission reduction targets, among others.

### ***Digitalization***

Digitalization opens up new perspectives for businesses regarding integration in a digital environment and where the use of data becomes important for purposes of reducing costs, increasing revenue and improving service quality and integrating customers and business partners in the supply chain.

In addition, large data centers and IT infrastructure consume significant electricity volumes. According to an HSBC study, data centers were estimated to have used 284 TWh (or around 1.3% of total electricity consumption) in 2017. Data centers' electricity consumption is expected to more than double by 2025, to reach 720 TWh, and then more than double again to reach nearly 1,700 TWh (or 5.7% of total global electricity usage) by 2030, in both cases under the study's base scenario (source: HSBC Global Research, "Powering the data revolution – The strains facing global electricity", May 2019).

With digitalization gaining importance, the focus on cybersecurity is also increasing. With respect to the energy sector, the increasingly complex grids are more prone to cyberattacks, making cybersecurity a key issue to ensure a secure energy supply. Cybersecurity also plays an important role in the area of remote services for power plants.

For information on how digitalization is impacting energy markets, see "*11.1.3.2.4 Digitalization in the Energy Markets*" below.

#### *11.1.3.2 Energy Trends and Transformation of Energy Markets*

The energy industry is experiencing significant transformation. The traditional power (*i.e.*, electricity) supply model was based on a centralized, conventional electricity generation structure (with dispatchable conventional power plants satisfying power demand) and unidirectional grids (with electricity usually being transmitted from large-scale generators to consumers). The economics of generation technology ensured a stable business for conventional energy generation companies; in turn, the system ensured constant availability of electricity.

This traditional model is now being challenged at many levels. There are challenges arising from the rapid deployment of electricity generation from renewables: the world energy supply continues to transition towards an affordable, reliable and sustainable model. Due to the very low cost of most renewable power generation technologies (*e.g.*, wind, PV and hydro) in many jurisdictions compared to conventional power generation technologies as well as support schemes (*e.g.*, preferential feed-in), conventional power plants increasingly provide only the balance between power demand and renewable power generation and therefore operate with less operating hours than in the past. The generation mix that is fed to the grid is more volatile and thus driving grid complexity, with a need to ensure regional supply and to balance demand. In addition, gas can play an important role as a transition technology, since it has the advantage of having lower specific CO<sub>2</sub> emissions per kilowatt-hour ("**kWh**") electricity produced in combined-cycle applications compared to oil or coal as a fuel.

The transformation outlined above is driven by changes in market economics and regulatory frameworks as well as more engaged customers and competitors, and many new trends in the

energy sector are also derived or closely correlated with the megatrends described above. For example:

- **Investors** are increasingly shifting their capital to sustainable funds, and **banks** are revising their policies to limit or avoid financing of conventional power generation projects. Moreover, under an update to the EIB's energy lending policy, the EIB announced in November 2019 that it will end financing for fossil fuel energy projects as from the end of 2021. It also set a new emissions performance standard of 250g CO<sub>2</sub> per kWh, which acts as an eligibility threshold for the financing of power generation projects.
- **Governments and EU bodies** are setting new frameworks, led by commitments such as those included in the Paris Agreement, with many governments setting ambitious targets to cut carbon emissions and adopt other climate-friendly measures. Moreover, coal-fired power plants are being phased out in certain countries. In addition, several countries have published national hydrogen strategies, including Australia, Switzerland and Germany (see also "11.1.3.2.2 Decarbonization").
- **Companies and industries** are making ambitious pledges, for example with respect to sustainability targets. The "Science-Based Targets Initiative" ("SBTI") and "RE100" are two critical ways through which companies around the world are committing to climate goals. Science-Based Targets provide companies with a clearly defined pathway to sustainable growth by specifying how much and how quickly they need to reduce their GHG emissions. Many industrial companies have set ambitious emissions reductions and other environmentally-friendly targets.
- Finally, **public opinion** is also increasingly pushing the adoption of more ambitious environmentally-friendly measures, as seen lately with the "Fridays for Future" rallies in many countries. In addition, customers are increasingly factoring environmental practices of companies into their purchasing decisions.

The transformation, as outlined above, is prompting changes in the industries in which Siemens Energy is active. Among others, oil & gas companies are striving to reduce their net carbon footprint and to achieve a carbon-efficient oil & gas production (including attaining near zero-emissions in the near-term and, in some cases, investing in renewables). Power generation companies are switching from coal to gas, supported by low gas prices and increasing carbon prices, or due to regulations, and are also investing in renewables, such as on- and offshore wind as well as solar PV. In addition, municipal utilities are investing in decentral energy sources and renewables as well as energy storage, and focusing on new technologies such as co- or tri-generation (coupling heating, cooling and electricity), flexible solutions to allow for a fast ramp-up or ramp-down and mobile solutions. Moreover, grid operators are investing into solutions addressing the challenges of connecting renewables to the grid and enabling grid stability, such as flexible alternating current transmission systems ("FACTS") and synchronous condensers, as well as replacing environmentally harmful or conventional assets with environmentally-friendly alternatives, such as SF<sub>6</sub>-free switchgears.

The IEA's WEO 2019 analyzes the energy trends and transformation of energy markets in different scenarios. It should be noted that none of these scenarios constitute a forecast nor can an assessment be made on the likelihood for any of the scenarios. The description on energy demand, electricity generation and other relevant parameters in this chapter is largely based on the Stated Policies Scenario and the Sustainable Development Scenario:

- The "**Stated Policies Scenario**" (which is the main IEA scenario and was known until the 2018 edition of the IEA's World Energy Outlook report as "New Policies Scenario") encompasses currently announced policy intentions and targets in addition to existing measures. This is a scenario based on the committed policy of governments.
- The "**Sustainable Development Scenario**" is described by the IEA as providing an integrated strategy to achieve the key energy-related elements of the United Nations Sustainable Development agenda, including energy access, air quality and climate objectives, and with the

emissions trajectory being fully in line with achieving the long-term objectives of the Paris Agreement.

There are different measures used in the WEO 2019 and other studies that are relevant. Capacity additions (expressed in GW) relate to the installation of new power plant capacity and therefore are relevant for the market development relating to new equipment (defined as products, systems and solutions). Electricity generation (measured in TWh) relates to plant operating hours and drives the demand for service and maintenance. More operating hours (full-load hours or equivalent full-load hours) typically drive service demand, e.g., demand for replacements of gas turbine blades. Primary energy supply and final energy consumption are measured in million tonnes of oil equivalent ("**Mtoe**"), with 1 Mtoe being equivalent to 11.63 TWh.

As the generation mix evolves and renewables gain a larger share of total electricity output, we see opportunities for conventional generation technology to continue to act as a primary source of power generation (though with a decreasing level of installed capacity) as well as contributing to grid stability by acting as a back-up for intermittent renewable sources. Furthermore, conventional power generation plays a vital role in the direct supply of thermal energy (*i.e.*, heat) in district heating networks and for industrial processes in CHPs. We expect that conventional generation technology will continue to play an important role in the global electricity system, ensuring security of supply over the next decades, due to economic limitations of storage technologies to store energy of intermittent renewables over longer timeframes.

Going forward, in the mid- to long-term, we see a transition of the energy system towards decarbonization in which renewables will become the main source of cheap electricity and conventional technologies will continue to be important to ensure security of supply. We also see integrated and intelligent networks that are able to continuously manage load shift. Sector coupling will be required for deep decarbonization and zero-emission energy technologies such as hydrogen will become important to decarbonize other sectors, such as mobility, industry and residential, and therefore to achieve climate protection goals.

We view increasing demand for energy and electricity, decarbonization, decentralization and digitalization as the trends that have the largest impact on our business, as explained below.

#### 11.1.3.2.1 Demand Growth for Energy and Electricity

Primary energy demand and final energy consumption are expected to grow in the medium- to long-term, despite ongoing increases in energy efficiency. Under the IEA's Stated Policies Scenario, global energy demand is expected to increase by around 1% per year (on average) (or roughly a quarter in the aggregate) until 2040. According to the IEA's WEO 2019, under the Sustainable Development Scenario, 33% of global energy demand could come from renewables in 2040 (compared to 9.7% in 2018), thanks to additional measures to incentivize investment in renewables-based electricity, biofuels, solar heat, geothermal heat and electrification. See also "*11.1.3.2.2 Decarbonization*".

The following table provides an overview of the world primary energy demand by fuel/technology in 2018 and for the IEA's Stated Policies and Sustainable Development Scenarios according to the WEO 2019:

**World primary energy demand by fuel/technology and scenario (in Mtoe/percentage)**

			Stated Policies Scenario		Sustainable Development Scenario	
			2040		2040	
	2018		Mtoe	%	Mtoe	%
Coal .....	3,821	27%	3,779	21%	1,470	11%
Oil .....	4,501	31%	4,921	28%	3,041	23%
Natural gas .....	3,273	23%	4,445	25%	3,162	24%
Nuclear .....	709	5%	906	5%	1,149	9%
Renewables .....	2,011	14%	3,672	20%	4,455	33%
<b>Total .....</b>	<b>14,314</b>	<b>100%</b>	<b>17,723</b>	<b>100%</b>	<b>13,279</b>	<b>100%</b>
<i>thereof: fossil fuel share</i>						
<i>(in %) .....</i>	—	81%	—	74%	—	58%

Source: IEA, WEO 2019 (percentages may not add up to 100% due to rounding)

According to the IEA's Global Energy Review 2019, April 2020, global energy demand increased by 0.9% in 2019, which represents less than half the rate of growth in 2018. This deceleration was due mainly to slower global economic growth and the impact of milder weather on heating and cooling. There was, however, significant variation across energy sources, with coal showing an absolute decline and renewables a record increase.

The IEA's "Global Energy Review 2020 – The impacts of the COVID-19 crisis on global energy demand and CO<sub>2</sub> emissions", April 2020 (the "IEA Global Energy Review 2020 Report"), states that the drastic curtailment of global economic activity and mobility during the first quarter of 2020 pushed down global energy demand by 3.8% relative to the first quarter of 2019 as a result of the COVID-19 pandemic and its effects. If lockdowns last for many months (as of the time of the report) and recoveries are slow across much of the world, annual energy demand is expected to drop by 6% in 2020. If efforts to curb the spread of the virus and restart economies are more successful, the decline in energy demand in 2020 could be limited to under 4%, according to the same source. However, a rougher restart, disruption to global supply chains and a potential second wave of infections in the second half of the year could curtail growth even further, according to the IEA. Besides the COVID-19 pandemic, other factors contributed to the aforementioned declines in demand, including milder than average weather across most of the Northern Hemisphere, in particular in the United States.

For the full year 2020, and subject to the already mentioned uncertainties, initial IEA evaluations indicate that oil demand could drop by 9% across 2020, and coal by 8%. Gas demand could fall much further than the 2% drop in the first quarter of 2020 (compared to the first quarter of 2019) because of reduced demand in power and industry applications. Renewables demand is expected to increase in 2020 because of low operating costs and preferential access to many power systems, as well as driven by recent growth in capacity. The IEA Global Energy Review 2020 Report has not specifically revised the IEA's long-term prospects (including those for energy demand stated at the beginning of this sub-section), so it is unclear to what extent the steep decline in 2020 and the potential recovery thereafter may affect any of such long-term prospects.

Electricity demand is structurally expected to keep increasing over the coming years. In all IEA scenarios, electricity accounts for the largest growth in final energy consumption and grows at double the pace of final energy demand during the 2018-2040 period (source: WEO 2019). The IEA sees a 60% increase in electricity demand by 2040 in the Stated Policies Scenario (compared to 2018), supplied by an increasingly low-carbon generation mix. Electricity's share in total final energy consumption would rise from 19% in 2018 to 24% in 2040 under the Stated Policies

Scenario. Electricity would play an even larger role in the Sustainable Development Scenario, reaching 31% of final energy consumption. In the shorter term, electricity generation was expected to grow by 16% between 2018 and 2025 (based on TWh), driven primarily by growing population and the expanding economy as well as increased electrification (source: WEO 2019).

With respect to the impact of the COVID-19 pandemic, the IEA states that electricity demand quickly dropped in 2020 with confinement measures, but steadily recovered as measures were gradually softened. As of the end of June 2020, electricity demand (weather-adjusted) was still 10% below pre-lockdown levels in most countries (including in EU countries). In the last week of July, electricity demand was 5% below 2019 levels in EU countries except Italy, while in India, recovery seems faster (source: IEA, "Covid-19 impact on electricity – Statistics report", August 2020, which includes data until the end of July 2020).

As previously mentioned, of the date of this Prospectus, there is significant uncertainty relating to the severity of the near-, mid- and long-term adverse impact of the COVID-19 pandemic on electricity demand (and more generally, energy demand), for example in terms of negative effects on the global economy. For information on our expectations with regard to the effects of the COVID-19 pandemic and the oil price drop on our addressed markets for the divisions of our Gas and Power segment, see "11.2.2 Market Size, Development and Trends" (for our Transmission division), "11.3.2 Market Size, Development and Trends" (for our Generation division) and "11.4.2 Market Size, Development and Trends" (for our Industrial Applications division); for our SGRE segment, see "11.5.3 Market Size and Development".

The WEO 2019 also sees renewables becoming the technology of choice in the electricity markets, accounting for almost two-thirds of global gross (cumulative) capacity additions (in GW) in electricity generation until 2040 in the Stated Policies Scenario thanks to factors such as falling costs and supportive government policies (source: IEA website, overview on the WEO 2019/renewables topic). With respect to conventional generation, gas power plants are expected to be the preferred dispatchable technology (in terms of global gross (cumulative) capacity additions (in GW) in electricity generation for the 2018-2040 period under the Stated Policies Scenario; source: WEO 2019).

The following table provides an overview of the world electricity generation by fuel/technology in 2018 and for the IEA's Stated Policies and Sustainable Development Scenarios according to the WEO 2019:

**World electricity generation by fuel/technology and scenario (in TWh/percentage)**

	2018		Stated Policies Scenario		Sustainable Development Scenario	
			2040		2040	
	TWh	%	TWh	%	TWh	%
Coal .....	10,123	38%	10,431	25%	2,428	6%
Oil .....	808	3%	490	1%	197	1%
Natural gas .....	6,118	23%	8,899	22%	5,584	14%
Nuclear .....	2,718	10%	3,475	8%	4,409	11%
Renewables .....	6,799	26%	18,049	44%	26,065	67%
thereof: wind .....	1,265	5%	5,226	13%	8,295	21%
thereof: solar PV .....	592	2%	4,705	11%	7,208	19%
thereof: hydro .....	4,203	16%	6,098	15%	6,934	18%
thereof: other renewables .....	739	3%	2,020	5%	3,628	9%
<b>Total .....</b>	<b>26,603</b>	<b>100%</b>	<b>41,373</b>	<b>100%</b>	<b>38,713</b>	<b>100%</b>

Source: IEA, WEO 2019

The relevance of the different sources of electricity generation varies by region. For example, according to data included in the IEA's WEO 2019, coal plays a predominant role in Asia Pacific. Nevertheless, while electricity generation is overall expected to increase in that region, at a 2018-



2040 CAGR of 2.7% under the Stated Policies Scenario, or of 2.2% under the Sustainable Development Scenario, the share of coal is expected to shrink (from approximately 59% of a total of 12,327 TWh in 2018 down to approximately 40% of a total of 22,245 TWh in 2040 according to the Stated Policies Scenario, or to approximately 11% of a total of 19,984 TWh in 2040 according to Sustainable Development Scenario).

In North America, natural gas accounted for the largest share of total electricity generation in 2018 (with approximately 33%), before coal (25%) and renewables (23%), according to the same source. Renewables have shown significant growth in the past years in North America, and are expected to account for 41% of electricity generation in 2040 in that region under the Stated Policies Scenario (all shares are based in TWh; source: WEO 2019).

According to more current IEA data presented in the IEA Global Energy Review 2019 and 2020 Reports (both, April 2020), in 2019, electricity demand grew at the slowest rate since the financial crisis, while energy efficiency continued to improve but at levels well below those needed to meet the United Nations' SDGs. Energy-related CO<sub>2</sub> emissions remained flat as emissions from electricity generation in advanced economies declined markedly (source: IEA, Global Energy Review 2019). Also in the first quarter of 2020, electricity demand has been significantly reduced as a result of lockdown measures, with knock-on effects on the electricity mix. Electricity demand declined by 20% or more during periods of full lockdown in several countries, as upticks for residential demand are far outweighed by reductions in commercial and industrial operations.

Electrification is a trend affecting large sectors of the economy. A study published by the World Economic Forum and prepared in collaboration with Bain & Company, entitled "The Future of Electricity – New Technologies Transforming the Grid Edge", March 2017 ("**World Economic Forum Electricity Report**"), states that, as generation shifts to more renewable sources, electrification creates further environmental benefits by shifting many end-uses of electricity (e.g., transportation and heating) away from fossil fuel sources, and in many cases electrification increases energy efficiency. According to the same report, in OECD markets, the most promising electrification opportunities are in those segments that are among the largest polluters: transportation, commercial/industrial applications and residential heating.

Electricity is expected to become the central energy carrier, with increased economic activity and the widespread use of electricity for heat, the emergence of renewable hydrogen and a global fleet of more than one billion electric vehicles ("**EV**") driving electricity demand growth (source: IRENA, "How to Transform Energy System and Reduce Carbon Emissions", April 2019, available from IRENA's website). According to the same source, IRENA expects that by 2050, 70% of passenger road transport, 58% of the building sector and 35% of the industry sector will be electrified.

#### 11.1.3.2.2 Decarbonization

Global efforts to reduce CO<sub>2</sub> emissions and deter climate change have become increasingly important over the last decades. Decarbonization is acting as a driver for the transformation of the energy sector, supported by initiatives such as the Paris Agreement and the IPCC Report, as well as different initiatives implemented by the European Commission, among many others, which in November 2018 presented its strategic long-term vision for a prosperous, modern, competitive and climate-neutral economy by 2050. An increasing number of governments are translating zero emissions/100% clean energy goals into national strategy and into laws, including Norway, Sweden, France, the United Kingdom and several states within the United States. Moreover, players in the energy sector, including some of the highest emitting U.S. power producers, have set aggressive carbon reduction targets; some energy producers such as Iberdrola and Enel have signed on to UN targets for "net zero".

As indicated in the UN Emissions Gap Report 2019, governments must roughly triple their efforts (i.e., their respective NDCs must be increased) and introduce new measures on an urgent basis to ensure global warming stays well below 2°C (for the 1.5°C scenario, the original level of ambition should be increased around fivefold). The IEA's Global Energy & CO<sub>2</sub> Status Report 2019 (March 2019) states that the coal use in the power sector alone emitted more than 10 gigatons ("**Gt**") of

CO<sub>2</sub> in 2018, making them one of the largest emitters of CO<sub>2</sub>. The need to reduce the gap between emissions and climate change targets is prompting changes, including the increase in the deployment of renewables and the reduction of fossil energy sources. However, we believe that fossil fuels will continue to play a significant role in primary energy demand until 2050, while we expect a shift from oil and coal to gas.

According to the IEA's "Renewables 2019" report, October 2019 (overview available on IEA's website), renewable power installed capacity was set to expand by 1,200 GW between 2019 and 2024 (representing a 50% increase in terms of net new installed capacity over such forecast period compared with the total installed capacity in 2019), led by solar PV (697 GW increase) and onshore wind (308 GW increase) (representing almost 60% and 25%, respectively, of the total expected growth of renewables). On May 20, 2020, the IEA published its "Renewable Energy Market Update – Outlook for 2020 and 2021" ("**IEA Renewables 2020 Update Report**"), which updated in part its October 2019 "Renewables 2019" report in light of the COVID-19 pandemic. According to this report, renewables, while not immune to the COVID-19 crisis, are more resilient than other fuels. Globally, overall demand for renewables is expected to increase due to their use in the electricity sector, according to the IEA source. Even with end-use electricity demand falling significantly because of lockdown measures, low operating costs and priority access to the grid in many markets allow renewables to operate at near-full capacity, enabling renewable generation to grow. This increased production is in part due to record-level capacity additions in 2019. However, supply chain disruptions, construction delays and macroeconomic challenges increase the uncertainty about the total amount of renewable capacity growth in 2020 and 2021: according to the IEA, while renewable capacity additions may decline overall in 2020, the majority of the delayed renewable projects could come online in 2021 and lead to a rebound in capacity additions, so that in 2021 renewable capacity additions would almost reach the level of those additions in 2019. For information on the expected development of wind capacity additions over the next years according to Wood Mackenzie, see "*11.5.3 Market Size and Development*".

According to the IEA Global Energy Review 2020 Report, renewables are the only energy source likely to experience demand growth across the remainder of 2020, regardless of the length of lockdown or strength of recovery, with an expected increase of about 1% of renewable energy demand compared to 2019 levels; renewable electricity generation is expected to increase by nearly 5%, according to the same source, to reach almost 30% of electricity supply globally.

In the longer-term, under the IEA's Stated Policies Scenario the share of renewable sources in global electricity installed capacity is expected to rise from 35% in 2018 to 55% in 2040 (source: WEO 2019). In addition, the share of renewables in electricity generation is expected to rise to approximately 44% by 2040 under the same IEA scenario, from 26% in 2018, effectively exchanging places with coal (25% in 2040) – even though coal and gas remain the largest and second-largest energy source under this scenario in terms of global primary energy demand (source: WEO 2019). With respect to wind energy, cumulated installed wind capacity by 2040 under the Stated Policies Scenario is expected to amount to 1,856 GW, or 14% of the total electricity generation capacity mix (source: WEO 2019), a sharp increase from the 566 GW (or 8%) generated by wind in 2018. Under the Sustainable Development Scenario of the IEA, renewables would account for around 80% of capacity additions in all regions until 2040, complemented mainly by nuclear power and carbon capture technologies (source: IEA, WEO 2019 materials on the IEA's website). Also under the Sustainable Development Scenario, according to the IEA, the accumulated wind fleet would be projected to reach 2,930 GW in 2040, or 19% of the total electricity generation capacity mix in terms of capacity (source: WEO 2019).

As the share of renewable power production increases, electricity is becoming a less CO<sub>2</sub>-intensive alternative to the fossil energy sources currently prevalent in sectors such as transportation, heating and mobility. This is exemplified by political ambitions for electric mobility.

While pursuing the decarbonization of energy systems, it is important to continue to ensure the reliability of sustainable energy supply and, at the same time, keep energy prices affordable for households and businesses, deliver future-proof infrastructure and empower energy users. In a

fossil-dominated economy, decarbonization of sectors such as the industrial, power, heating, gas or mobility sectors was largely conducted separately. To reach the target of net zero CO<sub>2</sub>-emissions by mid-century, renewable energy from the power sector needs to be brought to other sectors such as transport, the industrial sector and heating; this process is called “sector coupling” (also referred to as “sector integration”) and is a prerequisite to widely decarbonize energy and to achieve climate targets. Sector coupling takes renewable energy from the power sector to other sectors and can therefore act as a key lever for the decarbonization of all end-user sectors. Sector coupling is also crucial to reach a deep decarbonization of the energy sector. It allows for a higher overall energy efficiency and supports supply and load balancing in cases where a high share of intermittent renewable energy is fed into the grid.

Sector coupling based on electrolysis, for example, can play an important role in the decarbonization of energy-intensive industries that are difficult to electrify, as stated in the Sector Coupling Study of the European Parliament (November 2018). These industries could use “green” hydrogen (generated from renewable sources) as an energy source and to produce chemical feedstock, such as hydrocarbons, alcohols and ammonia. As stated in a report published by the IEA on June 2019 entitled “The Future of Hydrogen – Seizing today’s opportunities” (revised version of July 2019) (“**IEA Hydrogen Report**”), hydrogen is a versatile energy carrier that can be produced, stored, transported and used in many different ways. Therefore, hydrogen offers possibilities to decarbonize a range of sectors – including long-haul transport, chemicals, and iron and steel – all of which are facing difficulties so far to meaningfully reduce emissions. It can also help improve air quality and strengthen energy security. Hydrogen, its derivatives and hydrogen-based fuels can be used to transport energy from renewables over long distances – from regions with abundant solar and wind resources, such as Australia or Latin America, to energy-hungry cities and regions thousands of kilometers away (source: IEA Hydrogen Report).

According to the IEA, in 2019, hydrogen maintained its unprecedented recent momentum, awakening keen interest among policy makers. It was a record year for electrolysis capacity becoming operational, with over 25 MW of electrolyzer capacity coming online and larger projects announced (in the order of hundreds of MWs that should begin operating in the early 2020s). In addition, the fuel cell electric vehicle market almost doubled owing to outstanding expansion in China, Japan and Korea (source: IEA website, topic Hydrogen (Tracking Report, June 2020)). Notable policies in France and Korea, plus high-level co-ordination by Japan, bear witness to increased government interest. In addition, in June 2020, the German Federal Government adopted a “National Hydrogen Strategy”, ultimately aiming at developing industrial-scale hydrogen production plants with a total production capacity of 5 GW until 2030, and a further 5 GW until 2035-2040, including a total of € 9 billion in government spend until 2030. Global hydrogen demand could grow from approximately 8 exajoules (“EJ”) (provided by approximately 56 million metric tons (“Mt”) of gaseous hydrogen) in 2015 (which represented 1.4% of the global primary energy demand in 2015) to approximately 78 EJ (provided by approximately 546 Mt of gaseous hydrogen) in 2050 (which would represent 12.0% of the projected global primary energy demand for 2050) (source for global hydrogen demand: Hydrogen Council, “Hydrogen scaling up – A sustainable pathway for the global energy transition”, November 2017 (“**Hydrogen Council Report**”), including EJ figures and conversion metrics to Mt; sources for global primary energy demand in 2015 and projection for 2050: McKinsey, “Global Energy Perspective: Reference Case 2018”, December 2017, and “Global Energy Perspective 2019: Reference Case”, January 2019, respectively). Also IRENA sees a significant potential for “green” hydrogen. In its “Global Renewables Outlook, Edition 2020” study, IRENA expects global “green” hydrogen production to increase from around 1.2 Mt (correlating with 0.16 EJ) in 2015-2018 to approximately 9 Mt (correlating with 1.1 EJ) in 2030 and 25 Mt (correlating with 3 EJ) in 2050, in both cases under IRENA’s Planned Energy Scenario (which is IRENA’s primary reference case for this study, based on governments’ current energy plans and other planned targets and policies (as of 2019), including NDCs under the Paris Agreement or any more recent climate and energy targets or plans for a given country). Under IRENA’s Transforming Energy Scenario (which describes an ambitious, yet realistic, energy transformation pathway based largely on renewable energy sources and steadily improved energy efficiency, on the path to keep the rise in global

temperatures to well below 2°C and towards 1.5°C during this century, according to IRENA's definition), annual "green" hydrogen production would increase to approximately 25 Mt (correlating with 3 EJ) in 2030 and 160 Mt (correlating with 19 EJ) by 2050.

Market experts also expect significant growth for "green" hydrogen in the shorter-term, from a cumulative installed electrolyzer capacity of around 250 MW over the 2000-2019 period to a 2020-2025 project backlog of 3.2 GW, which represents a capacity of more than twelve times the size of today's total installed hydrogen electrolyzer capacity (source: Wood Mackenzie, "The future of green hydrogen", overview available on Wood Mackenzie's website).

However, the projections relating to the production and use of hydrogen are subject to a very high level of uncertainty. According to the IEA Hydrogen Report, widespread use of hydrogen in global energy transitions faces several challenges, including a too high cost to produce hydrogen from low-carbon energy, whereby according to the IEA, such cost could be considerably reduced, as explained above in the description of the market drivers. Furthermore, the development of hydrogen infrastructure is slow and thereby limiting widespread adoption, according to the same source. In its report, the IEA includes several key recommendations to help governments and companies to scale up hydrogen to fulfil its long-term potential, including stimulating commercial demand for clean hydrogen, supporting R&D to bring down costs, eliminating unnecessary regulatory barriers and harmonizing standards, among others. Therefore, we expect that the pace of regulations supporting and promoting hydrogen and other renewable-based energy forms, such as synthetic fuels, the extent to which industry players and their customers commit voluntarily to decarbonization and the economic attractiveness of "green" hydrogen will play an important role in the market development of green hydrogen and related technology and equipment, such as hydrogen electrolyzers. An IEA analysis finds that the cost of producing hydrogen from renewable electricity could fall 30% by 2030 as a result of declining costs of renewables and the scaling up of hydrogen system production (source: IEA Hydrogen Report). In addition, the same source states that fuel cells, refueling equipment and electrolyzers can all benefit from mass manufacturing. Moreover, the potential increase in prices for CO<sub>2</sub> certificates, as discussed for example in Germany in connection with the government's climate concept (including, among others, a national CO<sub>2</sub> emissions trade for transport and buildings, with an upper and lower price limit) may result in more attractive economic considerations for green hydrogen.

Siemens Energy is active in the field of hydrogen with its offering of electrolyzer systems based on the proton-exchange-membrane ("PEM") electrolysis technology (for more information, see "12.3.4.1 New Energy Business"). Key competitors include NEL ASA, Oslo (Norway), Hydrogenics Corporation, Mississauga/Ontario (Canada), McPhy Energy S.A., La Motte Fanjas (France), and ITM Power plc, South Yorkshire (United Kingdom), which are mostly active in Europe and North America. In addition, several Chinese players are present in China, but a growing tendency to expand outside of China.

In addition, to achieve decarbonization, including the climate goals of the Paris Agreement, the implementation of an international CO<sub>2</sub> pricing mechanism could play an important role. Governments around the world have already collected more than USD 45 billion generated by CO<sub>2</sub> pricing systems in 2018 (source: World Bank Group, "State and Trends of Carbon Pricing 2020"), which are being invested in low-carbon infrastructure or used to support technological advances. Also, the private sector is increasingly integrating climate risks and opportunities into their long-term strategies and corporate governance. The same World Bank source reports that about 1,600 companies have disclosed that they have either implemented an internal CO<sub>2</sub> pricing system or are planning to do so in the next two years.

#### 11.1.3.2.3 Decentralization

The power system is increasingly influenced by distributed energy generation, primarily from the strong growth in wind turbines and solar PV installations. Distributed energy systems comprise not just decentral generation, but also local energy storage as well as demand response. Many consumers, both households and businesses, have also become producers of electricity which they



either consume at the source or feed into the electricity grid. These so-called “prosumers” differ from classical consumers in their role within the energy system, which has implications for their expectations towards energy suppliers, their grid usage patterns, and their potential future role in balancing supply and demand of electricity.

While we expect centralized generation units to continue to play an important role in the foreseeable future, we expect the trend towards decentralization to persist.

Decentralization makes customers active elements of the system, but requires significant coordination and poses new challenges to the electricity grid and the distribution network where the broad majority of decentralized systems are connected. Due to more intensive grid usage and increased feed-in from renewables installations at distribution system operator level, we believe that grid balancing is becoming more challenging and complex, with increasing demand for grid stabilization and with distribution system operators playing a more important role. In addition, the changes will require significant investments and smarter grid infrastructure in the future, as new and more advanced transmission and distribution solutions are required to address the challenges of a more complex grid. In addition, a study prepared by TenneT and Gasunie states that the integration of electricity and gas grids will create new transport and storage opportunities, and highlights the importance of a close collaboration between both infrastructures to guarantee the reliability of the energy system amidst increasing fluctuations in solar and wind energy production (source: TenneT, “System integration important for meeting climate targets”, February 15, 2019).

With respect to storage, projections estimate that demand for energy storage, excluding pumped hydro, will increase from 400 MWh globally in 2015 to nearly 50 GW hour (“GWh”) in 2025, and that lithium ion batteries (which are expected to make up most of the market) are likely to become more economical as significant quantities are developed and deployed for use in electric vehicles, a market where the demand for these batteries could reach 293 GWh by 2025 (source: World Economic Forum Electricity Report). The same source states that, with current projections, utility-scale storage could be a viable alternative to peaker plants (*i.e.*, such power plants that generally run only when there is a high demand (peak demand) for electricity) by 2023. As battery costs decline, the cost of storage could reach parity with grid power soon – an inflection point after which grid operators will be able to offer the flexibility of peaker plants by tapping the stored output of renewables.

In addition, demand response creates flexibility by providing price signals (for example, lower prices at off-peak times) and volume signals – coupled sometimes with financial incentives – to adjust the level of demand and generation resources (consumption, distributed generation and storage) at strategic times of the day and is, as such, a critical resource for a cost-effective transition to a low-carbon electricity system (source: World Economic Forum Electricity Report). Energy policies around the world increasingly acknowledge the importance of demand response and are beginning to solve the challenges that hinder its full uptake. As more distributed energy resources come online, demand response programs may become even more flexible. Many of these programs have targeted commercial and industrial customers. However, new smarter devices, such as precooling air conditioners or smart refrigerators that can respond to automated price signals, as well as the progress of digitalization that is enhancing the technical capabilities of aggregation, are helping make demand response programs easier even for residential customers.

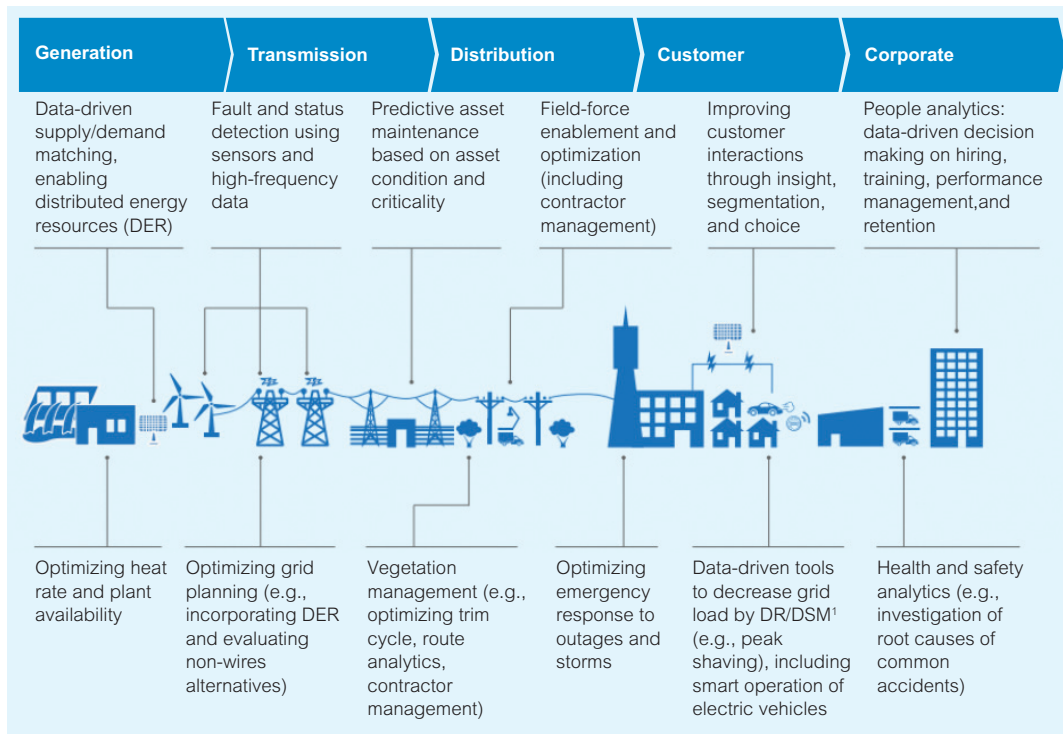
According to BNEF, batteries, peakers and dynamic demand shall help wind and solar to reach more than 80% penetration in some markets by 2050: Around 359 GW of batteries are expected to be added to the power system by 2050 to help shift excess generation to times when the wind is not blowing and sun is not shining. Demand-side flexibility also helps better integrate variable renewable energy. This includes dynamic EV charging, where vehicles are plugged in when idle, drawing a charge determined by time-of-use tariffs and demand response (source: BNEF, “New Energy Outlook 2019”, Executive Summary).



#### 11.1.3.2.4 Digitalization in the Energy Markets

Digital technology and the resulting changes in consumer behavior and expectations, coupled with corresponding regulatory initiatives, are expected to change energy markets fundamentally. Robotic process automation, artificial intelligence agents, blockchain, the Internet of Things and smart data analytics are just some of the technologies that are expected to both drive the change in the industry and enable utility companies to respond to it (source: Ernst & Young, “Digital Utilities: From Behind the Curve to Innovation”, October 2017). According to a McKinsey & Company study published in June 2018 entitled “The Digital Utility: New challenges, capabilities and opportunities”, June 2018, “**The Digital Utility**”), digitalization provides opportunities across all stages of the energy value chain, as interconnectivity, data availability and the degree of automation continue to increase, as exemplified in the following chart:

#### Examples of opportunities for the digital utility along the value chain



<sup>1</sup> Demand response/demand-side management

Source: McKinsey & Company, The Digital Utility

As mentioned by The Digital Utility study, a significant proportion of utility assets and operations have zero tolerance for safety and performance deviations beyond a specific range. Plant-control and grid-management systems, for example, need to be risk proof and predictable. Transforming operations and systems with digital technologies can create substantial value for utility companies, with a reduction in operating expenses of up to 25%, which can translate into lower revenue requirements or higher profits. Performance gains of 20% to 40% in such areas as safety, reliability and regulatory compliance are also achievable, according to the same source.

Benefits of digitalization in the energy markets include making make resource consumption more efficient, assisting in addressing challenges related to power generation (such as avoiding power outages in certain developing countries or helping to balance system reserves) and reducing costs in the energy systems, e.g., by reducing operations and maintenance costs, reducing unplanned outages and downtime, and extending the operational lifetime of assets (source: IEA, “Digitalisation and Energy Technology Report”, November 2017).

The low oil price levels during the last five years have prompted the oil & gas industry to find innovative ways, including digital solutions, to reduce capital and operating costs. For example, in the upstream business, digital solutions enable remote, and increasingly autonomous, operations which not only reduce the number of personnel offshore, but also the required accommodation facilities on the platform.

We also expect digital technologies to transform power generation from the very earliest stages of the investment life cycle, starting with the design and erection of generation facilities, as well as with oil & gas and process industries' applications. In addition, digital tools can enhance the performance and profitability of power plants or wind power plants, allowing them to respond optimally to changing conditions on the grid and in the overall power market based on the interoperability of different assets starting from single turbines up to connected hybrid solutions. Besides predictive or condition-based maintenance, digital tools can track and maintain historical performance baselines for individual assets as well as the whole plant, comparing it to real time performance monitored on a continuous basis. Any variance from "expected behavior" derived from these baselines or expected operation will trigger an event to allow mitigating actions to follow if required. Software that uses a machine's full physical capabilities can adjust operating parameters in real time to maximize efficiency and minimize cost. In turn, as the plant operates more efficiently, the plant's environmental footprint improves.

Furthermore, certain companies (including Siemens Energy) are developing increasingly advanced concepts for autonomous power plant operations in which the plant is always digitally connected and in operation. Software-based monitoring and control of facilities also enable aspects of energy production to be largely automated.

With the upcoming further expansion of renewables, current energy systems will be facing high levels of volatility. Digital technology is creating new opportunities to couple the many different elements of the energy landscape – even across sectors – and optimally exploit the advantages of each. Flexible dispatchable power generation and digitalization of transmission and distribution grids help to balance intermittent renewable power generation and the demand side.

The growing amount of distributed generators and storages in the electricity system presents operational challenges for grid operators. They may cause rapid voltage fluctuation, create bi-directional flows, or adversely affect transformer and other grid asset lifetimes. Software can help to automatically monitor and manage these distributed assets. As stated in the World Economic Forum Electricity Report, digital technologies increasingly allow devices across the grid to communicate and provide data useful for grid management and operation. Sensors, network remote control and automation systems as well as digital platforms that focus on optimization and aggregation, allow for real-time operation of the network and its connected resources and collect network data to improve situational awareness and utility services. Data hubs allow the analysis of sensor data from substations, feeders and connected devices in order to identify grid areas that may be at their capacity limit or experiencing volatile demand or power quality issues.

In addition, companies in the energy and other sectors are stepping-up their initiatives to address the challenges posed by cybersecurity. In customers' review of the offer documents submitted as part of a project bid, the specific measures to prevent cyberattacks on the part of suppliers play an increasingly important role. Major players in the energy sectors, such as Siemens Energy, are therefore adopting a proactive role to tackle cybersecurity issues. For example, at the Munich Security Conference 2018, Siemens and eight partners from the industry signed the first joint charter for greater cybersecurity. Initiated by Siemens, the "Charter of Trust" calls for binding rules and standards to build trust in cybersecurity and further advance digitalization. The Charter of Trust has currently 17 members, including large corporates as signatories (such as Airbus, Allianz, Cisco, Dell, IBM, Deutsche Telekom, Total and Mitsubishi Heavy Industries, among others), as well as some associate members. Following the Spin-Off, Siemens Energy will initially be an indirect partner.

## **11.2 The Addressed Transmission Market**

### **11.2.1 Introduction; Definitions and Methodology**

Our Transmission division offers products as well as related solutions and services mainly for grid operators (e.g., Transmission System Operators ("TSOs") and Distribution System Operators ("DSOs")) as well as industrial and infrastructure customers. Our portfolio ranges from products and systems (mainly switchgear, transformers and high-voltage components) over substation and power electronic solutions for managing complexity in power grids and increasing grid stability,

to a broad range of maintenance, modernization and digital services. For more information on our Transmission portfolio, see “12.3.1 Transmission Division”.

Transmission provides the backbone of any electricity infrastructure. Historically, this infrastructure was designed to transmit power across large distances at high voltages using alternating current (“AC”) technology and to distribute the electricity at lower currents (medium or low voltages) to the end-user. The rapid proliferation of renewables (which need to be integrated into the grid) and the trend towards decarbonization, together with the arrival of prosumers and the liberalization of electricity markets, require more complex solutions, including the integration of direct current (“DC”) infrastructure into existing AC infrastructure. To maintain availability of these complex grids and to optimize grid usage, higher levels of digitalization are required, as well as new technologies and more environmentally-friendly products to contribute to decarbonization, all of which will open new business opportunities. In addition, the increasing complexity of grids is resulting in significant upgrade requirements for the related infrastructure, which is also a driver for our Addressed Transmission Market (as defined and assessed by us; see “11.2.1.2 Market Definitions and Methodology”). We also believe that the Addressed Transmission Market will benefit from general megatrends such as urbanization and electrification, which are expected to increase electricity demand (in particular as developing countries are investing to achieve complete electrification coverage for their populations).

#### 11.2.1.1 Transmission and Distribution as Part of the Electricity Industry

In the electricity industry, grid operators mainly provide and operate the infrastructure to connect power generating units, such as centralized power plants and decentralized renewables, to consumers and prosumers. The electricity grid may consist of up to five different voltage levels (depending on the country) with different functionalities, connected mainly via substations.

Voltage Layer	Voltage Level	Application	Operator	Characteristics
Ultra-high	Up to 1,200 kV	<ul style="list-style-type: none"> <li>Transport large amount of energy over very long distances</li> </ul>	Transmission System Operator (TSO)	<ul style="list-style-type: none"> <li>This voltage layer is being rolled out in large countries such as China</li> </ul>
Extra-high	230 - 550 kV	<ul style="list-style-type: none"> <li>Transport large amount of energy over long distances</li> <li>Connection of large generating units, e.g., large-scale power plants and onshore/offshore wind power plants, large-scale solar and large-scale hydro plants</li> </ul>	Transmission System Operator (TSO)	<ul style="list-style-type: none"> <li>Nationwide grids with interconnectors connecting neighboring countries across Europe</li> <li>Low number of assets</li> <li>High technological complexity</li> </ul>
High voltage	52 - 230 kV	<ul style="list-style-type: none"> <li>Distribution of electricity in wider areas</li> <li>Connection of generating units, e.g., medium-sized power plants, onshore/offshore wind power plants, solar and industrial customers</li> </ul>	Transmission System Operator (TSO) or Distribution System Operator (DSO), depending on country	<ul style="list-style-type: none"> <li>Several grid groups in each country</li> <li>Increasing number of assets</li> <li>High technological complexity</li> </ul>

Voltage Layer	Voltage Level	Application	Operator	Characteristics
<b>Medium voltage</b>	1 - 52 kV	<ul style="list-style-type: none"> <li>• Distribution of electricity close to consumers, e.g., in cities and rural areas</li> <li>• Connection of small onshore wind power plants and PV parks as well as commercial customers</li> </ul>	Distribution System Operator (DSO)	<ul style="list-style-type: none"> <li>• Numerous grids for each high voltage group</li> <li>• Large number of assets</li> </ul>
<b>Low voltage</b>	240 - 400 V	<ul style="list-style-type: none"> <li>• Connecting households/ commerce/ industry and rooftop PV to grid</li> <li>• "Last mile" to end-consumer</li> </ul>	Distribution System Operator (DSO)	<ul style="list-style-type: none"> <li>• Numerous grids for each medium voltage grid</li> <li>• Very large number of assets</li> <li>• Increasing automation</li> </ul>

Source: Siemens Energy, based on its own assessment of voltage layer characteristics.

Note: Various countries have slightly different definitions of voltage levels; the definitions may also vary among market participants.

Transmission refers to the transportation of electricity over ultra- and extra-high voltage lines (in some countries also high voltage lines), from central power generation units, such as power plants or large renewable plants, to local distribution networks, as well as industrial companies who are directly connected to the transmission network.

One or more TSOs in a respective country own and/or operate AC and DC transmission assets such as transmission lines, power cables, AC substations, transformers, interconnector and AC/DC converter stations. The main task of the TSOs is to ensure the transport of electricity and to secure the system's stability and availability. Transmission also involves the transportation of electricity between different jurisdictions, such as states or countries. For example, in North America, this role is typically fulfilled by regional transmission organizations ("RTOs") and independent system operators ("ISOs").

Low, medium and high voltage layers of the grid are operated and maintained by the respective DSO. DSOs usually distribute electricity to customers in a particular municipality or geographic area and may also supply electricity to other DSOs. DSOs own and operate distribution assets such as distribution stations, transformers, switchgear, distribution cables as well as overhead lines, masts, poles and switches, and use telecommunication lines to control the distribution grid to support system operation, smart metering and smart grid systems. In some countries, DSOs are further responsible for metering operations.

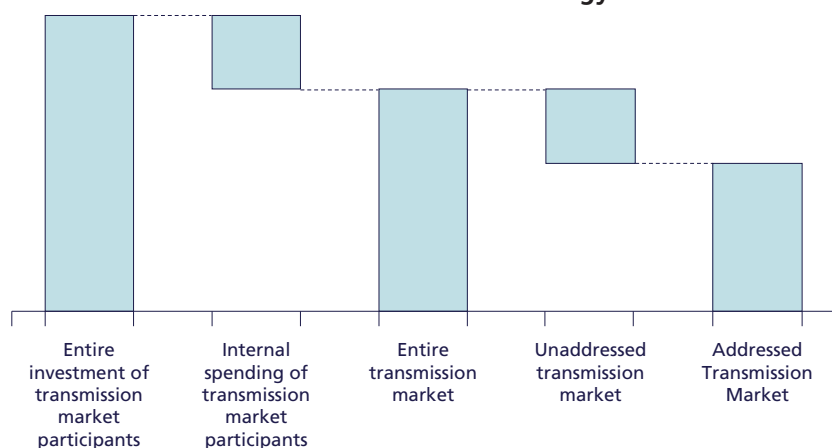
The main task of the DSOs is the operation of the distribution grid, which allows distribution of power from TSOs/DSOs or small and medium-sized power producers to customers, including the integration of distributed (renewable) energy sources into the system and the management of electricity demand.

Originally, the transmission and distribution systems were built to transport and distribute electricity produced mostly in centralized generating units with transformation from the highest voltage layer through the different layers to the customer in the low voltage layer (unidirectional). However, due to the steady growth of distributed/decentralized energy sources in recent years, particularly for renewables, power producers are now not only connected to the highest voltage layer, but also to the lower voltage layers up to 230 kV in several countries. As a result, the power flow in the grid has become in some cases bidirectional and, therefore, more complex (see "11.1.3.2.3 Decentralization"), resulting in significant upgrade requirements for the related infrastructure.

We assess our **“Addressed Transmission Market”** based on the business mandate of our Transmission division. The business mandate is defined by the market potential we assess for our Transmission business (see **“12.3.1 Transmission Division”**). Conversely, segments and categories that are currently not part of our business have been left aside for purposes of defining our Addressed Transmission Market. Our Addressed Transmission Market is the main market for us, since it is most relevant to us in terms of attractiveness, growth and market share development.

The following chart provides an overview of how we derive our Addressed Transmission Market from other markets and categories:

#### Addressed Transmission Market – Methodology



Source: Siemens Energy, own methodology assessment.

Note: The bars in the chart above are intended only to provide an overview of the methodology regarding our Addressed Transmission Market and the size of the bars does not represent precise values nor precise relative values among the different markets and categories shown.

The Addressed Transmission Market is somewhat broader than the market which is currently directly accessible to our transmission business. The Addressed Transmission Market includes, for example, various regional markets which we cannot serve or participate in due to legal restrictions (such as export restrictions) or due to self-imposed restrictions of the Siemens Energy organization with respect to individual countries or customers, or due to missing local manufacturing or sales footprint, or due to lack of fulfillment of local content requirements.

We refer to the market segments that are adjacent to our Addressed Transmission Market (which are therefore not part of our current portfolio) as the **“unaddressed transmission market”**. The unaddressed transmission market includes categories such as overhead lines (including towers), high-voltage underground cables (>60 kV to <230 kV), extra-high voltage underground cables (>230 kV) and submarine cables (both high and extra-high voltage).

We refer to the sum of our Addressed Transmission Market and the unaddressed transmission market as the **“entire transmission market”**. In addition, there are grid investments, internal activities and internal spending of transmission market participants, such as in-house services, e.g., in-house engineering, integration and maintenance services, which are added to the entire transmission market to assess the **“entire investment”** for the transmission market. Other market participants or market research companies may use different market definitions and therefore similarly termed markets or market segments assessed by third parties may not be comparable to our own market assessment.

Within our Addressed Transmission Market, we differentiate between the following market segments by **business type**, namely:

- **Transmission Products and Systems**, comprising air-insulated switchgear, gas-insulated switchgear (including both conventional (SF<sub>6</sub>) and environmentally-friendly (SF<sub>6</sub>-free) switchgear), power transformers, distribution transformers, bushings, instrument transformers and coil products as well as other transformers (such as reactors, phase-shifting transformers



and HVDC transformers, as well as special transformers for industrial applications, grid resiliency applications and mobile transformers (“plug-and-play”) and traction power transformers used in railway applications).

- **Transmission Solutions**, including turnkey substations, portable power solutions (e.g., “plug and play” switching stations), flexible alternating current transmission systems (FACTS), high- and medium-voltage DC transmission systems as well as grid access and connection solutions for decentralized generating units and remote loads.
- **Transmission Services**, such as field and maintenance, repair and emergency services, modernization and retrofit services, digital services, training and support as well as operation and long-term programs. In our market assessment, we include all services for the total installed fleet of transmission assets (whether the fleet relates to our own products and solutions or those of competitors, and regardless of whether we or another OEM provides the services).

From a **geographic perspective**, we also analyze our Addressed Transmission Market split into the following regions (along our reporting regions):

- the Americas: Canada, the United States as well as Middle and South America,
- EMEA: Europe, the Commonwealth of Independent States (*i.e.*, Russia and eight further member states), the Middle East and Africa, and
- Asia, Australia: Asia, Australia and New Zealand.

To assess our Addressed Transmission Market, we use our own market analysis, which includes both a top-down assessment, which considers certain macroeconomic indicators relevant to our markets based on a variety of third-party sources, and a bottom-up analysis of the global pipeline for all projects relating to the abovementioned product, solutions and service categories (regardless of whether a project is awarded or expected to be awarded to Siemens Energy or not). Examples of such third-party sources flowing into our top-down analysis are the reports and databases compiled by Global Data plc, London (United Kingdom), IHS Markit’s Global Insight database, in particular for the analysis of economical and country-related risks, the reports published by Global Transmission, based in New Delhi (India) (such as the “Global Transmission Investment Report”), and reports and further data from the IEA, among others. In addition, we use our understanding of the industry, customer investment plans and our own database of the project pipeline (which we compile using, among others, tender information, press releases and other documents published by competitors, industry publications and our own market intelligence).

The size assessment for each of the different market segments of our Addressed Transmission Market (in terms of value) is based, with respect to the project business, on projects awarded with respect to such market segment (*i.e.*, overall order intake) or, for future periods, on the expected project awards. This means that the complete value of each new order is allocated to the period in which the order is awarded. In the project business, due to long execution duration, revenues may lag a few years behind (typically three to five years) with respect to the time of the order award. The product business is another important sales channel. Through this channel, individual products are sold separately from a project, directly to a customer or end-user, either because the customer itself separates such product scope from the project, or due to demand relating to product refurbishment or replacement requirements. In such cases, the value is allocated only to the Transmission Products and Systems market segment of our Addressed Transmission Market for assessment purposes. The allocation of order intake/order award values to a certain country (and therefore, to a certain region, as mentioned above) depends, for the most part, on the country in which the final customer is located and in which the installation takes place.

In addition, we apply a principle of market value consolidation to eliminate double counting. Certain products sold are later integrated by our other business divisions within Siemens Energy into a system or solution, who then install such products for a customer. Without the

consolidation principle, order intake for such products would be taken into account more than once, with each new order relating to them. Similarly, the consolidation principle allows to eliminate double-counting in cases of intra-group sales of products, systems, etc. that are then sold to a third party.

Market sizes (including estimated future market sizes) are calculated in euro based on the end-customer price. Foreign currency amounts for the fiscal year 2019 (and any other historic periods) are converted into € using exchange rates for the respective fiscal year. Projection figures relating to the current fiscal year and any future fiscal years (e.g., for the fiscal year 2025, as shown in the table further below) are calculated taking into consideration (i) a projected foreign exchange rate (in the case of the figures shown in this chapter, the foreign exchange rates for March 3, 2020 have been used as projected rates for the respective foreign currencies over the complete forecast period) and (ii) projected general capital cost effects.

We have calculated market positions and other statements relating to our competitive environment taking into account order intake. It must be noted that for Transmission Solutions and Transmission Services, the inherent volatility relating to large awarded projects in a given year may result in changes in the market position among the major players from one year to another.

### 11.2.2 Market Size, Development and Trends

According to our own assessment, our Addressed Transmission Market amounted to € 44.9 billion in 2019.

The following table shows the market size assessed for 2019 as well as the expected market development of our Addressed Transmission Market and its different market segments, according to our own assessment (all figures in € billion, except percentages; years shown refer to Siemens Energy's fiscal years):

#### Development of our Addressed Transmission Market 2019-2025F

	2019	2025F	CAGR 2019-2025
<b>By business type:</b>			
Transmission Products and Systems .....	29.3	32.4	1.7%
Transmission Solutions .....	15.0	18.2	3.3%
Transmission Services .....	4.6	5.5	2.8%
Consolidation .....	-4.1	-5.7	N.A.
<b>Total Addressed Transmission Market .....</b>	<b>44.9</b>	<b>50.4</b>	<b>2.0%</b>
<b>By region:</b>			
Americas .....	11.8	14.7	3.8%
EMEA .....	15.6	17.2	1.7%
Asia, Australia .....	17.6	18.5	0.8%
<b>Total Addressed Transmission Market .....</b>	<b>44.9</b>	<b>50.4</b>	<b>2.0%</b>

Source: Siemens Energy; own assessment based on own assumptions and calculations.

Note: N.A. means "not applicable". A consolidation of market value is used to eliminate double counting, e.g., for products that are later integrated into a solution. For more information, see "11.2.1.2 Market Definitions and Methodology".

For the coming years until 2025, based on our own assessment, we expect slight growth in our Addressed Transmission Market, with strong absolute contribution from mature regions. While we see China still as the largest single country in terms of absolute value, we expect a slowdown over the 2019-2025 period in that country, resulting in a moderate growth in Asia overall. In Asia excluding China and the Middle East we expect the highest growth rates. For North America we expect a high growth rate coming from the integration of renewables, while for Europe and Africa we expect a flat development.

All figures shown in this section have been assessed prior to a consideration of the potential impact of the COVID-19 pandemic. Since electricity grids are part of countries' critical

infrastructure, we currently expect that the COVID-19 pandemic will have a moderate impact on our Addressed Transmission Market. We expect some volatility in drivers such as the financial strength of customers and their willingness to invest as well as regarding project timing (including potential shifts of orders for projects delayed due to the effects of the pandemic to subsequent fiscal years). We currently assume a peak near-term negative impact on our Addressed Transmission Market in a single-digit percentage level for 2020-2021. Certain countries (e.g., in Latin America and/or the Middle East) that are heavily dependent on income from oil & gas and related commodities may curtail investments in capital-intensive transmission projects during periods of low oil & gas prices. In the longer-term, in particular with respect to the 2025 figures, we currently expect the COVID-19 pandemic would have a significantly less profound impact on market developments. However, uncertainties remain at this time, for example as regards the timing and magnitude of the potential impact, so that actual market developments may turn out to be different from those mentioned in this section.

Growth in renewables, industrial activity and infrastructure is contributing to growth in the entire transmission market as well as in our Addressed Transmission Market. In addition, global and regional interconnections are generating further opportunities. We also believe that the Addressed Transmission Market will benefit from megatrends such as urbanization (see *"11.1.3.1 Global Megatrends"*) and electrification (see *"11.1.3.2.1 Demand Growth for Energy and Electricity"*), which are expected to increase electricity demand, as well as from renewable energy integration, new technologies, digitalization and more environmentally-friendly products that are increasingly in focus to optimize the usage of grids and to reduce the carbon footprint.

We expect that growth in our Addressed Transmission Market over the next few years shall be driven, in particular, by the following factors and trends:

#### ***Load Growth***

Expanding economies and rising demand for power, mainly in developing countries, are fueling the demand for power transmission networks. These countries are also investing in order to achieve complete electrification coverage for their populations. In addition, growth in transmission technologies is directly related to large-scale sector coupling, e.g., the increase of green hydrogen production in countries with cheap electricity from renewable sources. Thus, sector coupling, although not directly driving electricity consumption, is contributing to drive load growth.

In particular, we believe that Asian electricity markets (except for China) will significantly expand in the coming years, which would require more investment in their respective power transmission sectors. Providing access to electricity to growing populations and meeting increase in loads are among the key investment drivers for the growth of the electricity infrastructure in Africa and the Middle East. In addition, many Latin American countries are supporting each other in meeting the rising power demand (e.g., with the creation of common inter-country infrastructure to share energy demand and supply) and in improving the domestic electrification rate through power exchange.

#### ***Connecting Renewable Energy***

In light of rising concerns regarding environmental impact, many countries around the globe are investing in renewables to generate power. Establishing a reliable connection for the power produced in these clean energy projects to the grids is one of the key drivers for investment in power transmission.

In Europe, the majority of the transmission projects are currently focused on connecting onshore and offshore wind power projects to the grid. Offshore wind power plants are also gaining momentum in the United States and China. Furthermore, both the United States and Canada are developing several interconnections to transfer low-cost hydro power from Canada into the United States. In Latin America, the focus is currently on developing large-scale hydropower projects.

In addition, backed by the prospects of selling electricity to Europe, North African countries have developed far-reaching plans to utilize Africa's high renewable energy potential and invest in associated transmission infrastructure (source: Global Transmission Report website, release dated July 7, 2017, "Africa's Transmission Sector: Private investments vital to drive growth").

The high integration of renewables is also leading to the adoption of new technologies due to increased complexities, not only for transmitting power, owing to their intermittent power generation, but also for energy storage. At times, there is a lack of reliable transmission of real-time data to deal with the issue of intermittent power generation characteristics of renewable energy projects, sometimes also due to their remote location. Energy storage technologies enable intermittent renewables to be successfully integrated into the grid. They also increase the efficiency of existing power generation and transmission facilities and improve the quality of electricity supply. With substantial renewable energy mandates in place, several European countries, the United States and China are currently heavily investing in grid-scale energy storage projects.

### ***Technology Improvements***

New technologies are being deployed to integrate renewables and to expand and modernize the existing transmission grid. Besides high voltage AC ("**HVAC**"), HVDC technologies are currently the preferred option for the integration of large onshore and offshore renewable energy resources, mainly in the United States and Europe. For example, the IEEE states that a HVDC grid would serve as the basic transmission technology for the envisioned European "supergrid", a key component in securing a stable, cost-effective and reliable energy supply (source: IEEE, "HVDC Grids for the European Transmission System: Accelerating the Large-Scale Integration of Renewables – An IEEE European Public Policy Initiative Position Statement", adopted on September 1, 2017).

Along with HVAC and HVDC overhead lines, countries like India, China and Brazil are also developing ultra-high voltage grids and extra-high voltage grids.

The integration of renewable power plants and shut down of conventional fossil and nuclear power plants is leading to decreases of voltage and frequency stability, unbalanced load flows, congestions, short-circuit current levels change, inefficiency and re-dispatch. To meet these new challenges, the importance of the flexible alternating current transmission systems (FACTS) is increasing. New technologies using static VAR compensators (which provide fast-acting reactive power on high-voltage electricity transmission networks), also with frequency stabilizers, load flow controllers, synchronous condensers and medium voltage DC interconnections will likely become integral parts of future power grids.

Another key trend in the transmission industry has been the increase in the use of underground cables. While underground cables with voltage levels up to 150 kV have been an option in congested cities and towns for some time, high-voltage cables are being deployed only in cases where there has been very strong public opposition to overhead lines and only for short distances due to their high cost.

Advanced technologies are also being developed for transmission substations to improve their efficiency and reduce their impact on the environment. Utilities and other industrial players are now becoming aware of the benefits of introducing digitalization and environmentally-friendly products into their transmission and distribution networks. Pilots are being undertaken, mainly in Europe but also increasingly in the United States, to use digitally enabled SF<sub>6</sub>-free switchgear and ester oil-filled transformers in order to improve productivity, performance and operational safety as well as to reduce unplanned downtime and GHG, thus addressing environmental concerns.

### ***Aging Infrastructure***

Many developed countries are also investing in improving their aged power infrastructure with new and advanced technologies. These mainly include the United States and European countries, where the power transmission network development begun in the early 19<sup>th</sup> century.

We also expect that in Asian countries, as well as in Australia and New Zealand, capital expenditures in the coming years will also cover the replacement and refurbishment of existing grid infrastructure (source: Global Transmission Research, "Global Utility Transmission Investment Report 2019-2028").

### 11.2.3 Competitive Environment

We believe that major competitive factors in our Addressed Transmission Market include portfolio coverage, price, product and solution reliability and availability, efficiency, quality, technology (including digitalization), experience, references, environmental impact, ability to match local requirements and standards, as well as service capabilities. Long-term relationships with customers result in supply frame contracts and long-term service agreements.

The competitor landscape in our Addressed Transmission Market is complex. With its products, solutions and services, Siemens Energy's Transmission division addresses customer segments along the energy value chain, including customers active in power generation, those active in transmission and distribution as well as industrial customers acting as consumers or prosumers. We compete with other large global players, mainly with the power grids division of ABB Asea Brown Boveri Ltd., Zurich (Switzerland) ("**ABB**"), 80.1% of which was acquired by Hitachi Tokyo (Japan) in July 2020 (with an option to acquire the remaining interest later) and which now operates under the name Hitachi ABB Power Grids Ltd. ("**Hitachi ABB Power Grids**"), and with General Electric International, Inc., headquartered in Boston/Massachusetts (United States) ("**GE**"), including the acquired Alstom power and grid business. Other competitors are active in one or more areas of our Addressed Transmission Market, including TBEA Co., Ltd., Changji (China), China XD Group, Xian (China) ("**China XD**"), Pinggao Co. Ltd., Henan (China), Toshiba Corporation, Tokyo (Japan), Hyundai Group Co., Ltd., Seoul (South Korea), SGB-Smit GmbH, Regensburg (Germany), Hyosung Heavy Industries, Seoul (South Korea) and upcoming, expanding multi-regional players like Larsen & Toubro Limited, Mumbai (India). There are also many small companies which are typically specialized in particular market segments, and most of them are focused on the regions in which they are based.

During the last few years, the market showed consolidation, internal reorganizations and cooperations among players. For example, in addition to Hitachi's acquisition of ABB's power grids division, as mentioned above, SNC-Lavalin and ABB announced the formation of the Linxon joint venture in December 2017, focusing on the execution of turnkey electrical AC substation projects. Moreover, in 2019, GE integrated its grid solutions business with its renewable energy business.

Certain portions of our Addressed Transmission Market, for example the business for large HVDC or grid access projects within Transmission Solutions, are project-driven. In these businesses for large HVDC and grid access solutions, the top-three global players (which include Siemens Energy), account for a sizeable share of the relevant market segment. By contrast, other types of business, such as that relating to air-insulated switchgear and gas-insulated switchgear, are characterized by a market environment including both international players and a fairly large number of local providers.

We estimate that we became the largest player in our Addressed Transmission Market worldwide in 2019, closely followed by Hitachi ABB Power Grids, before GE and China XD. Siemens Energy's and Hitachi ABB Power Grids' market position in a given year is highly dependent on the solutions and HVDC business, in particular with respect to varying volumes relating to large projects. We also assess that we were the largest or second largest player in each of our three main regions (the Americas, EMEA and Asia, Australia) in 2019.

The global Transmission Products and Systems market segment of our Addressed Transmission Market is fragmented, with a large number of small and medium-sized participants that mainly cater to specific market segments and to customers which are mostly focused on a low capital investment. However, some organized global or regional participants account for a considerable portion of the Transmission Product market segment, since these types of electrical equipment constitute critical infrastructure for power networks, which typically require a high level of



reliability and offer customers a lower overall total cost of ownership (i.e., a combination of capital expenditures and operating expenses investment). According to our own assessment, we were the second largest player in the global Transmission Products and Systems market segment of our Addressed Transmission Market in 2019, behind Hitachi ABB Power Grids and before GE and China XD. In our assessment, we have narrowed the gap to the market leader Hitachi ABB Power Grids in this market segment, gaining 1 percentage point in market share from 2018 to 2019. Also based on our own assessment, within the Transmission Products and Systems market segment we believe we were the global market leader for switching products (i.e., air-insulated switchgear and gas-insulated switchgear, circuit breakers, disconnecting switches, etc.) and the second largest global player for non-switching products (i.e., power transformers and distribution transformers, bushings, instrument transformers, coil products, etc.) in 2019.

Within the Transmission Solutions market segment of our Addressed Transmission Market, businesses such as the grid access and HVDC market segments, as mentioned above, are highly project-driven. Due to the decreasing HVDC investment in China, the State Grid Corporation of China (SGCC) is selectively participating in oversea projects. In the grid access area, competition continues to increase by market entries of new participants (e.g., shipyards, mainly acting in the AC grid access business). Moreover, in the substation and FACTS business areas, the three main players – Siemens Energy, Hitachi ABB Power Grids and GE – play an important role. However, a considerable portion of substation projects tends to be awarded to individual national players which execute, on average, less than one project per year. In the market segment for Transmission Solutions, we estimate that we were the largest player worldwide in 2019, followed by Hitachi ABB Power Grids, GE and the SGCC.

In the Transmission Services market segment, which is mainly a small project business for switching products, there are several smaller local independent service providers with (in many cases) aggressive pricing strategies, multi-brand service offerings, lean set-ups and low-cost structures. We assess that we were the second largest player in the Transmission Services market segment worldwide in 2019, after Hitachi ABB Power Grids and before GE.

In our assessment, the following factors contribute to our strong market position: (i) our environmentally-friendly and carbon neutral portfolio elements, (ii) our digitally enabled portfolio, (iii) our leading HVDC technologies, (iv) our comprehensive safety concepts (to prevent, protect and mitigate grid operational issues), (v) our wide-range of grid stabilizing portfolio elements and solutions (we estimate that we have a leading position in the field of grid stability products, in terms of order intake for 2019, in euro, for FACTS and phase shifters), and (vi) the fact that our portfolio can act as enabler for offshore wind grid access.

## **11.3 The Addressed Generation Market**

### **11.3.1 Introduction; Definitions and Methodology**

Our Generation division offers central and distributed generation products (e.g., gas turbines, steam turbines, generators and engines), solutions (e.g., large and industrial power plants as well as I&C and electrical solutions) and services (e.g., spare parts, field services, long-term programs, O&M and controls, digitalization and electrical modernizations and upgrades) addressing a wide field of market segments in the power generation industry. For more information on our Generation offering, see “12.3.2 Generation Division”.

Our Addressed Generation Market (as defined and assessed by us; see “11.3.1.2 Market Definitions and Methodology”) is based on fossil fuels such as gas, oil and coal. These fuels (together with nuclear and hydro power) have been providing the backbone of electricity generation globally for many years. Proliferation of renewables such as wind and solar PV have led to widely differing trends in different countries and regions depending on the existing infrastructure, availability of fuel, wealth and environmental policies. While some countries (such as China, India or Indonesia) continue to invest in coal, others have been looking for alternative fuels. We expect this shift away from coal to continue. An increasing number of power generation companies are switching from coal to gas (so-called “coal to gas shift”), supported by low gas prices and increasing carbon prices, or due to regulations. We also believe that in many

countries and regions gas will be a transitional source of fuel providing a market for highly efficient large gas (and steam) turbines and for small and medium-sized gas turbines for decentralized power generation. With more availability of carbon-neutrally produced hydrogen, we see hydrogen substitute gas as a fuel providing a market for hydrogen-enabled gas turbines contributing to decarbonization. For example, in July 2020, the European Union adopted a EU hydrogen strategy to explore how clean hydrogen can help reduce the EU economy's carbon emissions and make the EU climate-neutral by 2050, and in June 2020, Germany adopted a national hydrogen strategy. Furthermore, we see control and digitalization solutions and services as key enablers for operational improvement, allowing power generation plants to increase safety and uptime. In particular, digitalization is expected to be a growth field, for example with predictive maintenance to reduce costs in the operation of assets.

#### 11.3.1.1 *The Power Generation Industry*

Energy in the form of electricity, heating and cooling is essential for societies and economies, as these forms of energy are required for living and working space, operation of appliances in commercial and manufacturing sectors, as well as for the operation of buildings and mobility.

The power generation industry supplies these forms of energy for final use by converting various sources of energy, namely:

- Conventional fuels, including fossil (e.g., natural gas, coal and oil) and nuclear fuels
- Renewable resources (e.g., solar, wind, hydro, biomass, geothermal resources)

Power generation may be dedicated to one single form of energy (e.g., electricity) or performed in a combined form (e.g., co-generation of electricity and heat). Power generation can also be categorized as either dispatchable power generation (which can be switched on and off) or intermittent power generation from renewable sources based on the availability of these resources (such as wind or solar irradiation). Different types of storage, ranging from batteries for sub-hourly differences to "power-to-x" for longer-term balancing, are used to balance gaps between supply and demand.

High power densities are provided from central generation (e.g., large fossil power plants or offshore wind power plants), while distributed generation (e.g., onshore wind or decentral power plants) enable the supply of energy at much lower densities and are, for example, embedded at dedicated consumer sites or in remote areas.

The United Nations' SDG 7 aims to "ensure access to affordable, reliable, sustainable and modern energy for all". Therefore, a sound mix of different kinds of power generation technologies is required, which needs to consider emissions, existing grid infrastructure, generation costs, security of supply, subsidies, fuel availability, regulatory framework and other regional criteria.

The power generation industry is facing a deep transformation, which requires solutions for decarbonization. Electricity generation is expected to grow significantly in the next years (see "11.1.3.2.1 Demand Growth for Energy and Electricity"). In addition, the power generation industry has started an energy transition moving from conventional power generation to renewable sources, with a significant decrease of relevance for coal. For more information, see "11.1.3.2 Energy Trends and Transformation of Energy Markets").

#### 11.3.1.2 *Market Definitions and Methodology*

We define our "**Addressed Generation Market**" based on the business mandate of our Generation division. The business mandate is defined by the market potential we assess for our Generation business (see "12.3.2 Generation Division"). Conversely, segments and categories that are currently not part of our business have been left aside for purposes of defining our Addressed Generation Market. By **business type**, our Addressed Generation Market comprises:

- **Generation Products**, comprising (i) large gas equipment for simple-cycle power plants ("SCPPs") and CCPPs with a gas turbine unit size of at least 100 MW; (ii) large steam equipment for large steam turbine power plants with steam turbines of at least 250 MW (the scope

includes steam turbine packages only); (iii) I&C and electrical systems for conventional power plants (fossil and nuclear); (iv) industrial gas equipment for SCPPs and CCPs with a gas turbine unit size smaller than 100 MW; (v) industrial steam equipment for industrial steam turbine power plants with steam turbines smaller than 250 MW (the scope includes steam turbine package only; besides conventional fossil plants, this category also comprises applications for biomass-waste and concentrated solar power plants); (vi) large and industrial generators and (vii) engines, including gas engines with 250 kW to 3 MW for standby and continuous applications.

- **Generation Solutions**, comprising (i) large gas solutions for SCPPs and CCPs with a gas turbine unit size of at least 100 MW (including full turnkey solutions including gas and steam turbine packages (for CCPs), generators, I&C and electrical as well as heat transfer technology); (ii) decarbonization solutions to guide customers through a decarbonization pathway, e.g., coal-to-biomass conversion, hybridization and energy storage; and (iii) industrial gas solutions for SCPPs and CCPs with a gas turbine unit size smaller than 100 MW (the scope includes full turnkey solutions including gas and steam (for CCPs) turbine packages, generators, I&C and electrical systems as well as heat transfer technology).
- **Central Generation Services**, comprising spare parts, field service, long-term programs, O&M and controls, modernizations, digital and electrical solutions, upgrades and brownfield engine exchanges ("BEX"), in each case relating to central generation assets. The service category includes mostly the service activities relating to the fleet of installed Siemens Energy products in service (whether effectively serviced by the Group or not), in terms of market potential, i.e., of the potential revenues from different service activities that may be performed after the sale of new equipment; and (ii) to a lesser extent, our own service activities provided for third-party OEM machines.

It must be noted that the services relating to distributed generation (e.g., spare parts, field service, long-term programs, O&M and controls, digital and electrical solutions and upgrades relating to distributed generation assets) are not part of our Addressed Generation Market, but are rather part of our Addressed Industrial Applications Market, as explained under "11.4.1.2 Market Definitions and Methodology".

In addition, we apply a principle of market value consolidation to eliminate double counting, as we also do for our Addressed Transmission Market. For more information, see "11.2.1.2 Market Definitions and Methodology".

Moreover, we also analyze our Addressed Generation Market from a **geographic perspective**, by region (Americas, EMEA and Asia, Australia).

Furthermore, from a different perspective, based on the **main types of generation**, our Addressed Generation Market can be split into the following two market segments (which include a products and solutions scope and, for central generation, a services scope as well):

**Central generation**, which includes:

*Products and Solutions:*

- Large gas equipment and solutions for SCPPs and CCPs with a gas turbine unit size of at least 100 MW (the scope includes up to full turnkey solutions including gas and steam turbine packages (for CCPs), generators, I&C and electrical as well as heat transfer technology)
- Large steam equipment for large steam turbine power plants with steam turbines of at least 250 MW (the scope includes steam turbine packages only)
- I&C and electrical systems for conventional (fossil and nuclear) and hybrid power plants
- Decarbonization solutions to guide customers through a decarbonization pathway, e.g., coal-to-biomass conversion, hybridization and energy storage

*Services:*

- Spare parts, field service, long-term programs, O&M and controls, modernizations, digital and electrical solutions and upgrades relating to central generation assets

**Distributed generation**, which includes the following products and solutions:

- Industrial gas equipment and solutions for SCPPs and CCPPs with a gas turbine unit size smaller than 100 MW (the scope includes full turnkey solutions including gas and steam (for CCPPs) turbine packages, generators, I&C and electrical systems as well as heat transfer technology)
- Industrial steam equipment for industrial steam turbine power plants with steam turbines smaller than 250 MW (the scope includes steam turbine package only). Besides conventional fossil plants, this category also comprises applications for biomass-waste and concentrated solar power plants.
- Engines, including gas engines with 250 kW to 3 MW for standby and continuous applications

We assess the market size of our Addressed Generation Market taking, in general, three dimensions for measurement into consideration: the power capacity additions (in MW), the number of units (e.g., the number of gas or steam turbines ordered in a given year) and in terms of full turnkey scope value (based on order intake), expressed in euro. The value depends on the respective scope of supply. It is assessed with the specific price of power plants' capital expenditure per kW for either product or turnkey scope.

In order to assess the size of our Addressed Generation Market for **new units** (products and solutions) for a given year, the time of a project award and order intake is considered. In addition, certain historical market data for the gas and steam turbine market sub-segments are mainly based on the reports published by McCoy Power Reports, Richmond/Virginia (United States) ("**McCoy**"). Further internal assessments complement the data for market categories or dimensions regarding which no or insufficient external reports are available. For the short-term prospects, including projected growth (two to three years), we derive the market outlook for our Addressed Generation Market from our bottom-up sales force intelligence, which tracks all known projects in the market, while the long-term outlook uses a top-down model approach, based to a large extent on external data from IHS Markit on gross capacity additions and assumptions on construction time. For example, to assess the market size for the fiscal year 2023, the value is backward-calculated considering the gross capacity additions expected for the fiscal year 2025, under assumption of a technology-specific construction time of two years. We also use other major external market data and insights (e.g., from the IEA) to analyze different market scenarios and to validate our own assumptions.

The assessment and analysis of the **service** portion of our Addressed Generation Market follows a different approach compared to new units, and follows the rationale that customers purchase, to a large extent, services from the OEMs that provided the equipment, and to a lesser extent from third parties, as explained above. In both cases, the market segment relating to service is based on revenue streams (or, with respect to future periods, expected revenue streams), which depend on the utilization of our existing own fleet and our own service business with additional new units, taking into account also market price changes. The allocation of the revenue streams within the service portion of our Addressed Generation Market to a certain year follows, in general, the expected timing of major outages as well as for backlog of long-term service programs ("**LTPs**"), among other factors. In general, the allocation of service market revenues is based on an approximation of the fiscal year or years in which the revenue potential would be paid.

For purposes of the calculation of our **market position** within the Addressed Generation Market, the service portion of such market, which as explained above is largely based on the service activities performed on our own installed product fleet, has not been considered. Instead, the market position assessments relating to our Addressed Generation Market are based only on the portion of such market relating to new units.

Foreign currency amounts for the fiscal year 2019 (and any other historic periods) are converted into € using exchange rates for the respective fiscal year. Projection figures relating to the current fiscal year and any future fiscal years (e.g., for the fiscal year 2025, as shown in the table further below) are calculated taking into consideration (i) a projected foreign exchange rate (in the case of the figures shown in this chapter, the foreign exchange rates for March 3, 2020 have

been used as projected rates for the respective foreign currencies over the complete forecast period) and (ii) projected general capital cost effects.

The data for both the new unit and service market segments of our Addressed Generation Market is regularly updated in a periodic process with several stakeholders to identify market changes. We also use our regularly updated market analysis to adapt the strategy of our Generation division accordingly.

### **11.3.2 Market Size, Development and Trends**

We estimate that our total Addressed Generation Market amounted to approximately € 28.3 billion in 2019. Thereof, approximately € 21.8 billion related to central generation and approximately € 6.5 billion to distributed generation.

All figures shown in this section have been assessed prior to a consideration of the potential impact of the COVID-19 pandemic. As a result of the pandemic, we expect volatility, in particular in the market segment relating to gas turbines, in service utilization, customers' financial position and project timing (including potential shifts of orders for projects delayed due to the effects of the pandemic to subsequent fiscal years). In general terms, we assume a peak near-term negative impact on our Addressed Generation Market of up to a low double-digit percentage. In the longer-term, in particular with respect to the 2025 figures shown below, we currently expect the COVID-19 pandemic would have a significantly less profound impact on market developments. We expect some volatility in drivers such as the financial strength of customers and their willingness to invest as well as regarding project timing (including potential shifts of orders for projects delayed due to the effects of the pandemic to subsequent fiscal years). Given these uncertainties that remain at this time, for example as regards the timing and magnitude of the potential impact, actual market developments may turn out to be different from those mentioned in this section.

Even though we are experiencing project delays on the new unit business and shifts of service outages (but in both areas with only minor cancellations), we currently expect that some of these effects are recoverable. In particular for the high share of Service business with long-term service agreements, we continue to see reasonable utilization levels globally, though with regional differences due to COVID-19's impact on energy demand over the next years. However, low gas prices and a stronger shift towards renewables may support the construction of new gas power plants and accelerate the retirement of coal power plants.

Overall, we expect that the total Addressed Generation Market will remain largely flat over the 2019-2025 period (with approximately € 27.4 billion in 2025), mainly reflecting the trend towards decarbonization (see "*11.1.3.2.2 Decarbonization*"). This development is characterized by an expected increase in electricity generation: According to the IEA's Sustainable Development Scenario, electricity generation could increase by 11% over a similar period (2018-2025), mainly driven by natural gas and renewables (with an increase of 17% and 63%, respectively), while coal and oil generation are expected to decrease (by 23% and 34%, respectively) during the same period (source: WEO 2019, Sustainable Development Scenario; absolute increases in TWh for the 2018-2025 period). Natural gas-fired generation has tripled over the past 22 years (source: WEO 2019). This also underlines the role of this business in the energy transition. Gas is expected to remain a key technology in the future, as its dispatchability provides for the required reliability and flexibility of energy systems. At the same time, gas can play an important role as enabler for the decarbonization of energy systems, as supported by several industry reports, including IEA's WEO 2019 and BNEF's "*New Energy Outlook 2019*" (see "*11.1.1 Overview*"). Applications such as "coal-to-gas", decentral hybrid solutions and the burning of green fuels (e.g., hydrogen-rich gases) help customers to significantly reduce their carbon footprint.

However, as shown in the table below, we expect the future development during the period until 2025 to vary among the different market segments and categories. We also see a general trend towards distributed generation and renewables. As a result, we deem the central generation market segment of our Addressed Generation Market to generally shrink (with an expected decrease of 1.4% (in terms of CAGR) over the 2019-2025 period, in particular due to a



reduction in the business relating to large steam equipment), while the distributed generation market segment is expected to grow at a CAGR of approximately 2.0% during the 2019-2025 period.

The following table provides an overview of the market size of our Addressed Generation Market and the expected market development, both for the overall market as well as for individual market segments and categories (all figures in € billion, except percentages; years shown refer to Siemens Energy's fiscal years):

#### Development of our Addressed Generation Market 2019-2025F

	2019	2025F	CAGR 2019-2025
<b>By business type:</b>			
Generation Products .....	9.2	9.3	0.1%
Generation Solutions .....	17.2	15.3	-1.9%
Central Generation Services* .....	6.5	6.5	0.0%
Consolidation .....	-4.7	-3.8	N/A
<b>Total Addressed Generation Market .....</b>	<b>28.3</b>	<b>27.4</b>	<b>-0.5%</b>
<b>By region:</b>			
Americas .....	10.0	6.5	-6.8%
EMEA .....	10.3	12.7	3.6%
Asia, Australia .....	8.1	8.1	0.2%
<b>Total Addressed Generation Market .....</b>	<b>28.3</b>	<b>27.4</b>	<b>-0.5%</b>
<b>By generation type:</b>			
Central Generation .....	21.8	20.1	-1.4%
Distributed Generation .....	6.5	7.3	2.0%
<b>Total Addressed Generation Market .....</b>	<b>28.3</b>	<b>27.4</b>	<b>-0.5%</b>

Source: Siemens Energy; own assessment based on own assumptions and calculations.

Note: N/A means not applicable. Figures by region and by generation type include Services. A consolidation of market value is used to eliminate double counting, e.g., for products that are later integrated into a solution; see "11.3.1.2 Market Definitions and Methodology".

\* "Services" refers mainly to the service activities relating to the fleet of installed Siemens Energy equipment in operation (whether effectively serviced by the Group or not) and, to a lesser extent, our own service activities provided for third-party OEM equipment; see "11.3.1.2 Market Definitions and Methodology".

In the medium-term (*i.e.*, until 2025), we see the following market developments and trends for the main market segments and categories of our Addressed Generation Market:

Within the **central generation** market segment, we see investment activity for large gas equipment and solutions in countries with high energy demand, for example in the Middle East, Africa and Asia, and coming from a replacement of large coal and nuclear units, for example in North America, Europe and Asia (as part of the shift from coal to gas). Therefore, there is still demand for baseload applications with strong requirement on high efficiency to save fuel and to lower emissions during operations. Due to the growing integration of renewables, flexibility is expected to become more important, for example regarding ramp-up times as well as using green fuels, such as hydrogen. In addition, large steam equipment remains under pressure, due to several countries stopping coal activities and as a result of more stringent and widespread CO<sub>2</sub> targets, which in turn are limiting financing available to coal projects. Also, the utilization of existing coal-fired generation is expected to decrease due to earlier retirement of sites. Overall, we have observed a significant decline for large gas turbines within the central generation market segment during the past few years mainly due to the fast shift to renewables. In the coming years, we expect global demand for large gas turbines at a level of around 70 to 80 units per year (own assessment based on an internal analysis) (compared to approximately 200 large gas turbines ordered in 2014, a sharp decline of approximately 60% until 2018 and a stabilization in 2019 on approximately 80 units as assessed by us derived from McCoy data). For the 2019-2025 period, we expect a slight decline (at a CAGR of approximately -1%) in the large gas turbines

market segment, in euro, and a clear decline (at a CAGR of approximately -9% over the 2019-2025 period) for the market segment relating to large steam turbines for coal applications, in euro. We also expect growth in the product segment relating to powerful jumbo frames of over 300 MW, driven by the shift from coal to gas, energy auctions for base load and gas-to-power (*i.e.*, projects with a power plant and integrated gas import, such as LNG). With respect to I&C and electrical systems for conventional power plants, the market in general is expected to closely follow the development of the gas, coal and nuclear markets. We expect central generation services to remain stable, supported by large fleets, which demand for modernizations of existing customer assets to meet future decarbonization targets and digital solutions for further performance optimization. Furthermore, we see control and digitalization solutions and services as key enablers for operational improvement, allowing power generation plants to increase safety and uptime. In particular, digitalization is expected to be a growth field, for example with predictive maintenance to reduce costs in the operation of assets.

Within the **distributed generation** market segment, we see a trend to decentralization positively impacting the business relating to industrial gas equipment and solutions, with industrial demand mostly coming from industrialized countries in Europe and America as well as emerging economies in Asia leading to a stable market outlook over the 2019-2025 period. In particular, we expect increasing demand from industrial and municipality customers for CHP applications (see “12.3.2.2.2 Power Plant Solutions”) and hybrid solutions with storage (see “12.3.2.2.4 Decarbonized Solutions”). With respect to industrial steam equipment, the market is moderately growing, as industrial steam is also addressing “green” areas such as biomass waste, geothermal and concentrated solar power. Also process heat is still required in many industrial applications, which is also supporting demand for industrial steam. As regards engines, we expect growth in the gas engines business, driven by the increase in demand for continuous and standby power generation, stringent environmental norms and low natural gas prices.

### 11.3.3 Competitive Environment

We believe that major competitive factors in our Addressed Generation Market and its market segments include portfolio coverage, price, life cycle economics, product reliability and availability, efficiency, emissions footprint, references, the ability to match local requirements and standards, as well as service, financing and project development capabilities. Long-term relationships with customers result in framework and long-term service agreements.

The competitive environment in our Addressed Generation Market is heterogeneous and characterized by evolving roles.

- While large gas turbines products are for the most part provided by key OEMs, including Siemens Energy, GE, Mitsubishi Power, Ltd., Yokohama (Japan) (“**MHPS**”) and Ansaldo Energia, Genova (Italy) (“**Ansaldo**”), the solution scope is covered by a large number of national and multinational EPC companies, *e.g.*, Bechtel Corporation, Reston/Virginia (United States), Marubeni Corporation, Tokyo (Japan), Iberdrola S.A., Bilbao (Spain), Doosan Heavy Industries & Construction Co., Ltd., Changwon (South Korea), or Sepco3, Qindao (China). In solution projects, therefore, depending on local conditions, capacities and risk profile, among other factors, either OEMs take the lead (in cases in which they also provide a full-turnkey solution) or they work with partners and subcontractors in consortia.
- For large steam products, the market is mostly served by Chinese players (such as Harbin Turbine Co. Ltd., Harbin (China), Dongfang Turbine Co., Ltd., Deyang City (China), and Shanghai Electric Group, Shanghai (China), and Indian players (such as Bharat Heavy Electricals Limited, New Delhi (India)).
- For I&C and electrical systems the competitive environment differs, with ABB, Emerson Electric Company, Ferguson/Missouri (United States), and Yokogawa Denki K.K., Tokyo (Japan), being among our typical competitors in the OEM and EPC business.
- In the area of industrial gas equipment and solutions, our main competitors are GE, Solar Turbines, Kawasaki Heavy Industries, Ltd., Kobe (Japan) and MHPS.

- In the area of industrial steam equipment, we find also different competitors, for example Triveni Turbine Ltd., Bangalore (India), Toshiba, Hangzhou Steam Turbines Co. Ltd., Hangzhou (China), and WEG Industries S.A., Jaraguá do Sul (Brazil) (which acquired a controlling stake in the Brazilian TGM (Industria e Comércio de Turbinas e Transmissões Ltda)).
- In the engine business, the main market players are Innio Jenbacher GmbH & Co OG, Jenbach (Austria), MAN Energy Solutions SE (formerly MAN Diesel & Turbo), Augsburg (Germany), and Wärtsilä Corporation, Helsinki (Finland) (“**Wärtsilä**”).

There is also a certain competition between the different types of application, for example between gas turbines and engines. Therefore, we believe that a broad portfolio enables companies active in our Addressed Generation Market to supply best-fitting solutions to customers. In addition, although we define the service portion of our Addressed Generation Market to include mostly our Siemens Energy fleet, we face competition from other OEMs and from third-party suppliers, for example based on former technology license agreements (e.g., Ansaldo and its subsidiary Power Systems Mfg., LLC, Jupiter/Florida (United States), as well as MHPS).

We assess that we are well-positioned within our Addressed Generation Market in key businesses. In our assessment, we were in most cases either the largest or among the two largest players in our main focus market categories in 2019: In the distributed generation market segment, we estimate that we were the largest player in the field of industrial gas equipment and solutions in 2019, in terms of industrial gas turbine units ordered (with an estimated market share close to 30% in 2019 for industrial gas turbines, in terms of units ordered; we also estimate that we have gained market share (approximately 4 percentage points) between the fiscal year 2018 and the fiscal year 2019). This is mainly due to our leading role in CHP (within distributed generation) with our SGT-800 turbine, which in our own assessment offers higher efficiency in the 62 MW variant than comparable competitor products, and our expansion in the field of hybrid solutions for decarbonized energy systems. We also assess that we were the largest player in the field of industrial steam equipment in 2019, in terms of order intake for industrial steam turbines, measured in euro (with an estimated market share of approximately 30% for industrial steam turbines in 2019, in euro; we estimate that we have been able to maintain the distance to our competitors so far in the current fiscal year), due to our efficient products and comprehensive portfolio and our leading position regarding applications for the growing biomass and pulp & paper markets (based on our own assessment) and a significant share of high-volume projects. In addition, we estimate that we were the second largest player in the field of large gas equipment and solutions within the central generation market segment of our Addressed Generation Market in 2019, in terms of large gas turbine units ordered, driven by the market launch of our high-efficiency HL gas turbine class and our comprehensive portfolio, which allows us to act as a “one-stop” solution provider. Furthermore, we estimate that we were the leading provider of F-Class large gas turbines (a technology that has been used for gas turbines for several decades) and the second largest provider of H/J-Class large gas turbines (advanced high-efficiency gas turbine technology) in 2019, in terms of the number of units ordered for the respective category. Given that global demand for large gas turbines is typically for a relatively limited number of units per year, multi-unit orders may have a significant impact on market shares for large gas turbines in a given year, potentially resulting in changes in the market position among the major players from one year to another.

We also assess that we had the second largest fleet worldwide as of the end of the fiscal year 2019, representing an estimated 25% of the total global fleet of approximately 14,000 installed large gas turbines and large steam turbines (own assessment, based on several industry sources, including fleet data and other market sources; our estimated share of the global fleet is technology-based, *i.e.*, it includes turbines using our technology, whether branded by us or by a third party). In addition, we estimate that as of the end of the fiscal year 2019 our fleet of large gas turbines and large steam turbines represented approximately 30% of the total fleet of such turbines in the Americas; within EMEA, approximately 20% of the total fleet for such turbines in Europe and approximately 30% in the Middle East and Africa (taken together); and within Asia, Australia, we had a share of approximately 15% of the installed base in China and approximately

25% of the installed base in the rest of the region (in each case, according to our own assessment, based on several industry sources, including fleet data and other market sources; for this calculation, Siemens Energy fleet shares include both those turbines marketed with our own brand and licensed units that use our technology but are marketed under a third-party brand).

Overall, we estimate that we were the second largest player in our Addressed Generation Market in 2019 worldwide, after GE and before MHPs and Ansaldo, in terms of the number of new units and value, in euro.

## **11.4 The Addressed Industrial Applications Market**

### **11.4.1 Introduction; Definitions and Methodology**

Our Industrial Applications division addresses a wide variety of market segments along almost the entire value chain of the oil & gas industry and many process industries such as chemicals, synthetic fuels, air separation, fiber, marine, metals & mining. For these industries we offer a broad portfolio of products, integrated systems and solutions, comprising rotating equipment (mainly turbo compressors, reciprocating compressors and certain gas turbines), integrated drive-train systems, electrification, automation and digital solutions for the on- and offshore industry, the marine industry and the fiber industry, and water treatment solutions. We also provide services for oil & gas and distributed generation customers, including other industries such as food and beverages, minerals and metals, industrial parks and municipalities, among others. For more information on our product, solutions and service offering, see *"12.3.3 Industrial Applications Division"*.

The common denominator of our Addressed Industrial Applications Market (as defined and assessed by us; see *"11.3.1.2 Market Definitions and Methodology"*) is the movement of large volume of liquids and gases. A large part of the market comprises the upstream, midstream and downstream portions of the oil & gas value chain. However, process industries (including the power industry), which require fuel, oil-based raw materials or catalysts, constitute very significant end-markets, accounting for roughly one-third of our total Addressed Industrial Applications Market in 2019. While oil and gas will continue to contribute a significant share of global primary energy demand in the coming decades (as indicated in the IEA's WEO 2019, for example), we expect that carbon-based fuels will increasingly be substituted by hydrogen. Primary energy consumption is expected to shift to a higher share of natural gas facilitated by its lower environmental footprint and feedstock availability, partially at the expense of coal and oil. We also expect an increasing electrification of processes in order to comply with increasing needs to decarbonize oil & gas operations. In addition, we see digitalization as a key enabler for operational improvement, increasing safety (e.g., with new de-manning and virtual solutions), uptime, throughput, and higher productivity (e.g., with remote monitoring and services).

#### *11.4.1.1 The Value Chain of the Oil & Gas Industry Relevant to our Industrial Applications Division*

The oil & gas value chain can be split into (i) the upstream segment, with exploration and production ("**E&P**"), i.e., onshore and offshore drilling, unconventional production (pumping and compression), conventional onshore and offshore production and processing; (ii) the midstream segment, with LNG, gas and liquid pipelines and storage solutions; and (iii) the downstream segment, with refining, marketing and retail and petrochemicals. In addition, new business fields are emerging from oil & gas customers, such as power co-generation, energy storage, carbon capture, utilization and storage, hydrogen economy (production, compression, liquefaction and transportation of hydrogen) and "power-to-x". Siemens Energy is mainly active as an OEM in many different sections of the value chain, as explained in more detail in *"11.4.1.2 Market Definitions and Methodology"*.

The **upstream** activities of the oil & gas value chain include the exploration, development and production of oil and gas from resources and reserves. Most countries grant oil & gas development rights to private and/or state-owned companies such as international oil companies ("**IOC**") and national oil companies ("**NOC**"), respectively, as well as to independent E&P companies through a process of negotiation or bidding. Most agreements between oil & gas

companies and governments are structured as “production sharing agreements”. Once the rights to explore are acquired, a well is drilled. If the well can produce enough oil and gas to cover the cost of completion and production, it will be put in production. Due to their complexity, most upstream projects are carried out under some type of partnership structure, for example involving several IOCs, NOCs, oilfield service providers and EPC companies.

The **midstream** segment of the oil & gas value chain involves the transportation, storage and distribution of oil and gas. Crude oil that is produced must be transported from the well head to a refinery. Transportation is carried out through shipping (tankers), railroad, truck, and pipelines. Natural gas must also be transported from production sites to downstream markets and distributors via pipelines (land or under the sea) or ships in form of LNG. The midstream segment involves many players, including IOCs, NOCs, independent companies, shipping companies and EPCs.

Oil and gas storage plays an important role in providing flexibility and security of oil and gas supplies. Large storage tanks hold large amounts of oil, natural gas, LNG and other petrochemicals. Furthermore, storage can be connected directly to large consumers with highly volatile gas demand such as gas-fired power plants.

The **downstream** segment of the oil & gas value chain includes refining and petrochemicals, oil & gas marketing and retail (retail refers to the sale of gas to consumers). The refining of crude oil produces a variety of products such as gasoline, diesel fuel, jet fuel and chemical feedstocks. Products are sold directly to end-users through retail locations, directly to large users (such as utilities and commercial customers), and through wholesale networks. In the downstream segment, IOCs play a major role. Increasingly, NOCs are stepping into the merchant refining business as a means of capturing additional value added from their crude production. Petrochemicals (also known as petroleum distillates) are the chemical products obtained from petroleum by refining. Some chemical compounds made from petroleum are also obtained from other fossil fuels, such as natural gas. The two most common petrochemical classes are olefins (including ethylene and propylene) and aromatics (including benzene, toluene and xylene isomers). Oil refineries produce olefins and aromatics by fluid catalytic cracking of petroleum fractions. Chemical plants produce olefins by steam cracking of natural gas liquids like ethane and propane. Aromatics are produced by catalytic reforming of naphtha. Olefins and aromatics are the building-blocks for a wide range of materials such as solvents, detergents, and adhesives. Olefins are the basis for polymers and oligomers used in plastics, resins, fibers, elastomers, lubricants, and gels. Many refineries and chemical plants are co-located, providing opportunities for support services and synergies.

#### 11.4.1.2 *Market Definitions and Methodology*

We assess our “**Addressed Industrial Applications Market**” based on the business mandate of our Industrial Applications division. The business mandate is defined by the market potential we assess for our Industrial Applications business, including our business relating to different parts of the oil & gas value chain as well as the business relating to other industrial applications (see “12.3.3 *Industrial Applications Division*”). Conversely, segments and categories that are currently not part of our business have been left aside for purposes of defining our Addressed Industrial Applications Market.

With its portfolio, Siemens Energy’s Industrial Applications division acts mainly as an OEM within the oil & gas value chain, and also addresses certain other industries with specific applications. Siemens Energy’s Industrial Applications division offers products, systems, services and solutions based on rotating equipment (turbo and reciprocating compressors, aero-derivative and industrial gas turbines, steam turbines), used both in mechanical drive and power generation applications. It also offers electrical products, systems and solutions, such as e-houses (*i.e.*, customized, pre-assembled and pre-tested modular power substations), subsea equipment and electrical power distribution systems, and automated solutions including integrated electrical, automation, instrumentation, communication, and telecom solutions. With respect to digital solutions business, our Industrial Applications division offers solutions for asset performance



management, condition monitoring, remote, low-manned and unmanned operations, cyber security solutions, digital life cycle services and performance optimization.

The oil & gas market is a very broad and heterogeneous market that comprises many different types of businesses and products, and typically individual companies focus on one or more specific areas and/or product categories within this large market, as in our case. Besides the oil & gas industry, with our portfolio we address other process industries, such as the chemical, air separation, fiber and marine industries, among others, which also represent different heterogeneous markets that are broader than the areas we address.

External market studies are available only for certain segments of the markets relevant to our Industrial Applications division, or cover entire markets including in their scope categories not addressed by Siemens Energy, such as oilfield services, pumps, steel structures, hulls. As far as we are aware, there is no comprehensive source which describes the overall market and its submarkets and which covers our addressed scope in its entirety.

We define our Addressed Industrial Applications Market to include the following **market segments and categories**:

In terms of the **type of business**, we distinguish between products, solutions and services:

- **Industrial Applications Products**, mainly including compressors, industrial and aero-derivative gas turbines as well as integrated systems (e.g., LNG solutions, electric and mechanical applications for in-field unconventional oil & gas activities; compressed air energy storage systems, e-houses and power generation and compressor modules, waste heat recovery systems, flare and stranded gas solutions).
- **Industrial Applications Solutions**, mainly including EAD and R-EAD process automation solutions (instrumentation, process control, safety systems, telecommunication), electrification solutions (AC/DC power systems, solutions and energy storage solutions), related life cycle, decarbonization (e.g., all electric battery ferries), certified cybersecurity and digitalization solutions, which enable remote and low and unmanned operations, and related services.
- **Industrial Applications Services**, including standard maintenance services, long-term service and O&M programs, performance enhancements and replacements, digital services as well as training and consulting. The service category includes mostly the service activities relating to the fleet of installed Siemens Energy products in service (whether effectively serviced by the Group or not), in terms of market potential, and, to a lesser extent, our own service activities provided for third-party OEM machines, as explained further below in more detail.

From a **geographic** perspective, we are active in almost every country worldwide, making our Addressed Industrial Applications market a global market. The oil & gas market and the industrial markets that are part of the scope of our Addressed Industrial Applications Market show variations across regions in terms of geopolitical and economic trends, as well as customer preferences. We split our Addressed Industrial Applications Market in the following main regions: the Americas, EMEA and Asia, Australia.

In terms of the **value chain of the oil & gas sector**, we distinguish between the following market segments:

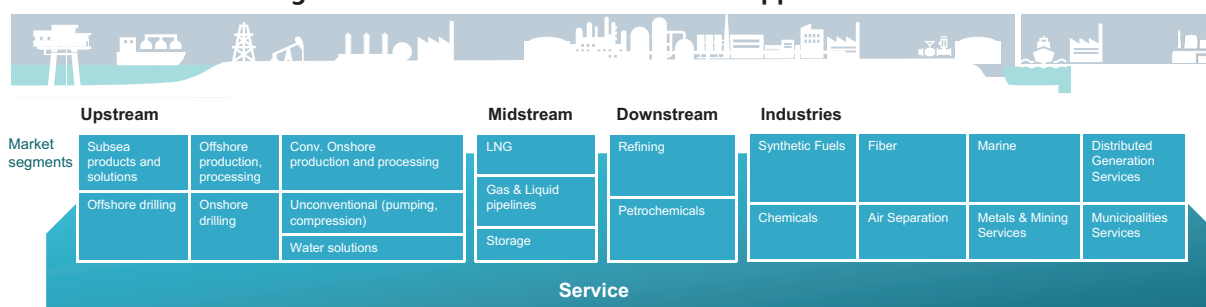
- With respect to the **upstream** part of the oil & gas value chain, our Addressed Industrial Applications Market comprises products, systems, solutions and services for floating and fixed platforms, as well as for subsea applications (relating to upstream offshore oil & gas). Our Addressed Industrial Applications Market also comprises products, systems, solutions and services for onshore oil and gas production and processing applications, gas injection and, with respect to unconventional onshore, gas compression as well as mobile power solutions. Our Addressed Market also includes process solutions for offshore drilling that are part of our business scope.
- With respect to the **midstream** part of the oil & gas value chain, our Addressed Industrial Applications Market comprises compression stations for onshore and offshore gas pipelines and

pumping stations for oil pipelines, as well as underground gas storage. In the field of LNG, our Addressed Industrial Applications Market includes liquefaction and regasification applications, from large-scale to floating LNG.

- With respect to the **downstream** part of the oil & gas value chain, our Addressed Industrial Applications Market comprises a wide variety of applications used in refining, tank farms and petrochemicals such as fluidized catalytic cracking, hydrotreating, hydrocracking, delayed coking, olefins and polyolefins, syngas (synthesis gas, a fuel gas mixture consisting primarily of hydrogen, carbon monoxide, and very often some CO<sub>2</sub>), and coal gasification.
- With respect to other **industrial businesses**, our Addressed Industrial Applications Market comprises a wide variety of applications used in air separation and in the chemical industry, such as gasification, industrial gases, ammonia and urea, purified terephthalic acid ("**PTA**"), an important raw material for polyester manufacturing) and chlorine gas. It also includes certain process solutions for the marine industry (such as surface and subsurface naval vessels and commercial ships) and the fiber industry (such as bio-refineries, pulp-, board-, tissue- and special paper mills). In addition, this market segment of our Addressed Industrial Applications Market includes our complete service portfolio (see "**12.3.3.4 Services**" for details) for distributed generation customers, including industries such as food and beverages, minerals and metals, industrial parks and municipalities, among others. This service offering helps us to maximize technical and operational synergies within our Group.

The following chart provides an overview of the market segments addressed by the products, services and solutions of our Industrial Applications business and therefore included in our Addressed Industrial Applications Market:

#### Overview of market segments of our Addressed Industrial Applications Market



Source: Siemens Energy

Note: Upstream excludes other oilfield services (e.g., exploration, completion, vessels), which are excluded from our Industrial Applications division's current business scope. Downstream excludes marketing and retail, which are excluded from our Industrial Applications division's current business scope.

Our market evaluation of our Addressed Industrial Applications Market is based on our internal evaluation of available external reports provided by industry analysts (e.g., Rystad, IHS Markit, the Organization of the Petroleum Exporting Countries ("**OPEC**"), the U.S. Energy Information Administration ("**EIA**"), the IEA, the Energy Industries Council ("**EIC**"), the non-commercial foundation Norwegian Energy Partners ("**Norwep**"), Clarksons Research (Clarkson PLC, London (United Kingdom)), McCoy Gas Turbine Analytics (from McCoy) and the International Compressor Applications and Machinery Committee ("**ICAAMC**"), among others), which contain information on expenditure development, projects, as well as an analysis of internal data available within Siemens Energy as part of customer relationship management tools and expert knowledge.

Our market assessment for **products and solutions** is based both on a bottom-up approach and a top-down approach. The bottom-up approach is based on a database of projects which are expected to be awarded in the market within the considered time frame, which we compile using both external and internal sources. As part of our market evaluation process, we estimate an addressable share for our Industrial Applications division in these projects (regardless of whether the project is expected to be effectively awarded to Siemens Energy or to a competitor). Market sizes for new equipment are based on expected order intake potential for the scope relevant to our addressable share within the respective projects.

Besides the bottom-up perspective, we use a top-down approach based on evaluation of expected capital expenditures volumes using external sources such as those mentioned above in this section. The market estimates are also verified with product line and regional experts of the Group to achieve an aligned, thorough view. For our projections relating to our Addressed Industrial Applications Market, we also use projections relating to GDP development, oil and gas demand, oil prices and capacity utilization, in addition to projected capital and operating expenditures. In general terms, market segments react to oil price fluctuations in a different way: While segments with traditionally higher break-even costs such as unconventional oil & gas and offshore production are more sensitive to oil price drops, other market segments, especially downstream and other process industries show less volatility to oil price drops and might even benefit from a lower oil price due to the lower cost of the feedstock. The service business is typically not impacted by temporary oil price fluctuations, or only to a very limited extent.

For market evaluations on a market segment level, we consider, in addition, specific market drivers and indicators such as number of floaters, jack ups, floating production storage and offloading units (“FPSO”), platforms, capacity additions in LNG and downstream applications, number of frac fleets in unconventional production, the amount of so-called “Christmas trees” (i.e., an assembly of valves, spools, and fittings used to regulate the flow of pipes in a well), manifolds, control modules and new umbilical installations for the subsea market segment.

One of the key buying criteria on the part of customers is reliability. Therefore, they appreciate and trust the knowledge, reputation and experience of OEM service providers, who are generally in a better position to service their own branded equipment. Siemens Energy is positioned as a full-service provider for its own products and solutions, providing a holistic service offering. A significant portion of our business is transactional and includes spare parts, field service, and repair and overhauls. However, Siemens Energy also offers advanced business services such as long-term service programs (LTPs), O&M contracts, modernizations and upgrades, digital services, and training and consulting. The fact that customers usually purchase services from the OEMs that provided the equipment is also reflected in the definition and calculation of the **service** portion of our Addressed Industrial Applications Market and makes it different from the market definition and assessment of the new equipment business (as described above). The assessment and analysis of the service portion of our Addressed Industrial Applications Market is based on (i) the service activities relating to the **fleet of installed Siemens Energy products in service** (whether effectively serviced by the Group or not), in terms of market potential, i.e., of the potential revenues from different service activities that may be performed after the sale of new equipment; and (ii) to a lesser extent, **our own service activities provided for third-party OEM machines**, in terms of actual revenues or, for future periods, an assessment of potential future revenues based on past experience, among other factors. In the fiscal year 2019, we had a significant market share (in terms of the value of the service activities performed on our service-relevant installed Industrial Applications fleet of roughly 79,000 units), e.g., the share for gas turbines was approximately 70%. For more information on our Industrial Applications service business, see “12.3.3.4 Services”. The main data sources for the assessment of the service portion of the Addressed Industrial Applications Market are the installed base taken from our customer relationship tool and the feedback from product line experts and regional experts about the estimated customer spends per equipment. External market data is used for verification of results and longer time horizons. We allocate the potential sales revenues of a given service contract to different years over the contractual term using a model that assumes a certain age-related sales profile. This model is used both for transactional business and for LTP and similar contracts.

For purposes of the calculation of our **market position** within the Addressed Industrial Applications Market, the service portion of such market, which as explained above is largely based on the service activities performed on our own installed product fleet, has not been considered. Instead, the market position assessments relating to our Addressed Industrial Applications Market are based only on the products and solutions portion of such market.

All market figures are provided in euro. Foreign currency amounts for the fiscal year 2019 (and any other historic periods) are converted into € using exchange rates for the respective fiscal year. Projection figures relating to the current fiscal year and any future fiscal years (e.g., for the

fiscal year 2025, as shown in the table further below) are calculated taking into consideration (i) a projected foreign exchange rate (in the case of the figures shown in this chapter, the foreign exchange rates for March 3, 2020 have been used as projected rates for the respective foreign currencies over the complete forecast period) and (ii) projected general capital cost effects.

The following information on market environment, market developments, market volumes, and the competitive environment represents our aggregation of diverse external and internal data and estimates.

#### **11.4.2 Market Size, Development and Trends**

We estimate that our Addressed Industrial Applications Market amounted to approximately € 25.3 billion in 2019. Thereof, approximately € 7.8 billion related to products, solutions and services for the upstream oil & gas business, approximately € 5.6 billion to products, solutions and services for the midstream oil & gas business, approximately € 3.2 billion to products, solutions and services for the downstream oil & gas business, and approximately € 8.7 billion to industrial categories such as applications for the chemical industry, fiber solutions, air separation units, applications for synthetic fuels and marine applications as well as for distributed power generation.

All figures shown in this section relating to our Addressed Industrial Applications Market have been assessed prior to a consideration of the potential impact of the COVID-19 pandemic and the sharp drop in oil prices in early 2020, which resulted from demand contraction combined with simultaneous large oversupply volumes. We expect the pandemic and lower oil price level to result in volatility for our Addressed Industrial Applications Market, in particular with respect to customer capital expenditures and project timing mainly in the market segments of our Addressed Industrial Applications Market relating to oil & gas. This can result in potential shifts of orders from projects delayed to subsequent fiscal years or potential cancellations of future customer investments/projects. We expect that operational expenditures and service utilization, as well as capital expenditures in the market segments relating to process industries, may be less affected. The major resiliency factor of our Service business is due to the fact that such business is based on an already installed fleet and predominantly reflects necessary operating expenditures of our customers to ensure the sustainability of their business operations. We currently assume a lower double-digit percentage peak negative market impact compared with the original estimate for our Addressed Industrial Applications Market for 2020-2023. In the longer-term, in particular with respect to the 2025 figures, we currently expect that the COVID-19 pandemic would have a significantly less profound impact on market developments. We also expect that oil prices will recover to pre-COVID-19 levels in the mid-term, and will reach around USD 65-70 bbl by 2025 (source: Rystad "ServiceDemandCube" database projections for Brent oil price, retrieved in August 2020). However, uncertainties remain at this time, for example as regards the timing and magnitude of the potential impact, so that actual market developments may turn out to be different from those mentioned in this section.

Due to a diversified business mix for Siemens Energy's Industrial Applications division, in particular a significantly higher share of Service business compared to Products and Solutions, a strong Service backlog, as well as a high share of business relating to other process industries, we expect that the effect of the above-mentioned market drop on our order intake and revenue will be smoothened to a significant degree. Some of the negative impact may be recoverable; however, the recovery effect may be offset by customers shifting service demand to later years, e.g., due to set maintenance intervals, lower utilization and cost efficiency.

In 2019, we saw a continuing recovery across our addressed markets following a stabilization of oil price levels, after an oil price crisis strongly impacted market volumes mainly during the 2016-2017 period. In early 2020, oil prices dropped again sharply, mainly due to the strong demand contraction caused by the COVID-19 pandemic and simultaneous high oversupply volumes. As demand for oil dropped, tensions regarding further production cuts rose between OPEC+ members (i.e., the informal denomination for the group consisting of OPEC's 14 members and 10 non-OPEC nations, including Russia, Mexico and Kazakhstan, among others). The oil price conflict

within OPEC+ ended with an agreement reached on April 13, 2020 by OPEC+ members to cut oil production by nearly 10 million barrels a day, the largest amount ever, in an attempt to stop crashing oil prices. However, due to the expiration of the futures contracts, U.S. oil prices dropped to below USD zero a few days later and have thereafter recovered, however still on a relatively low level compared to 2019. According to the IEA's Oil Market Report, May 2020, since the record drop in April 2020, the outlook has improved somewhat and prices, while still far below where they were before the start of the COVID-19 crisis, have rebounded from their April lows, mainly due to the easing of lockdown measures and steep production declines in non-OPEC countries alongside the commitments made by the OPEC+ agreement (source: IEA's summary statements on the Oil Market Report, May 2020, available on the IEA's website).

According to our estimates, our total Addressed Industrial Applications Market is expected to grow at a CAGR of approximately 2.0% over the 2019-2025 period, to reach approximately € 28.4 billion in 2025, reflecting global economic growth, oil and gas demand growth and improving oil price dynamics (according to Rystad "ServiceDemandCube" database, retrieved in August 2020, the price for Brent oil is expected to increase from an average of USD 64/bbl in 2019 to around USD 65-70/bbl by 2025). We expect the positive development of these major macroeconomic indicators to translate into robust spending growth by oil & gas companies and other industrial players relevant for our market scope during the next years. However, as shown in the table below, the expected future development during the period until 2025 is expected to vary among the different market segments and categories.

Our market growth projections are broadly in line with the view of major industry analysts such as Rystad, which estimates an upstream and midstream oil & gas capital expenditure growth in terms of CAGR of 2% over the 2019-2025 period (source: Rystad "ServiceDemandCube" database, retrieved in August 2020; the database includes all upstream and selected midstream categories).

The following table provides an overview of the market size of our Addressed Industrial Applications Market and expected market development, both for the overall market as well as for individual market segments and categories (all figures in € billion, except percentages; years shown refer to Siemens Energy's fiscal years):

#### Development of our Addressed Industrial Applications Market 2019-2025F

	2019	2025F	CAGR 2019-2025
<b>By business type:</b>			
Industrial Applications Products .....	10.0	9.9	-0.2%
Industrial Applications Solutions .....	10.1	12.6	3.6%
Industrial Applications Services* .....	5.2	6.0	2.5%
<b>Total Addressed Industrial Applications Market .....</b>	<b>25.3</b>	<b>28.4</b>	<b>2.0%</b>
<b>By region:</b>			
Americas .....	8.2	8.8	1.1%
EMEA .....	10.9	12.0	1.6%
Asia, Australia .....	6.1	7.6	3.7%
<b>Total Addressed Industrial Applications Market .....</b>	<b>25.3</b>	<b>28.4</b>	<b>2.0%</b>
<b>By value chain market segment:</b>			
Upstream .....	7.8	9.9	4.0%
Midstream .....	5.6	4.2	-4.6%
Downstream .....	3.2	3.2	0.0%
Industrial .....	8.7	11.2	4.2%
<b>Total Addressed Industrial Applications Market .....</b>	<b>25.3</b>	<b>28.4</b>	<b>2.0%</b>

Source: Siemens Energy; own assessment based on own assumptions and calculations.

Note: Figures by region and by oil & gas value chain segment include Services for each category shown.

\* Services refers mainly to the service activities relating to the fleet of installed Siemens Energy equipment in operation (whether effectively serviced by the Group or not) and, to a lesser extent, our own service activities provided for third-party OEM machines; see "11.4.1.2 Market Definitions and Methodology".



In the medium-term market perspective, we see the following market developments for each of the main segments of our Addressed Industrial Applications Market:

In the **upstream offshore** market segments of the oil & gas portion of our Addressed Industrial Applications Market, we see investment activity continuing to recover across several regions, mainly Latin and North America, EMEA and Asia, Australia, with increasing numbers of floating production systems facilitated by break-even cost adjustments (such as lower operating costs or higher efficiency) adopted by exploration and production companies in order to run profitable projects in light of a low oil price environment. In the subsea business, we expect increasing usage of subsea tie-back to existing offshore infrastructures and subsea power grids to avoid using up part of the limited space on the topside. Overall, we expect growth for the upstream offshore market segment of our Addressed Industrial Applications Market over the 2019-2025 period.

According to our market observations, activities in **upstream onshore** market segments are picking up globally, both in conventional and unconventional market segments. The growth in upstream onshore is strongly driven by gas related applications, such as gas production, processing, and unconventional gas compression, especially in such countries and regions as Russia, North America, the Middle East, China, Australia and Central Asia. Beyond that, in the unconventional market segment, we see an increasing customer demand for gas turbine-based electric fracturing solutions offering better asset economics and environmental footprint compared to diesel engines. Overall, we expect growth for upstream onshore markets over the 2019-2025 period.

In 2019, we saw the **midstream** market segment of the oil & gas portion of our Addressed Industrial Applications Market strongly benefitting from a new wave of LNG project commitments to avoid a potential supply shortfall after the fiscal year 2020, showing a historic peak in 2019 for LNG. The new wave of final investment decisions regarding LNG liquefaction projects is expected to have a more global spread, with upcoming project commitments in Mozambique, Qatar, Russia and the United States.

We do not expect the midstream market segment to have similarly high volumes by 2025. This explains the expected CAGR of -4.6 when the 2019-2025 period is considered. The drop in LNG over the 2019-2025 period is expected to be partially offset by robust growth in the market segment relating to pipelines. The growth in the market segment relating to pipelines is leveraged by upstream growth as well as the long-term and strategic nature of many pipeline projects. Major growth regions are China (China is expected to double its pipeline infrastructure to over 240,000 km by 2025; source: Wood Mackenzie, news release "China's pipeline reform: expect higher gas prices in the short-term", October 9, 2020), Russia and Central Asia, which will benefit from Chinese gas pipeline expansion plans. Beyond that, we see strong market opportunities in North America.

The **downstream** market segment of the oil & gas portion of our Addressed Industrial Applications Market was characterized by strong project activity in previous years. We expect short-term growth in the refining sub-segment, facilitated by investments to accommodate amendments to the International Marine Organization ("IMO")'s bunker fuel regulation and improving standards as well as in related water solutions. While by the end of the forecast period (2025), investment volumes in refining are likely to slow down (the expected 2019-2025 CAGR is 0%), we expect continuous growth in the petrochemicals sub-segment, strongly linked to expected GDP growth and increasing demand for petrochemical products, especially in emerging economies and North America. In the petrochemicals market segment, we expect growth in polyolefins and olefins, for example in conventional cracker applications in China.

In **industry-related** market segments, including air separation, chemicals, metallurgy and utilities (e.g., regarding fuel gas compression applications for gas turbines), fiber and marine, as well as services for distributed generation assets, we expect growth at a CAGR of 4.2% over the 2019-2025 period. In air separation, we expect a sustained recovery of the business relating to industrial gases, driven by global GDP growth and related industrial growth, especially in emerging economies. The main industrial driver for industrial gases is steel, since oxygen and

argon are needed for steel-making from crude iron. Other industries with oxygen demand are the chemicals, petrochemicals and refining, glass and PV industries. In the air separation business relating to gasification there is a strong demand, mainly from China and the United States, where petrochemical projects need air separation in order to produce syngas (e.g., for methanol). We expect that the chemicals markets will grow in line with GDP growth over the 2019-2025 period. We also expect that increasing usage of polyester fibers and films will drive future PTA capacity additions. Overall, the market is strongly driven by increasing demand, mainly coming from China relating to multiple applications of the chemicals market. In addition, we expect the metallurgy markets to grow, leveraged by recovering iron and steel markets following a strong decline during the 2014-2017 period. Furthermore, we see continued growth for the fiber industry in the packaging and tissue markets over the 2019-2025 period. Moreover, we expect Chinese pulp demand to drive capital expenditures of the fiber industry in Russia, the Nordic countries and South America. Within the marine industry, we expect growth in the navy, ferry and cruise areas, partially offset by a slow container vessel market. Distributed generation services in the Middle East and Asia, Australia regions are expected to show the strongest growth over the 2019-2025 period, mainly because of increasing energy demand and a shift towards gas. In Europe, we expect growth to be leveraged by strong demand for decentral energy, supported by governmental incentives, resulting in increasing modernization and upgrade potential.

We expect **service** activities to grow over the 2019-2025 period, with the highest growth rates coming from industrial gas turbines, in particular in the field of distributed generation, mainly driven by the expected growth of our installed base as well as growing demand for efficiency-related modernizations and upgrades of our installed fleet. Investments to improve the performance of existing/brownfield equipment present a capital-effective alternative to the purchase of new assets to extend equipment lifetime, enhance financial returns and lower emissions. While we expect the solid growth in this area to continue, the current debate around climate change may present an additional upside.

From a **regional** perspective, we estimate that all three regions will contribute to the growth of our Addressed Industrial Applications Market, with the strongest growth expected to occur in the Asia, Australia region (with an expected 2019-2025 CAGR of 3.7%, based on our own assessment). EMEA is expected to grow at a CAGR of 1.6% (with Europe and Africa growing from € 8.8 billion to € 9.6 billion from 2019 to 2025, at a CAGR of 1.5%, and the Middle East growing from € 2.1 billion to € 2.4 billion, at a CAGR of 2.2%) and the Americas at a CAGR of 1.1% over the same period (in each case based on our own assessment).

From a long-term perspective, we see following trends influencing our markets:

Driven by continuous demand growth for energy (currently around 850 million people worldwide have no access to electricity, according to the IEA (source: <https://www.iea.org/world>)), we expect that demand for oil and gas will continue to contribute the largest share to the primary energy mix at least until 2050. In external analyst scenarios envisaging strong growth of renewables (e.g., IEA, WEO 2019), oil and gas are still expected to contribute a significant share of global primary energy demand (53% in 2040 under the Stated Policies Scenario, and 47% in 2040 under the Sustainable Development Scenario). Primary energy consumption is expected to shift to a higher share of natural gas facilitated by its lower environmental footprint and feedstock availability, partially at the expense of coal and oil.

Global oil demand is expected to grow from 98.7 thousand barrels of oil per day ("**mb/d**") in 2018 to 108.3 mb/d in 2030, with the largest growth expected to come from the transportation sector, followed by the industrial sector (and therein, in particular from the petrochemical sector). Global gas demand is expected to grow from 65.5 thousand barrels of oil equivalent per day ("**mboe/d**") in 2018 to 79.7 mboe/d in 2030, with demand to come primarily from Asia, led by China and India, as well as OPEC countries (source for the above information: OPEC, "World Oil Outlook 2040", 2019 edition).

We expect that increasing demand levels for primary energy will translate in robust expenditure volumes, whereby brownfield expenditure (which amounted to approximately USD 860 billion in 2019, or over 80% of total capital and operating expenditure in oil & gas exploration and

production, according to the Rystad “ServiceDemandCube” database (retrieved in August 2020), and which is expected to grow at a CAGR of 3% over the 2019-2030 period) shall play a major role in order to avoid stranded oil & gas assets, enable a steady return on investment and ensure stability and reliability of energy systems around the world. In turn, declining production from maturing oil and gas fields (depletion) will require improved recovery technologies as well as additional mechanical and electrical power requiring continuous investments.

Customers in our Addressed Industrial Applications Market include national and international oil & gas companies, independent oil & gas producers, specialized midstream companies, oilfield service providers, industrial players, EPC companies, packagers, system integrators, distributors and OEMs. Today’s customer needs are prompting new trends, technologies and solutions in the process industries. For example, the oil & gas and the other process industries are experiencing a transformation towards a lower carbon footprint in line with global climate protection policies. We see an increasing focus of operators on emissions reduction and higher operational efficiency as well as on cost reduction. In oil & gas operations, we also see a growing importance of natural gas, facilitated by its lower environmental footprint.

In addition, digitalization is widely accepted as a key enabler for operational improvement, increasing safety, uptime, throughput, and higher productivity (for example, with remote monitoring and services) as well as reducing emissions.

Moreover, oil & gas customers operate in high-risk environments and thus aim at achieving zero harm levels, safeguarding security (including cyber security), among others with new de-manning solutions, virtual solutions for installation, commissioning, training and control rooms as well as robotics. In order to increase reliability and efficiency while improving risk management, there is a trend to focus on operational efficiency, such as brownfield solutions to extend asset life, service solutions to maximize uptime and an integrated project execution.

Besides a focus on higher efficiency and on reducing the carbon footprint in oil & gas operations, industry players are developing sector coupling technologies such as hydrogen (see “11.1.3.2.2 Decarbonization”) and “power-to-x”, facilitated by their infrastructure, feedstock and technology access, as well as increasing investments into renewables.

In turn, these developments create new growth opportunities for suppliers of the oil & gas and other process industries, such as Siemens Energy’s Industrial Applications division.

#### **11.4.3 Competitive Environment**

We believe the major competitive factors in our Addressed Industrial Applications Market and its market segments include portfolio coverage, price, life cycle economics, product reliability and availability, efficiency, emissions footprint, references, ability to match local requirements and standards, as well as service capabilities. Framework and long-term service agreements contribute to a long-term relationship with customers.

The competitor landscape in our Addressed Industrial Applications Market is complex. Most companies typically specialize in particular market segments, and some are partially active in different market segments, but there are only a few companies that are present across several value chain segments. Siemens Energy’s products, solutions and services address businesses along the complete oil & gas value chain (upstream, midstream and downstream) – with the exception of upstream exploration and field development and downstream retail and marketing, which are not core offerings of the Group – as well as in other process industries, as described in the definition of our Addressed Industrial Applications Market.

Overall, we believe we are the second largest player in our Addressed Industrial Applications Market, after Baker Hughes Company, Houston/Texas (United States) (“**Baker Hughes**”) (based on market value for 2019 for new equipment). Other main relevant competitors in our Addressed Industrial Applications Market are Solar Turbines Incorporated, a wholly-owned subsidiary of Caterpillar, Inc., Peoria/Illinois (United States) (“**Solar Turbines**”), MAN SE, Munich (Germany) (“**MAN**”), Ariel Corporation, Mount Vernon/Ohio (United States), Mitsubishi Heavy Industries, Ltd., Tokyo and Yokohama (Japan), ABB, Schneider Electric SE, Rueil-Malmaison (France),

Cameron International Corporation, a wholly-owned subsidiary of Schlumberger Limited, Curaçao (The Netherlands), Honeywell International Inc., Morristown/New Jersey (United States), Rockwell Automation Inc., Milwaukee/Wisconsin (United States), Yokogawa Denki K.K., Tokyo (Japan), General Electric Co., Boston/Massachusetts (United States), Burckhardt Compression Holding AG, Winterthur (Switzerland), Atlas Copco AB, Nacka (Sweden), and Elliott Group, a subsidiary of Ebara Corporation, Tokyo (Japan). In addition, we compete with other companies in particular segments of our Addressed Industrial Applications Market, for example with Teledyne Marine (part of Teledyne Technologies Incorporated, Thousand Oaks/California (United States)) in the field of upstream offshore equipment; Kongsberg Gruppen ASA, Kongsberg (Norway), and Wärtsilä, in the field of upstream offshore solutions and marine; Danfoss A/S, Nordborg Sogn (Denmark), and Valmet Corp., Espoo (Finland), in solutions for the fiber industry; and Veolia Environnement S.A., Aubervilliers (France), in the field of water solutions. In our assessment, we were the second largest player in the market segments for both Products and Solutions of our Addressed Industrial Applications Market in the fiscal year 2019 (in each case, based on market value for new equipment).

In the service business, we assess that we are the leading provider for our installed fleet of 79,000 service-relevant units, where we compete mainly with independent service providers ("ISP") such as Universal Plant Services Inc., Deer Park/Texas (United States), and Sulzer AG, Winterthur (Switzerland), as well as other regional and local players. For several products, we also face competition regarding service activities from the OEMs mentioned further above.

From a regional perspective, we assess that we were the second largest player in each of our main regions (EMEA, the Americas and Asia, Australia) in the fiscal year 2019 in terms of order intake for products and solutions. Within EMEA, we estimate that we were the largest player in the Middle East and the second-largest in Europe in the fiscal year 2019, according to the same criteria.

## **11.5 SGRE Segment: The Wind Energy Market**

### **11.5.1 Introduction**

The following description contains an overview of the wind energy market (sometimes also termed "wind power market" or "wind power industry"), in which SGRE is a leading supplier of wind turbines and services for both onshore and offshore market segments. Depending on market requirements as well as SGRE's regional or project-specific approach, the scope of SGRE's involvement could vary from project to project, e.g., by undertaking a full EPC scope or wind power plant development in some cases. SGRE also explores opportunities in adjacent renewable business fields which, in many cases, are also related to the wind turbine business (see "12.4.1.5 New Adjacent Business Fields"). However, these activities represent only a small fraction of SGRE's current business. In general, the market information for these other activities is still very limited and less reliable. Thus, they are not discussed in this section.

The global wind market has been growing in the last years, historically driven by subsidies and other incentive mechanisms (such as feed-in tariffs), with wind now being the leading renewable energy source driving the decarbonization of the energy sector in terms of investments and power generation (in TWh). According to BNEF's "New Energy Outlook 2019" (including the underlying data set), wind power is expected to attract the largest pool of investments in the period from 2020 to 2040 among renewables, with investments in the wind energy sector expected to amount, on average, to approximately USD 178 billion per year over this time period. By contrast, the other main renewable energy sources, i.e., solar PV, hydro, biomass and geothermal, are expected to account for investments averaging around USD 135 billion, USD 25 billion, USD 4 billion and USD 1 billion per year, respectively, over the 2020-2040 period, according to the same source (all based on 2018 USD values). Technological progress has led to a rapid decline in the levelized cost of energy (for more information, see "11.5.2.5 Cost Trends"), which is widely expected to lead to a further proliferation of onshore and offshore wind power plants (for more information on the expected market development for onshore and offshore new equipment and services, see "11.5.3 Market Size and Development").

The information contained in this section is based on data from third parties as well as on assessments and information published by SGRE. Several global third-party institutions, including research and consultancy companies or industry associations, regularly publish market reports, including market forecasts. The data from different reports may differ due to various factors, such as publication time, level of market research coverage, varying methodologies or different views regarding future market conditions, among others.

The main third-party sources used in this section are several reports from renowned institutions, e.g., Wood Mackenzie, BNEF, the Global Wind Energy Council, an international trade association for the wind power industry ("**GWEC**"), IRENA and the "Renewable Energy Policy Network for the 21<sup>st</sup> Century", a network based in Paris ("**REN21**"). Market volumes stated in this section refer to calendar years and are based, for wind assets, on an installation approach (i.e., capacity of wind assets are allocated to the year of installation), if not stated otherwise. Market shares for onshore and offshore (New Unit market segment, as defined below) provided in this section are based on Wood Mackenzie data. For all wind markets with the exception of China, Wood Mackenzie considers data relating to grid-connected capacity; the calculation of market shares for a given year in such markets is based on the grid-connection of individual turbines regardless of the fact that the entire wind power plant may not be fully connected by the end of such year. For China, Wood Mackenzie's data is based on installed wind turbines (mechanically erected). For services, the analysis is based on O&M revenues (or revenue opportunities for future periods) expressed in € or USD billion, depending on the case, according to Wood Mackenzie data.

## **11.5.2 General Market Characteristics, Trends and Drivers**

Besides the general trends relating to the transformation of the energy markets (see "*11.1.3.2 Energy Trends and Transformation of Energy Markets*"), the following trends specific to wind power play an important role in the wind energy market.

### *11.5.2.1 Trends Relating to Market Mechanisms*

In general, there are three different types of market mechanisms currently employed to develop wind power projects: feed-in-tariffs ("**FIT**"), auctions and so-called "merchant projects" based on commercial parameters, for example "corporate power purchase agreements" ("**corporate PPAs**") or the sale of power directly into the wholesale market.

Historically, aside from other subsidy measures, e.g., tax credits or green certificates, FIT policy has played a very important role in accelerating the investments in renewable energy globally. Long-term contracts with guaranteed tariff rates under such a mechanism provided investors high certainty on the return.

As the renewable energy sector matures, policies need to be adapted to reflect changing market conditions, new technical and socioeconomic challenges, and the need for integration into the overall energy system. One important trend has been the increasing use of auctions instead of FIT frameworks, as policy makers seek to procure electricity based on renewables at the lowest possible price, while simultaneously fulfilling other social or economic objectives, such as local job creation.

Renewable energy auctions are becoming widely adopted, owing mainly to their ability to reveal competitive prices. Moreover, flexibility in their design allows them to be tailored to country-specific conditions and objectives beyond price discovery. According to IRENA's report entitled "Renewable Energy Auctions – Status and Trends Beyond Price", December 2019, in 2017-2018, some 55 countries used auctions to procure renewables-based electricity, raising the number of countries that have held at least one auction for renewables at any time and until the end of 2018 to 106 (compared to eight countries in 2005). According to the same source, one-third of the 55 countries had no previous experience with auctions. This often led to certain market frictions regarding the first auctions.

The transition towards affordable, reliable and sustainable energy systems is being accompanied not only by better demand prospects for renewable installations but also by the demand for



greater competitiveness in the supply chain: more productive wind turbines at better prices. The introduction of auctions as a mechanism for allocating renewable capacity or production in electricity markets, pressure from alternative renewable sources to wind energy, and the competitive pressure among wind turbine manufacturers themselves are the main reasons for the reduction in prices. For more information on wind turbine pricing trends for onshore and offshore turbines, see “11.5.3.1.2 Market Development” and “11.5.3.2.2 Market Development”, respectively.

In most of the countries, the introduction of auctions has led to a sharp decrease of tariffs. For example, in the very first round of an onshore wind auction in India in 2017, a record low price was set (source: BNEF, “Climatescope 2017 – India: Country Snapshot”, November 2017). A further reduction of approximately 30% was seen in the following rounds. In the United Kingdom, the clearing prices for offshore wind projects out of the latest round of a Contract for Differences (“CfD”) auction in 2019 set another low record – between GBP 39 and GBP 42 per MW hour (“MWh”). This is around 30% lower than the clearing prices from the previous auction held in the United Kingdom in 2017. With the global transition to auctions largely completed, the wind energy market has seen a stabilization of price levels in recent auctions in several countries. This trend has been maintained so far in 2020, according to our observations.

The attractive auction prices have in return triggered discussions on a further increase of the national target volumes for wind energy, resulting, for example, in an increase of the U.K. 2030 offshore target from 30 GW to 40 GW (as announced by the U.K. government in December 2019) and the increase of the German 2030 offshore wind capacity target from 15 GW to 20 GW (as agreed by the German federal government, the German coastal states and the TSOs in May 2019).

Besides wind power-specific auctions, several countries have also introduced technology-neutral auctions, where different technologies compete with each other directly. In such cases, we see especially strong competition between wind energy and PV.

With the continuous decrease of costs, renewable energy is becoming increasingly attractive, not only from the point of view of decarbonization, but also economically. This has triggered increasing volumes of so-called “corporate PPAs”. Under this model, which may take different forms, corporates enter into agreements to source energy directly from the asset owner, often with the participation of one or more banks or investors as financing partners. This model is used in particular by large corporations in North America and Northern Europe. According to BNEF’s article “Corporate Clean Energy Buying Leapt 44% in 2019, Sets New Record”, January 28, 2020, some 19.5 GW of clean energy contracts were signed by more than 100 corporations in 23 different countries in 2019. This is a significant increase of more than 40% compared to the 13.6 GW in 2018, and more than triple the activity seen in 2017, according to the same source.

It must be noted that a combination of the different mechanisms is also possible, e.g., some developers participate in auctions with part of the total project capacities and rely on the wholesale market for the remaining capacities.

#### 11.5.2.2 Customer Trends

According to Wood Mackenzie’s “2019 Global Wind Power Asset Ownership Report” (“**GWPA Ownership Report**”), independent power producers, including those that are utility-affiliated (together, “**IPP**”) were by far the largest group of owners of newly-built wind projects in 2018 (approximately 59% of total 2018 new build). Commercial and industrial asset owners (“**C&I**”) as well as institutional investors are other relevant customer groups, with a 16% and 10% share in 2018, respectively. The split differs significantly from region to region. While C&I asset owners are predominantly seen in Asia, Australia, especially in China, institutional investors are mostly located in the Americas and Europe. According to the same source, the top 25 owners worldwide accounted, in the aggregate, for almost half of global wind capacity additions in 2018. The list of the largest owners is dominated by Chinese state-owned companies, whose activities mainly concentrate within China.

Regarding future development, according to the GWPA Ownership Report, although IPPs are expected to remain the largest group in terms of wind power asset ownership, their total share in new wind projects is expected to decrease to approximately 50% in 2023. The anticipated increase of the share of C&I asset owners by approximately 10 percentage points by 2023 is mainly expected to result from the expected growth of China's state-owned flagship asset owners.

As mentioned above under *"11.5.2.1 Trends Relating to Market Mechanisms"*, one major customer trend that can be observed for the last few years is the increasing volume of corporate PPAs, driven by decarbonization considerations as well as by the high competitiveness of renewable energy. Examples of customers with corporate PPAs from various industries include, among others: (i) in energy-intensive industries, Norsk Hydro and Alcoa, (ii) in the software industry, Google and Microsoft, and (iii) in the consumer goods industry, Nike and Procter & Gamble. Many of those customers have set ambitious 100% renewable targets (see, for example, those mentioned under *"11.1.3.2 Energy Trends and Transformation of Energy Markets"* and *"11.1.3.2.2 Decarbonization"*).

In addition, traditional oil & gas companies are becoming increasingly active in the renewable energy business. In light of the global trend of decarbonization, these companies face multiple challenges, including changing policies, growth limitations and investor preferences shifting towards low-carbon businesses. As a response, oil & gas companies today are not only purchasing power from renewable sources but are increasingly engaged in the development of renewable projects. For example, Shell has defined offshore wind as a key growth area and is active in the development of multiple projects in Europe and the United States. Furthermore, Total has set an ambitious target aiming for 25 GW installed power generation capacity from renewable sources by 2025.

#### *11.5.2.3 Product and Service Trends*

One of the major long-term product trends that can be observed in the past years is the continuous increase of average wind turbine capacity, rotor diameter as well as hub height as a means to decrease the cost of installation and O&M per MWh produced. For example, for onshore wind in the United States, according to the American Wind Energy Association (*"AWEA"*)'s *"Wind Powers America Annual Report 2019"*, April 2020 (*"AWEA 2019 Report"*), the average rated (nameplate) capacity of the newly installed wind turbines in the United States in 2019 was 2.55 MW, a 5% increase compared to 2018. The average hub height of turbines installed in the United States in 2019 was 90 meters, up by 2.2% compared to the previous year, according to the same source. Average rotor diameters have increased at a more rapid pace than hub heights over the long-term. The average rotor diameter of wind turbines installed in 2019 was 121 meters, an increase of 4.3% over the previous year and a 46% increase compared to average rotor diameters deployed back in 2010 (source: AWEA 2019 Report and, for the 2018 figure, AWEA's Annual Market Report 2018, published in 2019). Furthermore, the fast introduction of the 4MW+ platforms is expected to accelerate this trend. In Europe, the average rated capacity of offshore turbines installed in 2019 was 7.8 MW, 1 MW more than in 2018 (source: Wind Europe, *"Offshore Wind in Europe – Key trends and statistics 2019"*, February 2020). On average, turbine capacity in Europe has increased by 16% every year since 2014, according to the same source. According to Wood Mackenzie's *"Global wind turbine technology trends 2019"*, December 2019, the average turbine ratings from all major turbine OEMs are set to double in this decade, both for the onshore and offshore market segments, partly due to favorable cost implications for project balance of plant. In addition, according to Wood Mackenzie's *"Global Wind Turbine Technology Market Report 2018"*, geared systems are becoming the preferred choice for onshore wind turbines, while direct drive is the preferred choice in the offshore sector, mainly due to reliability considerations, and also since the cost of gearbox repairs offshore would be too high.

Global OEMs usually have broad product portfolios covering diverse markets with different wind conditions (for an explanation of different wind classes, see *"12.4.1.1 Overview of Wind Class Classification"*). For example, according to Wood Mackenzie's *"Global Wind Turbine*

Technology Market Report 2018”, wind turbine OEMs are working on certain design modifications of the existing turbines to meet typhoon class certifications, and also floating offshore turbines show potential for use in typhoon prone areas. In addition, customization is critical to project performance and developer profitability. OEMs need to deliver regionally tailored platforms harnessing modular design concepts to fill that need. Achieving greater economies of scale via standard component sourcing and optimizing global production strategies will be essential for OEM profitability.

In general terms, the majority of wind power plant services are provided by wind turbine OEMs. While some larger customers tend to build own service capabilities and capacities, major OEMs with a broad service offering, extensive know-how and a competitive supply chain can be an efficient option for services also for those larger customers. In addition, software and digital algorithms are migrating from the wind power plant level and gaining traction at the turbine level as well. The evolution of digital technology has led to a proliferation of services across the O&M value chain. The most basic digital technologies include remote monitoring and diagnostic tools to identify turbine failures, conduct basic site and turbine performance assessment, and generate reports. These tools are now ubiquitous, and nearly all asset managers deploy basic digital technology in some form or another. More advanced technology incorporates data analytics and machine learning to provide some form of early-warning predictive analytics around component failure.

#### *11.5.2.4 Supply Chain Trends*

Each wind turbine OEM has its own strategy with respect to in-house manufacturing and/or outsourcing as well as its global footprint to satisfy its demand in a cost-effective approach. An increasing trend of outsourcing can be observed in the industry with the main goal being to lower costs and increase flexibility.

Due to the high local demand in China as well as the high competitiveness of the local supply chain, a significant portion of global wind power supply chain is located in China. In recent years, the trend of supply chain migration to best-cost countries in the Asia, Australia region has intensified as OEMs and their suppliers further exploit the cost saving and volume potential that may be achieved by relocating production resources to these countries, with an aim to serve both domestic and export markets.

In order to support local employment, local content policies for wind power development have been introduced by several countries/regions across the globe. Examples include Turkey, Russia and Brazil, to name a few. Local content requirements are also seen in emerging offshore markets, such as Taiwan, France and the United States. For some key components, a high degree of concentration is observed. For example, in 2019, regarding third-party blade supply, the top-five independent blade suppliers had a combined share of 79% of this market segment, and for gearboxes, the top-three suppliers had a combined share of 81% of the total wind turbine gearbox market segment in the same year (source: Wood Mackenzie, “Global wind turbine supply chain trends 2020”, March 2020).

In recent years, a clear trend towards the integration of the sustainability policy into the overall company strategy can be observed in the wind industry. Several major wind turbine OEMs have set company-specific goals related to the reduction of their carbon footprint or waste out of production. Furthermore, they also have extended their environmental, social and governance (“ESG”) targets to their supply chain, including requiring strict compliance with their code of conduct, emission/waste reduction policies, etc.

#### *11.5.2.5 Cost Trends*

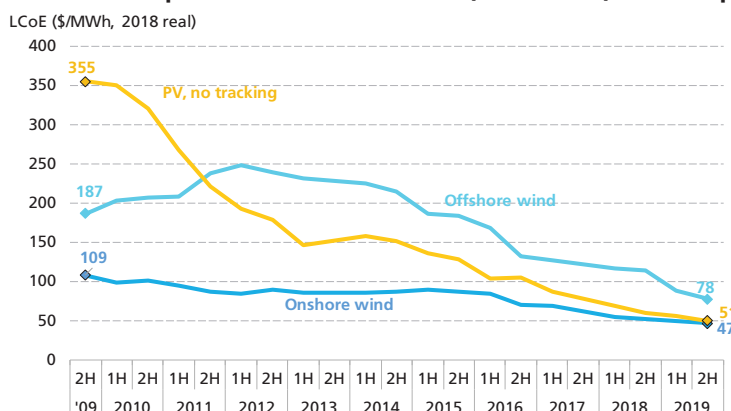
Traditionally, the cost development of wind power can be measured by the so-called “Levelized Cost of Energy” (“LCoE”), which is a standard power industry metric used to measure the total cost of power generation averaged per MWh over a project’s lifetime. LCoE is calculated by dividing the sum of all costs over a project’s lifetime (capital and operational expenditures) by the sum of electrical energy produced over the project’s lifetime. It allows the comparison of

different technologies (e.g., wind, solar, natural gas) of unequal life spans, project size, different capital cost, risk, return and capacities.

According to the “BNEF 2H 2019 LCoE Update”, October 22, 2019 (“**BNEF LCoE Update Report**”), the global BNEF benchmark LCoE for new-build onshore wind projects was at USD 47 in the second half of 2019, which was 6% less than in the first half of 2019. This was mainly due to cost reduction in equipment. In turn, offshore wind has seen the fastest cost declines in the second half of 2019, according to the same source, down 32% compared to the second half of 2018 and 12% from compared to the first half of 2019. BNEF’s latest global benchmark estimate was USD 78/MWh, as per the same report (as of its date).

The following chart shows the development of LCoE for onshore and offshore wind, as well as for PV, in USD per MWh, from the second half of 2009 until the second half of 2019:

### LCoE Development for Wind and PV (2009-2019), in USD per MWh



Source: BNEF LCoE Update Report. The global LCoE benchmark shown for onshore and offshore wind as well as for PV (no tracking) is the country weighted-average using the latest annual capacity additions.

Note: The reference “PV, no tracking” refers to those PV devices that do not have a tracking system oriented towards the sun (i.e., that do not change their position to “track” the sun). “1H” and “2H” refer to the first and second halves, respectively, of the calendar year mentioned.

According to the BNEF LCoE Update Report, PV and onshore wind are winning the race as the cheapest sources of new bulk generation with two-thirds of the world population living in countries where PV or wind is the cheapest new electricity generation. The same source estimates that onshore wind LCoE will reach levels ranging from roughly USD 30 to USD 35/MWh in countries such as Australia, Germany and the United States by the end of the current decade. In addition, BNEF anticipates a continuous decrease of offshore wind LCoE, expected to reach approximately USD 50/MWh in the United Kingdom or Germany by the end of current decade (source: BNEF LCoE Update Report), driven mainly by the increasing capacity factor of wind turbines, which enable lower capital expenditures per MW as well as reduced operational expenditures. The BNEF LCoE Update Report projects a global offshore LCoE benchmark of USD 52.3/MWh for 2029.

#### 11.5.2.6 Recent Trends related to the Integration of Renewables

Rising shares of renewable energy continue to transform energy systems around the world. In recent years, many countries have seen significant growth in installed capacity and generation from sources of variable renewable energy (“VRE”). According to REN21’s “Renewables 2020 Global Status Report”, June 2020 (“**REN21 2019 Report**”), in 2019, at least eight countries supplied more than 20% of their electricity generation from the main VRE sources wind and solar PV, while some countries have seen rapid annual growth of VRE penetration. Power systems are adapting to rising shares of VRE through a range of measures, as further stated in the REN21 2020 Report: Countries and sub-national entities are directing their policy efforts to ensuring the successful integration of VRE into the wider energy system and drawing on a wide variety of flexibility resources including power market design, grid extension, forecasting and demand response. In addition, policies for systems integration of renewables and enabling technologies

(such as energy storage) are focused primarily on increasing power system flexibility and control, as well as grid resilience. In 2019, policies to advance the integration of VRE related mainly to market design, demand-side management, transmission and distribution system enhancements, grid interconnections and support for energy storage. Much of the policy development occurred in Europe and at state level in the United States, according to the same source.

Energy storage can help smooth the output from renewable power facilities and minimize curtailment. Total installed capacity for pumped-storage hydropower, the largest contributor to the global energy storage stock, stood at 158 GW at the end of the year (with 0.3 GW of new pumped storage capacity added during the year, after a significant increase of 1.9 GW in 2018); significant new capacity was being planned, in part to support growth in VRE from solar PV and wind power. The leading markets for battery storage (*i.e.*, Korea, China, the United States and Germany) had mixed results in 2019, while renewables-plus-storage has emerged as a major driver of battery market growth. The energy storage industry saw significant cost improvements, increased manufacturing capacity, large investments and ongoing R&D during 2019, with many of these activities focused on short-duration storage applications and battery technologies (source for all statements: REN21 2020 Report, except for pumped-storage hydropower capacity additions in 2018, which are taken from REN21's "Renewables 2019 Global Status Report", June 2019).

Governments are increasingly incorporating the demand for integration into their overall system design, a trend also mentioned in the REN21 2020 Report. For example, in August 2019, the Indian government issued for the first time a tender for setting up 1.2 GW of renewable projects including an energy storage system which will enable the bidders to deliver firm renewable energy. The tender was concluded in January 2020 and competitive rates have been achieved, which are even below the level of new thermal power generation. In addition, several plans to launch offshore wind projects in connection with green hydrogen have been revealed recently. Although such plans are rather long-term and depend, among other things, on permits from governments, the assignment of new wind power plant locations, the available locations for the hydrogen facilities and the final investment decisions of the parties concerned, they show a clear industry ambition and an effort towards holistic solutions for decarbonization.

### 11.5.3 Market Size and Development

In general terms, the wind energy market includes both the "**New Unit**" market segment and the "**Service**" market segment. The New Unit market segment relates to new wind assets installed; it is sometimes also referred to by some wind turbine OEMs as "wind turbine generator business" or "equipment business" to differentiate from the service business. The Service market segment relates to the O&M of wind assets during the whole project lifetime. While the New Unit market segment is exclusively served by wind power OEMs, different types of players are active in the Service market segment, including wind turbine OEMs, asset owners and ISP, among others.

In turn, the New Unit and Service market segments may refer to onshore or offshore wind projects. Onshore and offshore wind projects differ significantly in some aspects, for example with respect to project lead times, cost structure or O&M characteristics. In general, onshore wind projects have lead times that are typically lower than a year (but this may vary depending on the project) while offshore wind projects have a much longer planning period, due to the more comprehensive permitting process, more complex grid connection requirements and other factors. For example, six projects totaling 5,466 MW were awarded in the 2019 auction in the United Kingdom (CfD Round 3). The expected delivery year for such projects, however, ranges between 2023 and 2025. From a cost perspective, onshore turbine costs typically account for a much larger portion of a project's capital expenditures than offshore turbines, mainly due to the much lower cost of the foundation, cables, substation or for the grid connection than for offshore wind turbines. For example, the share of costs of a 4 MW onshore turbine within a project's capital expenditures in the EMEARC region (Europe, Middle East, Africa, Russia and the Caspian states) was estimated at approximately 80%, while the cost share of a 10 MW offshore turbine was estimated at only approximately 50% of a project's capital expenditures in that region (source: Wood Mackenzie, "Global wind turbine technology trends 2018", December



2018). From a service point of view, since offshore wind projects are built further away from the shore, appropriate logistic and transport solutions are crucial to access the turbines to carry out service activities. Due to the higher effort required to conduct on-site service activities in offshore projects, condition monitoring systems have currently near 100% adoption rate in offshore wind, which enables digital and data-based technology for preventive maintenance and an overall improved service strategy. The economic motivation to pursue such more complex investments in offshore is the high availability of the wind resource and LCoE decreasing with increasing experience, more advanced technologies and the development of the supply chain.

The wind energy market is a global industry. According to the REN21 2019 Report, at least 103 countries had commercial wind power capacity at the end of 2018, and 33 countries had more than 1 GW in operation.

According to Wood Mackenzie's "Global Wind Power Market Outlook Update / Q2 2020", 62 GW of new capacity was added globally in 2019, representing a 23% increase compared to global capacity additions in 2018. The growth trend is expected to continue, with nearly 77 GW of annual wind power capacity addition expected globally from 2020 to 2029 (on average). According to the same source, the impact of the COVID-19 pandemic on the yearly new installations is mainly to be expected in the onshore New Unit market segment. While the COVID-19 pandemic caused delays in 2020, most of the affected capacity merely shifted from 2020 into 2021 and 2022. However, in some countries, for example in India, the lockdown due to the COVID-19 pandemic is exacerbating ongoing structural issues, which could have a potential negative effect on this regional wind market's development.

Further details are included in the following description of the New Unit onshore and offshore market segments.

#### *11.5.3.1 New Unit Market Segment - Onshore*

##### *11.5.3.1.1 Introduction*

According to the "Global Wind Report 2019" published by the GWEC in March 2020 ("**GWR 2019**"), the installed capacity of land-based wind turbines surpassed 600 GW by the end of 2019, with China and the United States accounting for more than 50% of total (cumulative) installed capacity. These two countries also accounted for 60% of capacity additions in 2019 (which amounted globally to 54.2 GW), according to the same source. Global onshore wind installations have tripled during the past decade, as shown by the historical data included in the GWR 2019, with the sector reaching further maturity.

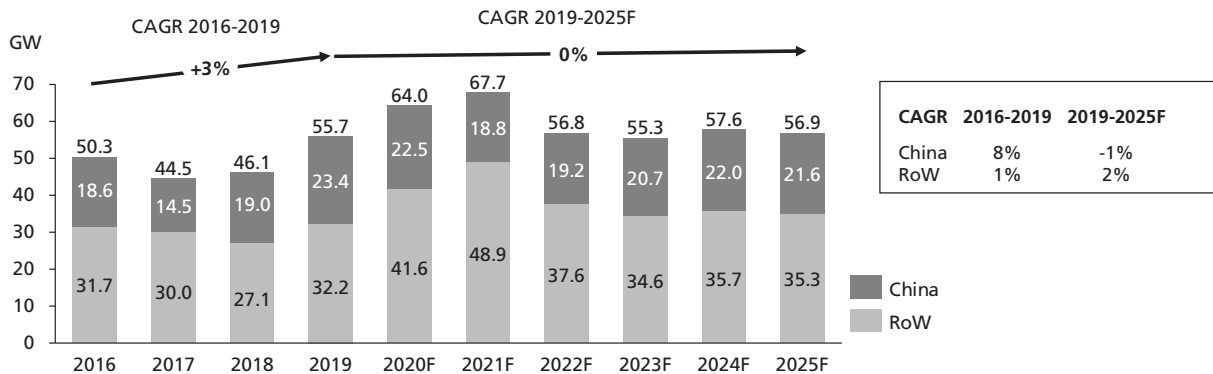
Onshore wind turbines cover broad market requirements: from ultra-low wind sites in China and India to high wind sites in the Nordics or Brazil. The adaptation of hub height, rotor size and turbine capacity to site-specific wind conditions, legal requirements and logistic constraints is highly relevant for project performance and profitability. Incremental improvements in turbine technology, manufacturing and logistics have increased the size of modern onshore turbines to up to 6 MW nameplate capacity. The scale of onshore wind projects varies significantly: from single-digit-MW projects for small local accounts to GW-range projects for large global utility or institutional accounts.

##### *11.5.3.1.2 Market Development*

The onshore wind market has shown a strong overall growth trend in the last years with an overall CAGR of 3% between 2016 and 2019 in terms of new annual installations, according to Wood Mackenzie's "Global Wind Power Market Outlook Update: Q2 2020", June 2020. However, the year-on-year variations are significant, mainly driven by policy changes in major countries, especially in China and the United States.

The following chart shows an overview of the development of new annual onshore installations from 2016 to 2019 as well as the forecast until 2025 based on Wood Mackenzie data:

### New Unit Onshore Market Segment Development and Forecast (2016-2025F), in GW



Source: Wood Mackenzie, "Global Wind Power Market Outlook Update: Q2 2020", June 2020 (including related data set), for 2016-2025F figures and projections.

Note: "RoW" means "rest of the world" (i.e., the countries other than China).

The onshore market is expected to remain a very large market, as shown by the chart above. Currently, repowering is in general still less frequent than life extensions, since generally little of an old project's original infrastructure can be used as part of a potential full repowering, and the decommissioning, reconstruction and deployment of modern equipment related to repowering (including planning and engineering costs associated with using larger and more efficient turbines) are often not cost-effective when compared to building a completely new greenfield project. However, when product life extensions are exhausted and as obtaining greenfield permits in suitable locations becomes more difficult, repowering could become increasingly attractive.

China is by far the largest single-country market for onshore wind power, accounting for approximately 42% of the global new onshore capacity in 2019, according to Wood Mackenzie's "Global Wind Power Market Outlook Update: Q2 2020".

From a global perspective, the peak expected for 2020-2021 is mainly driven by two factors:

- China is experiencing a crucial period of regulatory reform. The Chinese government only allows projects to receive FIT if they have been approved until 2018 and get grid-connected before the end of 2020. This policy shift, together with the improvement of curtailment in the country, has resulted in an installation boost in 2019 and 2020. According to Wood Mackenzie's "Global Wind Power Market Outlook Update: Q2 2020", China's industry has recovered since the lockdown due to the COVID-19 pandemic. Overall, according to the same source, Chinese wind power manufacturers are again producing at full capacity, and logistics are still recovering, supported by provincial governments. However, some risk lingers as developers rush to capitalize on the expiring FIT subsidy in 2020, yet are exposed to foreign suppliers that have not yet fully recovered from COVID-19 standstill.
- In the United States, in May 2020, the U.S. administration announced a one-year extension of the original deadline for onshore wind developers who started construction of projects in 2016 or 2017 to complete and qualify them for federal Production Tax Credit ("PTC") value at full or 80% value (the new deadlines are the end of 2021 or 2022 for full or 80% PTC value, respectively) in recognition of delays from COVID-19 impacts to supply chains and workforces. They will now have five years, instead of four years, to complete construction without having to prove continuous work on the projects after construction began. The planned stepwise phase-out of PTC is expected to have a major impact on the U.S. market volume until 2024. However, according to Wood Mackenzie's "Global Wind Power Market Outlook Update: Q2 2020", on the one hand, the positive effect in terms of capacity gains relating to such deadline extensions was balanced out in its global outlook by downgrades in countries such as Canada or Mexico (which experienced certain policy shifts undermining renewables) or India, among

others. On the other hand, according to the same source, confidence in the United States results, for example, from repowering, *i.e.*, the upgrading to larger, taller and more efficient turbines, as well as software improvements or replacement of specific components, such as blades (partial repowering).

In the longer-term, the continuous growth of onshore installations in other regions is expected to maintain the overall global installation at a stable high level. For example, EMEARC is forecasted to grow at a CAGR of approximately 8.5% between 2019 and 2025 (source: Wood Mackenzie, “Global Wind Power Market Outlook Update: Q2 2020”). The Indian New Unit onshore market segment is expected to grow significantly to approximately 5 GW (annually) by 2025, after a low level of installations in 2018 and 2019 (of 2.3 GW and 2.4 GW, respectively), according to the same source. However, as previously mentioned, India has experienced structural issues in recent times, which resulted in the Indian market not meeting expectations in terms of installations.

Prices for wind turbines are usually measured in € or USD per MW. However, such prices are highly dependent on the supply scope, regional mix and platform mix, among other factors. Due to the continuous progress in technology improvement and industrialization, onshore turbine prices have dropped significantly in the last decade, and in particular in recent years, especially in connection with the global transition into auctions. In the last year, with the global transition to auction systems being largely completed, the market has seen an overall stabilization of onshore wind turbine selling prices. In some markets, a strong price rebound has been reported over the past months, for example in China, driven in part by a short-term demand surge as well as the price increase of components and raw materials.

Beyond 2025, we expect the global onshore market to grow until 2030 at a 2025-2030 CAGR of approximately 3%, to reach approximately 67 GW of new installations in 2030, based on Wood Mackenzie data for 2025-2029 (underlying data set for the “Global Wind Power Market Outlook Update: Q2 2020” report) and SGRE’s estimate for 2030 based on Wood Mackenzie’s outlook for 2029.

#### 11.5.3.2 *New Unit Market Segment – Offshore*

##### 11.5.3.2.1 Introduction

According to the GWR 2019, the installed (cumulated) capacity of offshore wind turbines surpassed 29 GW by the end of 2019, with approximately 75% thereof located in North-Western Europe (mostly in the United Kingdom and Germany, but also in Belgium, Denmark and The Netherlands). The total global installed capacity has doubled within the last three years (from 14 GW of installed offshore capacity at the end of 2016). With the high momentum in new offshore markets like Taiwan and USA, offshore wind is well on track towards globalization.

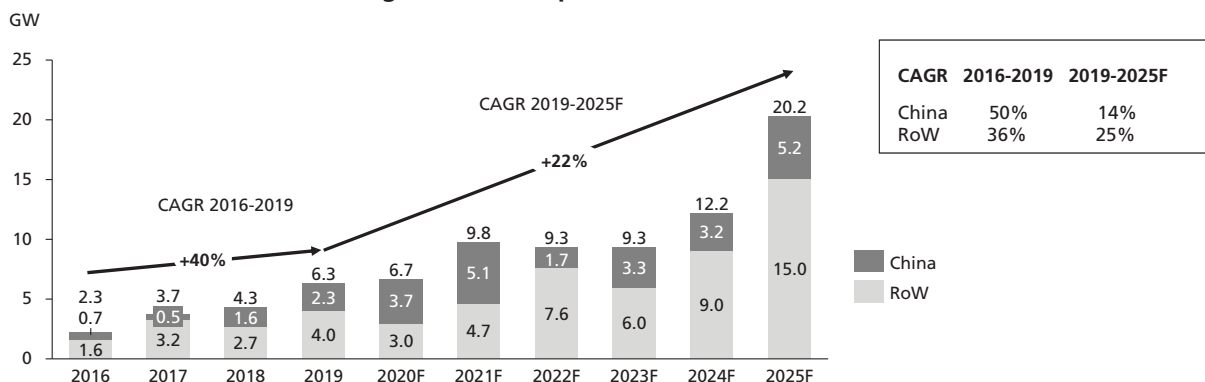
Offshore wind projects normally enjoy higher wind speed and less volatile wind conditions compared to onshore sites. The project capacity factors are thus also higher compared to most onshore projects. Due to the high cost of the “balance of plant” portion (*i.e.*, the portion that is not related to the wind turbine itself, but rather to supporting components and auxiliary systems) and high service effort in offshore projects, the advantages for using turbines with higher nameplate capacity is more imminent. Most of the turbines offered today have nameplate capacities in the range of 6.0 MW to 14.0 MW. The average project size for offshore wind energy is significantly larger than those for onshore and there is a clear trend pointing to a further increase of project sizes. For example, the newly-commissioned Hornsea One offshore wind power plant has a total capacity of 1.2 GW and the even larger Hornsea Two project with 1.4 GW total capacity is currently under construction.

##### 11.5.3.2.2 Market Development

In general, the offshore wind market segment is well on track to develop from a niche market segment towards a key pillar of the future global energy mix. The chart below shows an

overview of the development of new annual offshore installations from 2016 to 2019 as well as the forecast until 2025 based on Wood Mackenzie data:

### New Unit Offshore Market Segment Development and Forecast (2016-2025F), in GW



Source: Wood Mackenzie, "Global Wind Power Market Update: Q2 2020", June 2020 (including related dataset) for 2016-2025F figures.

Note: "RoW" means "rest of the world" (i.e., the countries other than China).

In the 2016-2019 period, offshore wind volumes have been mostly concentrated in three main countries: the United Kingdom (approximately 5.0 GW of new offshore installations), Germany (approximately 4.2 GW) and China (approximately 5.1 GW). Most of the projects installed in this period were subsidized by governments through FIT. It is to note that China took over the first position of annual offshore installations in 2018 and kept it in 2019 (source for all data: Wood Mackenzie, "Global Wind Power Market Outlook Update: Q1 2020").

In the 2020-2025 period, according to Wood Mackenzie's "Global Wind Power Market Outlook Update: Q2 2020" (underlying data files), despite the strong growth of emerging markets, the offshore market segment is expected to remain largely concentrated. China is expected to account for approximately 33% of total new offshore installations (with a total of approximately 22 GW over the 2020-2025 period). Europe, led by the United Kingdom (with approximately 11 GW), is expected to install a total of approximately 26 GW over the same period (representing approximately 39% of global installations in the forecast period).

The strong growth from 2019 to 2025 (with a 22% CAGR) and beyond is well supported by a large project pipeline as well as diverse country-specific offshore targets. According to the Wood Mackenzie data, more than 80% of the forecasted capacity expected to be installed between 2019 and 2025 has already been awarded (source: article entitled "WoodMac: Global Offshore Wind Capacity to Rise Sevenfold by 2028", published online in Greentech Media (a Wood Mackenzie business) on February 13, 2020). According to Wood Mackenzie's "Global Wind Power Market Outlook Update: Q2 2020" published in June 2020, including a consideration of potential effects of, among others, the COVID-19 pandemic, offshore wind capacity additions from 2020 to 2025 is expected to stand largely resilient overall, amid the COVID-19 pandemic.

Like onshore, China's offshore market segment is also in transition from FIT to auctions. According to a government regulation published in 2019, offshore projects approved before the end of 2018 are eligible for the previous FIT of CNY 0.85/kWh, provided that the project is fully grid-connected before the end of 2021. Furthermore, the Chinese central government has announced that it will stop subsidizing offshore wind from 2022 onward, but subsidies provided by provincial governments are likely in order to provide continuity in support for offshore wind development. Accordingly, an installation boost is expected for 2020 and 2021.

The ramp-up of the U.S. offshore market segment (with approximately 9 GW new installations expected over the 2020-2025 period) is supported by the Investment Tax Credit ("ITC") rolled out at a federal level and the individual state commitments secured with corporate PPAs. According to Wood Mackenzie's "Global Wind Power Market Outlook Update: Q2 2020", COVID-19 compounds bureaucratic delays in the United States, but the U.S. offshore market also sees a positive effect on its outlook due to New York's commitment to a procurement of up to 2.5 GW

by 2021. The Taiwanese offshore market segment (with expected new offshore installations of approximately 5.5 GW over the 2020-2025 period) is supported by a FIT scheme based on a competitive tender mechanism.

In addition, in recent auctions in North-Western Europe, several subsidy-free bids have been awarded, e.g., in connection with the Hollandse Kust Zuid projects in The Netherlands. This reflects, on one side, the high competitiveness of the technology and, on the other side, the requirements of continuous innovation and productivity improvement.

Similar as for onshore, offshore wind turbine prices have also seen a significant drop over the last decade, especially in connection with the transition to auctions. However, the impact of the individual project scope (e.g., offshore logistics), plays a significant role in the price of offshore turbines. Furthermore, the continuous technology development may enable an upgrade of the turbine with higher nameplate capacity without a significant change of the overall turbine design and components.

Beyond 2025, we expect the global offshore market to grow until 2030 at a 2025-2030 CAGR of approximately 7%, to reach approximately 28 GW of new installations in 2030, based on Wood Mackenzie data for 2025-2029 (underlying data set for the "Global Wind Power Market Outlook Update: Q2 2020" report) and SGRE's estimate for 2030.

### *11.5.3.3 Service Market Segment*

#### *11.5.3.3.1 Introduction*

To ensure that the asset owner gets the optimal performance out of the wind turbines throughout the lifetime, proper O&M work needs to be carried out along the full duration of the project. The Service market segment relating to the wind energy market is referred to as "O&M market" by industry research companies such as Wood Mackenzie and also as "O&M market segment" hereinafter. O&M mainly includes activities such as scheduled turbine maintenance, remote monitoring, minor and major corrective work, spare parts, upgrades as well as "balance of plant" maintenance. It includes both scheduled tasks and ad-hoc repair work. The O&M business supplies service providers with predictable revenue and cash streams due to the recurring nature of the business and the long contracts commonly seen in this market segment. For most wind turbine OEMs, the service (O&M) business provides higher margins compared to the New Unit business.

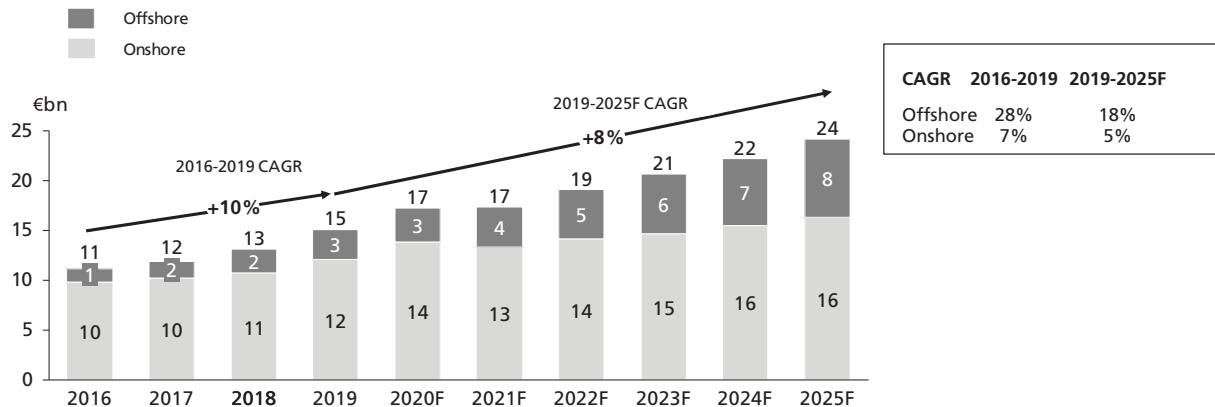
According to Wood Mackenzie's "2019 Global Onshore Wind Operations & Maintenance (O&M) Report", December 2019, and "Offshore Wind Operations and Maintenance Trends 2019", April 2019 (when referred together, hereinafter the "**2019 O&M Reports**"), 64% of the 2018 global onshore O&M market segment and 71% of the 2018 European offshore O&M market segment were served by wind turbine OEMs (excluding multi-vendor OEMs). For the past few years, some global customers with a large installed wind turbine fleet have been adopting the strategy to insource O&M activities. Some even provide service activities to other asset owners as ISPs. According to Wood Mackenzie, the share of in-house service for onshore is expected to increase from 24% in 2018 to 31% in 2028. Other players active in the O&M market segment are ISPs, which had a relatively low global market share in 2018. According to Wood Mackenzie, the share of ISPs service for is expected to increase from 8% in 2018 to 10% in 2028 (source: 2019 O&M Reports).



### 11.5.3.3.2 Market Development

The O&M market size has increased from approximately € 11 billion in 2016 to approximately € 15 billion in 2019 (representing a 10% CAGR for 2016-2019), and is expected to increase further to approximately € 24 billion in 2025, according to Wood Mackenzie data, as shown in the chart below:

**O&M Market Segment Opportunity, Development and Forecast (2016-2025F), in € billion**



Source: Wood Mackenzie, 2019 O&M Reports as well as MAKE (now Wood Mackenzie), "Global Wind Turbine O&M" reports dated November 16, 2017 and November 22, 2016 together with underlying data sets provided by Wood Mackenzie. Exchange rate conversion from USD to € performed by Wood Mackenzie.

The overall increasing fleet size as well as the increasing average ages of the global fleet are the two main drivers behind the growth, according to the same sources. For onshore, the total installed fleet is expected to surpass 900 GW by 2025, which is roughly a 50% increase compared to 2019 (approximately 600 GW). For offshore, the projected growth rate is even higher, at more than 200% from approximately 29 GW in 2019 to above 90 GW in 2025. With respect to ageing fleets, in the United States, for example, the share of onshore fleet with more than ten years of age is expected to increase from approximately 20% in 2019 to more than 40% in 2025. In Europe, the share of the total offshore fleet with more than ten years of age is expected to increase from approximately 5% in 2019 to approximately 15% in 2025. The relatively low share of aged fleet in Europe in 2025 reflects the high installation rate expected in the upcoming years. (The sources for all the information included in this paragraph are Wood Mackenzie's 2019 O&M Reports.)

In the onshore O&M market segment, all regions are expected to show growth in terms of market size. Key countries in the Asia, Australia region, *i.e.*, China, India or Australia, are expected to grow at a CAGR of around 10%, 12% and 9%, respectively, from 2019 to 2025, while the markets of early-entrants like Spain, Germany or the United Kingdom show a low-single-digit growth rate (source: CAGR calculations based on data (in USD) for the named countries taken from Wood Mackenzie's "2019 Global Onshore Wind Operations & Maintenance Report"). With respect to China, the end of FIT by the end of 2020 is a major O&M market driver, as oncoming subsidy-free operations are forcing asset owners to adapt their onshore operations. In addition, continued reliability issues from first-generation wind turbine models, in particular as the fleet ages, is expected to drive demand for major corrective repairs. Overall, O&M onshore activities in China are expected to reach approximately € 2.9 billion in 2025.

According to the same source, in offshore, Europe is expected to remain the overall largest regional O&M market segment in 2025, with a share of more than 60% of the global offshore O&M market segment, but the Asia, Australia region is expected to grow rapidly, especially driven by China (source: Wood Mackenzie, "Offshore Wind Operations and Maintenance Trends 2019", data in euro). The steady and significant growth expected for the offshore O&M market segment in China over the upcoming years is driven by the high installation volumes and the fact that for offshore wind power plant operation it is particularly important to keep a very high level of reliability.

The global transition from FIT to auctions also adds significant pressure on the price level of the O&M business. Furthermore, the service price per MW is further decreasing due to the global shift to turbines with larger nameplate capacity. Digitalization and data-driven O&M are expected to gain further importance as a crucial response to continuous cost pressure. While most OEMs offer basic digital products around diagnostics for the main turbine components, advanced offerings around predictive maintenance and component failure forecasting are offered by the top industry players. Furthermore, the REN21 2019 Report observes that major manufacturers, including SGRE, among others, are increasingly focusing on the repowering market segment.

Beyond 2025, we expect the global service (O&M) market to grow until 2030 at a 2025-2030 CAGR of approximately 8%, to reach approximately € 35 billion in 2030, based on Wood Mackenzie data for 2025-2028 (underlying data set for 2019 O&M Reports) and SGRE's estimate for 2029 and 2030.

#### **11.5.4 Competitive Environment**

By the end of 2019, there were more than 30 wind turbine OEMs in the world. In general terms, wind turbine OEMs can be categorized in three groups:

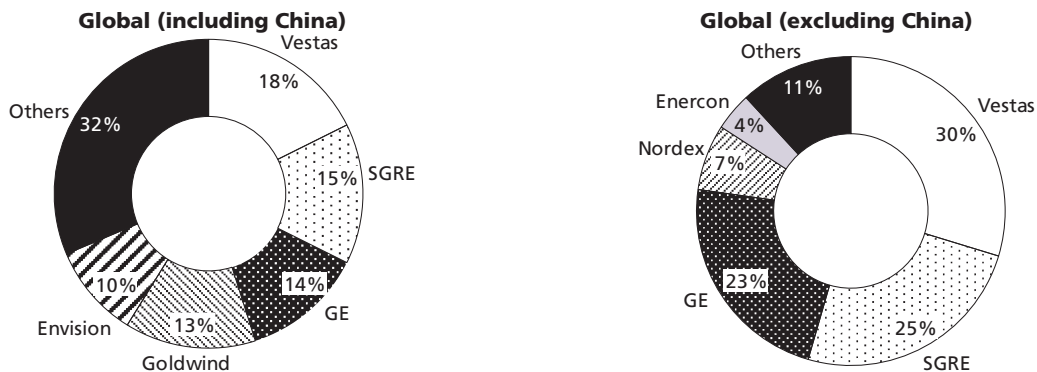
- International players with global reach, e.g., SGRE, Vestas (Denmark), GE Renewable Energy (France/United States) and Nordex (Germany)
- Chinese OEMs, e.g., Goldwind (Xinjiang Goldwind Science & Technology Co., Ltd.) and Envision
- Other regional OEMs (mostly located in India), e.g., Suzlon Energy Ltd. and Inox Wind Ltd. (both, India)

The wind energy market in China is mainly served by local Chinese OEMs. The total market share of non-Chinese OEMs in the Chinese market (New Unit installation) has been quite low in the last years, for example around 3% in 2019 (in terms of new capacity installed), according to a Wood Mackenzie database for "Historical Global Wind Turbine OEM Market Share" (April 2020). However, Chinese OEMs also have a small market share in overseas markets: their share within the total New Unit market segment excluding China was approximately 2% in 2019, according to the same source, based on new capacity connected to the grid. Overall, and because of the size of the Chinese wind energy market (the Chinese onshore market accounted for approximately 43% of global onshore capacity additions in 2019), five of the top-10 global wind turbine OEMs in 2019 came from China, according to the Wood Mackenzie database mentioned above and Wood Mackenzie's "Global Wind Turbine OEM 2019 Market Share", April 29, 2020 ("**Wood Mackenzie 2019 Market Share Report**").

While remaining very competitive, the global wind energy market saw a clear trend of consolidation in the past years. According to the Wood Mackenzie 2019 Market Share Report, the top-5 players accounted together for approximately 68% of total global wind energy new capacity (onshore and offshore) installed in 2019. This aggregate share was 20 percentage points higher than in 2015 (source: MAKE (now Wood Mackenzie), "Global Wind Turbine OEM 2015 Market Share", March 31, 2016). One of the drivers behind this consolidation are M&A activities like the merger between Siemens Wind Power and Gamesa in 2017 or the merger between Acciona Windpower and Nordex in 2016. Excluding China, the top three players accounted together for approximately 83% of total global wind energy new capacity (onshore and offshore) installed in 2019 (source: Wood Mackenzie 2019 Market Share Report).

The following chart shows the market shares of wind turbine OEMs in 2019 in terms of annual onshore and offshore installations, both globally (left chart) and outside of China (right chart), according to data published in the Wood Mackenzie 2019 Market Share Report:

#### Wind Turbine OEMs' Market Share 2019 by New Capacity Installations



Source: Wood Mackenzie 2019 Market Share Report, April 2020 (percentages have been rounded to the next full figure)

Note: "Others" includes MHI-Vestas (the 50-50 joint venture between Vestas and Mitsubishi Heavy Industries), which had approximately 1 GW of new capacity for offshore wind projects in 2019. According to Wood Mackenzie's methodology, MHI-Vestas' installed capacity is not attributed to Vestas for purposes of market share calculations, but rather Vestas and MHI-Vestas are considered separately.

The major competitive factors in the wind power OEM business are scale, global reach, cost competitiveness, technology leadership and service capabilities. SGRE and Vestas are the two leading players with the largest installed fleets in the industry, surpassing 100 GW each already (source: Wood Mackenzie, "Global Wind Power Project Installation Database", March 2020). A large installed fleet also provides a solid foundation for the service business. Major wind industrial players have set a clear focus on the introduction of more powerful turbines and continued cost-out along the whole value chain in order to lower LCoE.

In recent years, many of the major OEMs have started to offer hybrid solutions, where storage and/or PV are integrated into wind power plants. This reflects the continuous adjustment of strategy and technology development to market trends.

##### 11.5.4.1 Competitive Environment in the Onshore New Unit Market Segment

According to the Wood Mackenzie 2019 Market Share Report, the top-5 global onshore market players in 2019 in terms of new capacity installations were, in this order: Vestas (20%), GE Renewable Energy (15%), Goldwind (13%), SGRE (12%) and Envision (9%), which together accounted for approximately 69% of total onshore additions in 2019. Excluding China, SGRE is ranked third in 2019, with a market share of approximately 20%, after Vestas (34%) and GE Renewable Energy (25%) (source: Wood Mackenzie database for "Historical Global Wind Turbine OEM Market Share", April 2020). Competition in the onshore New Unit market segment has been strong in recent years, with the average sales price for new wind turbine generators declining at a CAGR of almost 7% over the 2015-2019 period, according to BNEF's "4Q 2019 Global Wind Market Outlook". In the past few years, the industry has experienced significant cost pressure across the whole value chain. Some players with regionally limited market access have faced significant challenges to keep up with the competition. According to the REN21 2019 Report, severe competition led to seven small turbine equipment manufacturers exiting the market in 2018. In 2019, German-based Senvion Holding GmbH ("**Senvion GmbH**"), which was part of the top-10 wind turbine OEMs in 2017, filed for insolvency (selected assets of Senvion GmbH and Senvion Indústria, S.A. (together "**Senvion**") in Europe were acquired by SGRE in 2020 (the "**Senvion Acquisition**"; see "12.9.3 Acquisition of Selected European Assets of Senvion" for more details)) and Suzlon defaulted on debt payments. However, major international OEMs have reported a slowdown in downward pricing during the recent quarters (as mentioned, for example, with reference to the three major OEMs SGRE, Vestas and GE, in the article entitled "With prices stabilizing, turbine makers feel tailwinds rising", published by S&P Global Market Intelligence in May 2019).

In order to further reduce the LCoE of onshore wind projects, all major players have been launching higher-rated wind turbine generator models moving past 5 MW and increasing rotor diameters beyond 150 meters. Almost all major onshore players except for Enercon and Goldwind work with geared power train setups. OEMs are striving for higher economies of scale through better modularization and larger business volumes.

#### *11.5.4.2 Competitive Environment in the Offshore New Unit Market Segment*

The offshore wind turbine business is characterized by significant entry barriers due to the high investment required, both for technology development and for the manufacturing footprint, high reliability requirements posed on offshore turbines as well as increased O&M requirements due to the significant effort needed to conduct on-site maintenance or repair activities.

According to the Wood Mackenzie 2019 Market Share Report, the top-5 offshore market players worldwide in 2019 in terms of new installations were, in this order: SGRE (39%), MHI-Vestas (15%), Shanghai Electric (SE Wind) (11%), Envision (11%) and Goldwind (9%), which together accounted for approximately 85% of total offshore capacity additions in 2019. For the markets outside China, SGRE and MHI-Vestas accounted for a market share of 65% and 25%, respectively, in terms of 2019 new offshore installations (source: Wood Mackenzie database for “Historical Global Wind Turbine OEM Market Share” (April 2020)). Despite limited historic market share, GE announced in 2018 an investment program of more than USD 400 million in the development and deployment of a new offshore turbine (“Haliade-X”).

As a market leader with nearly 30 years of experience in offshore (SGRE was an offshore pioneer – having provided turbines for the world’s first offshore wind power plant in Vindeby, off the coast of Denmark, in 1991), SGRE had installed more than 50% of the total global offshore fleet by the end of 2019 (cumulative installed capacity figures according to Wood Mackenzie’s database on “Historical Global Wind Turbine OEM Market Share”, which includes new capacity additions for (i) the period before 2009 and (ii) each of the years from 2009 until 2019). In 2019, GE installed a prototype of its “Haliade-X” 12 MW-220 offshore wind turbine and received preferred supplier status for offshore projects totaling almost 5 GW. So far, Chinese players have offshore installations only in China, with Shanghai Electric being the clear leader in the local market, having a share of more than 40% of total offshore cumulative installed capacity in China as of the end of 2019. SGRE has licensing agreements with Shanghai Electric for the offshore wind power projects in mainland China’s territorial waters that cover SGRE’s 4.0 MW, 6.0 MW, 7.0 MW and 8.0 MW offshore wind turbine technology. In May 2020, SGRE publicly announced its new offshore wind turbine, released with a nameplate capacity of 14 MW, but which can reach 15 MW with a “power boost” option. The new 14 MW offshore wind turbine is intended to be used at the upcoming 300 MW Hai Long 2 project in Taiwan, subject to a final decision of the consortium partners, and a deployment of the turbine for the rest of the 1,044 MW Hai Long pipeline is also being considered.

For the offshore New Unit market segment, SGRE and GE rely on the direct-drive technology, while MHI-Vestas relies on mid-speed geared drive technology with a permanent magnet generator. In general, it is to be expected that the trend towards increasing nameplate capacity as well as blade size will continue also in the upcoming years. This also results in increasing challenges relating to the manufacturing and logistics for offshore turbines. SGRE sees itself well prepared to meet such challenges due to its extensive experience and its continuous innovation initiatives along the value chain.

#### *11.5.4.3 Competitive Environment in the Service Market Segment*

As mentioned under “11.5.3.3 Service Market Segment”, the Service (O&M) market segment of the wind energy market is mainly served by OEMs. However, players also include an increasing share of customers that insource O&M activities; these are mainly large utilities with a significant installed fleet size.

The foundation for an OEM's service business is its own installed fleet. SGRE and Vestas have by far the largest installed fleet in the industry, with more than 100 GW each already. Significant benefits and profitability can be achieved through scale effects.

In the rapidly changing market environment of the wind industry, the wind turbine fleets of many wind power plant asset owners show an increasing diversity of technologies and brands. As owners expand their fleet sizes, most expand their fleets beyond a single turbine manufacturer, either due to economic or performance-related considerations, or through the integration of fleets resulting from M&A activities.

For the past few years, in particular ISPs and some OEMs have placed increasing effort in so-called "multi-brand services", where turbines from other OEMs are serviced. For example, Vestas has completed two major acquisitions of ISPs in the past years (UpWind Solutions and Availon), which have supported the growth of its multi-brand service businesses. By the end of 2019, Vestas' multi-brand O&M fleet size was 7.4 GW (source: Vestas' brochure entitled "Vestas Multibrand Services", 2020, available from Vestas' website). In January 2020, SGRE completed the acquisition of Senvion's European service assets and IP (excluding IP rights in India), which added around 8.9 GW of serviced fleet and operations in 13 countries, taking SGRE's multi-brand footprint to more than 10 GW.

Furthermore, in the last years significant efforts have been put by the leading service OEM players in digitalization technology, with a focus on diagnostics and preventive service strategy. SGRE sees itself well-positioned also in this area, with continuous investment in innovation, according to its own assessment.



## 12 BUSINESS

### 12.1 Overview

We are a pure play company active along the entire energy technology and service value chain with a comprehensive and differentiated products, solutions and services offering. Our broad technology base, comprising both fuel-efficient conventional as well as renewable energies, enables us to meet the increasing energy demand while at the same time supporting efforts to reduce GHG. We also offer digital business and intelligent service models to our customers. We consider ourselves well-positioned to shape the energy transition towards decarbonized energy technologies and to promptly react to customer needs worldwide through our global footprint.

We generated revenue of € 28,797 million in the fiscal year ended September 30, 2019 and € 19,828 million in the nine-month period ended June 30, 2020, as well as Adjusted EBITA of € 1,064 million in the fiscal year ended September 30, 2019 and € (1,211) million in the nine-month period ended June 30, 2020.

Our business operations are organized in two reportable segments, Gas and Power and Siemens Gamesa Renewable Energy:

- *Gas and Power segment* – Our Gas and Power segment offers a wide range of products, solutions and services in the fields of power transmission and conventional central and distributed power generation alongside industrial applications for the oil and gas industry and for industrial process applications. The segment further develops and markets new technologies in the field of decarbonization. The Gas and Power segment generated total revenue of € 18,709 million in the fiscal year ended September 30, 2019 and € 13,326 million in the nine-month period ended June 30, 2020, as well as Adjusted EBITA of € 589 million in the fiscal year ended September 30, 2019 and € (539) million in the nine-month period ended June 30, 2020. Its operations are split into three divisions: Transmission, Generation and Industrial Applications and are complemented by its Other Operations:
  - *Transmission* – Our Transmission division offers a broad portfolio of products, systems, solutions and services geared around the key market trends of digitalization, decarbonization, grid stability and electrification. The product portfolio comprises air- and gas-insulated switchgear, transformers, digitalized products and other products such as bushings. The Transmission division offers its products individually or as part of tailor-made systems and solutions as well as services relating to power transmission of high (which includes ultra-, extra- and high-voltage layers) and, to a lesser extent, medium and low voltage levels as part of product bundles or solutions.
  - *Generation* – Our Generation division offers a broad portfolio of products, solutions and services for central and distributed power generation. The product portfolio comprises gas and steam turbines, generators and gas engines as well as I&C and electrical systems. Products are sold individually or as part of solutions. A comprehensive set of services covering performance enhancements, maintenance services, customer training and professional consulting complement its products and solutions businesses.
  - *Industrial Applications* – Our Industrial Applications division offers a broad portfolio of products, integrated systems and solutions, comprising rotating equipment, integrated drive-train systems, electrification, automation and digital solutions for the on- and offshore industry, marine industry and the fiber industry, and water treatment solutions. Our Industrial Applications division also provides services for oil & gas and distributed generation customers, including other industries such as food and beverages, minerals and metals, industrial parks and municipalities.
  - *Other Operations* – Our Other Operations include our New Energy Business and certain at-equity investments. Our New Energy Business complements the portfolio of our Gas and Power segment by developing new technologies in the field of decarbonized energy systems. The current focus of the New Energy Business is to enable the green hydrogen economy and

to promote decarbonization, for instance by developing “power-to-x” technologies which use electricity from renewables for the production of low-CO<sub>2</sub> synthetic energy sources (power fuels).

- **Siemens Gamesa Renewable Energy** – Our SGRE segment focuses on the promotion, design, development, manufacture and supply of products, installation and technologically advanced services in the renewable energy sector with a focus on wind power plants; it also provides services including management, operation and maintenance. SGRE also explores opportunities in adjacent renewable business fields which, in many cases, are also related to the wind turbine business. However, these activities represent only a small fraction of SGRE’s current business. The SGRE segment generated total revenue of € 10,227 million in the fiscal year ended September 30, 2019 and € 6,615 million in the nine-month period ended June 30, 2020, as well as Adjusted EBITA of € 481 million in the fiscal year ended September 30, 2019 and € (631) million in the nine-month period ended June 30, 2020. SGRE S.A.’s shares are listed on the Spanish stock exchanges of Madrid, Barcelona, Valencia, and Bilbao and included in the Spanish IBEX 35 index. Siemens Energy holds approximately 67% of the shares in SGRE S.A. The SGRE segment comprises the business units Onshore Wind Power, Offshore Wind Power and Service:
  - **Onshore Wind Power** – With almost 40 years of experience, our business unit Onshore Wind Power provides innovative wind turbine design, manufacturing and installation solutions for global onshore markets mainly focused on geared technology including platforms with modular design, which can be adapted to regional and local needs.
  - **Offshore Wind Power** – Our business unit Offshore Wind Power provides its customers with nearly three decades of offshore wind turbine equipment design, manufacturing and installation experience focused on direct drive technology.
  - **Service** – Our business unit Service offers a comprehensive and flexible portfolio for the maintenance and optimization of wind turbines, providing a holistic, lifetime-care service. Complete asset management as well as technical assistance is provided for the SGRE segment’s wind turbines and is also being expanded for third-party assets.

## 12.2 Investment Highlights

Our purpose and mission is to energize society, while supporting the transition towards a more sustainable energy world with our innovative technologies and our ability to turn ideas into reality.

### 12.2.1 Leader in the Energy Industry

Siemens Energy comprises the former energy infrastructure businesses of Siemens AG operating in two segments: Gas and Power and Siemens Gamesa Renewable Energy (SGRE). The origins of Gas and Power date back more than 150 years and we estimate that roughly 1/6 (one sixth) of the world’s electricity generation is based on our technologies. Siemens Gamesa Renewable Energy is a leader in wind power generation equipment with a history which began almost 40 years ago. SGRE is a pioneer in offshore wind technology and more than 50% of the existing global offshore wind fleet by the end of 2019 had been supplied by SGRE (source: Wood Mackenzie, “Historical Global Wind Turbine OEM Market Share” database with cumulative installed capacity figures, April 2020).

We view Siemens Energy as one of the largest suppliers of technology in the energy and electricity sector with an integrated offering that addresses a large part of the energy market. We believe that we provide a leading portfolio along almost the entire energy value chain in both conventional and renewable energy generation, energy transmission, oil and gas and other process industries. Siemens Energy’s 91 thousand employees (as of June 30, 2020) in more than 90 countries are supporting its customers around the globe with system critical energy infrastructure. Given our leading market positions, high market entry barriers, the breadth of our portfolio as well as our customer focus, we believe that we are well positioned to benefit from the dynamic changes in our markets. Because we are usually in a number one or two position in

our relevant markets globally, we consider Siemens Energy to be a leading global energy infrastructure company. The breadth of our portfolio is reflected in our revenue mix. For example, in the fiscal year 2019, our Gas and Power segment contributed 65% of our total revenue of Total Segments, therein the Transmission, Generation and Industrial Applications divisions total revenues with approximately 20%, 28% and 18% of our total revenue of Total Segments, respectively. The Generation division's central and decentral business activities estimated to account for approximately 24% (service: approximately 14%; new unit: approximately 10%) and approximately 4% (new unit only) of our total new unit and service revenue of Total Segments (including Intercompany business), respectively. Our SGRE segment contributed 35% of our total revenue of Total Segments.

We energize societies around the globe. We have experience in implementing electrification roadmaps for whole countries. Recent examples include countries such as Egypt, where we installed three combined-cycle power plants and six substations comprising gas-insulated switchgear to transmit the electricity generated in Egypt's transmission system, which feed electricity for 40 million people to the grid and enabled our customers to gain more than € 1 billion annual cost savings. In Iraq, 11 GW are being added to the grid including amongst others a 500 MW gas-fired power plant, 13 substations and 35 power transformers, providing electricity for 38 million people. In Bolivia more than 1 GW was added to the grid by 23 SGT-800, 11 industrial steam turbines and 25 transformers providing 11 million people with electricity. In Bolivia, we have also established a service and training center.

#### **12.2.2 Spin-Off allows for a step change in operational performance**

The Spin-Off offers the opportunity for Siemens Energy to further drive and improve its own operational performance.

We are implementing a two-phased strategy program to which we refer as "*Energy of Tomorrow*". During the first phase (*Accelerating Impact*), which we expect to complete until the fiscal year 2023, we will focus and deliver on the fundamentals, co-create innovations and start the energy transformation. The second phase (*Leading the Energy Transformation*) is designed to make us the most-valued energy company, which electrifies countries and communities and is the best place to work.

In our Gas and Power segment, potential measures targeted to achieve an Adjusted EBITA Margin before Special Items in a range from 6% to 8% by fiscal year 2023 include the streamlining of our portfolio, reshaping our footprint by increasing the share of workforce in best-cost countries of below 25% as of today, potentially reducing our R&D centers to concentrate our activities and build capabilities in best-cost countries while keeping a lean corporate structure. In the project business we evaluate options to improve our margins and reduce our currently high non-conformance costs. By the fiscal year 2023, we strive for a reduction of our non-conformance costs by at least 30% (compared to the fiscal year 2019). Furthermore, we have defined measures in supply chain excellence, to sustainably reduce our inventory and to get closer to our customers.

We have set a clear path to deliver global cost savings through stringent cost out programs, which both segments have already initiated and which are on track.

As of June 30, 2020, the Gas and Power segment achieved gross cost savings of almost € 500 million, as compared to the fiscal year 2018. In addition, our programs "PG 2020" and "GP 2020+" are expected to achieve further global cost savings of at least € 500 million by the end of fiscal year 2023, as compared to the fiscal year 2018.

To achieve our targets, we are evaluating potential further restructuring and optimization measures, in particular, for the implementation of a function optimization program within our "GP 2020+" program and the optimization of our footprint and our project execution. As part of the ongoing evaluation process, we are closely analyzing how such measures could be designed and what consequences they would have for Siemens Energy, our customers and our employees. While the evaluation process may further crystalize in the near future already, no resolution has

been made yet on future measures and these measures are subject to consultation with employee representatives. Also, the findings of this process will be discussed in the relevant committees, which will subsequently take a decision.

In total, our restructuring and optimization programs and the potential further measures outlined above aim at global cost savings of around € 700 million by the fiscal year 2021 and are expected to exceed the originally targeted global cost savings for the fiscal year 2023 of around € 1 billion by at least € 300 million, compared to the fiscal year 2018. On the basis of these programs and measures, we target additional global cost savings in the low triple digit euro million range by the fiscal year 2025.

For more information, see *"9.4.10.1 Restructuring and Integration Measures in our Gas and Power Segment"*.

As the majority shareholder of our SGRE segment, we believe that we are best placed to support the unlocking of its full potential. The strong business of our SGRE segment with its 100% decarbonized portfolio is a key lever for the Group's green policies. SGRE has a strong presence in onshore wind and is a pioneer in offshore wind technologies with more than 50% of existing offshore installations provided by SGRE (cumulative installed capacity figures according to Wood Mackenzie's database on "Historical Global Wind Turbine OEM Market Share", which includes new capacity additions until the end of 2019). At the same time, its end-market is expected to grow strongly both in offshore and service and to remain large in onshore (e.g., at a CAGR of 22% from 2019 to 2025 in offshore wind installations (source: Wood Mackenzie, "Global Wind Power Market Update: Q2 2020", June 2020)). With its new "LEAP" program, SGRE plans to turnaround onshore into sustainable profitability and to capture the growth potential that offshore and service offer. Our SGRE segment plans to maintain focus in productivity and asset management and also in operational excellence, innovation, digitalization and sustainability and people.

Furthermore, we will be focusing on dedicated strategies and synergy realization designed to untap SGRE's full potential. We see significant synergy potential resulting from collaboration in areas such as procurement, go-to market and strategic collaborations, among others. From a strategic perspective, fields like the service business, where both companies enjoy significant operations, or clean hydrogen, where both companies are present in complementary parts of the value chain offer collaboration potential that will be explored. Intensified cooperation between the Gas and Power segment, Siemens AG and the SGRE segment is expected to deliver annual cost savings of up to € 100 million.

Siemens Energy is led by a strong executive management team, Dr.-Ing. Christian Bruch, CEO, Maria Ferraro, CFO, Tim Oliver Holt and Dr.-Ing. Jochen Eickholt. The executive management team is highly diverse, with varying backgrounds and complementary skillsets: each member has a proven track record of successfully transforming businesses and/or implementing important initiatives and is dedicated to drive the transformation of the energy sector.

Dr.-Ing. Christian Bruch contributes technical expertise combined with more than ten years of management experience at Linde group. Most recently, he acted as Executive Vice President of Linde plc and CEO of Linde Engineering. During his tenure, the Linde engineering business achieved market-leading profitability levels. Apart from taking responsibility for customers, innovation, digitalization, performance, organization and portfolio. Dr.-Ing. Bruch has also taken on the role of Chief Sustainability Officer.

Maria Ferraro has held various positions within Siemens and before at Price Waterhouse Coopers and Nortel Networks. Most recently, she was the CFO of Siemens' Digital Industries, where she successfully drove restructuring and asset management programs and promoted digitalization. As CFO of Siemens Energy, Ms. Ferraro has now taken ownership of the cost out and asset management programs. Ms. Ferraro is also Chief Diversity Officer of Siemens Energy, a role, which she previously held at Siemens AG.

Tim Oliver Holt has spent his entire professional career at Siemens, in numerous positions. Most recently, he acted as CEO of Siemens Power Generation Services division, which reflects his long-

standing career in the Gas and Power Services business. During his time Siemens Gas and Power Services grew both in terms of revenue and margins. At Siemens Wind Power and Renewables (later SGRE) he was responsible for the expansion of the service business. Mr. Holt has also taken on the role as Labor Director for Siemens Energy.

Dr.-Ing. Jochen Eickholt has been with Siemens for more than 20 years in mostly CEO or chairman functions. Under his leadership, Siemens Mobility was transformed from a volatile, low-margin business to a global profitability leader in its industry. In both hardware and software related businesses, the focus was on revenue growth as well as optimized cost performance. Before assuming his role at Siemens Energy, Dr.-Ing. Eickholt successfully oversaw the transformation of Siemens' Portfolio Companies (POC) into highly competitive and profitable entities.

Remuneration of the Executive Board is strongly linked to our financial framework and shareholder value creation with each board member being contractually obliged to own Siemens Energy shares. The remuneration supports the achievement of Siemens Energy's strategic goals and sets incentives for sustainable value creation while also disincentivizing excessive risk-taking. The proposed target compensation structure for the Executive Board members consists of non-performance and performance-based components of approximately 30% base compensation, 30% variable compensation as well as 40% long-term share-based compensation. For more information, see "17.2.3 Compensation, Other Benefits".

### 12.2.3 Leading portfolio in the industry

In our view, the disruptive trends defining the energy markets are demand growth, decarbonization, decentralization and digitalization. While posing great challenges, we believe that we have the people, experience and skills to capitalize on these trends.

- *Demand growth* – Primary energy demand and final energy consumption are expected to grow in the medium- to long-term, despite ongoing increases in energy efficiency. Under the IEA's Stated Policies Scenario as well as the Sustainable Development Scenario, electricity demand is expected to grow at a CAGR of approximately 2% over the 2018-2040 period (source: WEO 2019). All of our activities are directly or indirectly involved in supplying energy where and when it is needed. Accordingly, demand growth offers opportunities for all divisions of our Gas and Power segment and of our SGRE segment, e.g., in Asia Pacific.
- *Decarbonization* – Global efforts to reduce the level of GHG emissions and the determination to fight climate change have intensified over the last decades. Decarbonization is a key lever to lower the amounts of GHG emitted globally and is acting as an important driver for the transformation of the energy sector. Under the IEA's Stated Policies Scenario and the Sustainable Development Scenario, renewables are expected to account for 44% and 67%, respectively, of the global electricity generation by 2040 (source: WEO 2019). This trend has triggered a shift towards renewables and sector coupling based on hydrogen. Although more than 50% of our portfolio is decarbonized per fiscal year 2019, we believe that renewables alone will not be able to cover the world's electricity needs in the foreseeable future, translating into a growing need for highly efficient conventional power generation equipment and the modernization of existing fossil-based generation equipment. We therefore expect increases in wind power demand, new demands in transmission and an emerging market for electrolyzers.
- *Decentralization*: Renewable and conventional electricity is increasingly generated decentrally. Distributed energy systems comprise not just decentral generation, but also local energy storage as well as demand response. While we expect centralized generation units to continue to play an important role in the foreseeable future, we expect the trend towards decentralization to persist. Particularly, the shift towards decentralization in gas will create opportunities for small and medium gas turbines and new solutions in our Industrial Applications division.
- *Digitalization* – Digital technologies and the resulting changes in consumer behavior, combined with corresponding regulatory initiatives, are expected to change energy markets



fundamentally. As interconnectivity, data availability and the degree of automation continue to increase, new business opportunities across all stages of the energy technology value chain arise. Specifically energy technology players can improve their existing offering with asset-related digital offerings and expand their portfolio with new standalone software as service solutions. In addition, the increasing automation of processes enabled through digitalization presents the fundament for productivity improvements.

As a result of these trends, there is a variety of equipment and service requirements which differ across countries depending on the existing infrastructure, the availability of fuel, wealth and environmental policies. Our leading market positions across different technologies, the efficiency and reliability of our products, our solutions expertise and the quality of our services will allow us to capitalize on these trends as the individual needs of our customers around the globe differ widely. While we anticipate the rapid shift from fossil-based fuels to renewables to continue in European countries, we expect countries with access to fossil fuels not to shift directly from fossil to renewable power, but initially to transition from coal to gas to lower emissions in the existing infrastructure. As an example, we see in Asia, Australia opportunities for revenue growth for all our businesses driven by the need for grid development, increasing industrial growth, a growing share of wind and the shift from coal and nuclear to gas. Technology partnerships enable us to access certain markets more efficiently.

Supporting a transition from coal to gas ties in with our efforts to contribute to a sustainable energy industry which also includes a commitment to reach net-zero greenhouse gas emissions of our own business operations (climate neutrality) by 2030. In this context, we are reviewing the details of the phase-out of our coal-related business activities in the long run. As part of this review process, we are currently closely evaluating what consequences such phase-out would have for Siemens Energy, our customers and our employees. The findings of this review will be discussed in the relevant committees, which will subsequently take a decision. As part of the phase-out of our coal-related business activities, we would likely stop supporting the construction of new coal-fired power plants, while we would, of course, continue to honor any contractual obligations that were created prior to a final decision being taken on this matter. Furthermore, we expect to continue to offer our services for existing coal-fired power plants. We want to use our business relationships with coal-fired power plant operators to offer, among other things, CO<sub>2</sub>-reducing solutions that minimize the adverse effects of coal-fired power generation.

#### **12.2.4 Service business as a core value driver**

We are determined to transform Siemens Energy into a product-led service company with significant contributions from services across all businesses.

Our Gas and Power segment has a large installed base of more than 90,000 service-relevant units (as of June 30, 2020; including large, industrial gas and aero-derivative gas turbines, large and industrial steam turbines and compressors) as well as more than 100 GW installed capacity at SGRE globally. This installed base provides the foundation of our resilient and high-margin service business, which amounted to total revenue of € 9.5 billion, representing almost one third of Siemens Energy's Total Segments' revenue in the fiscal year 2019. As of September 30, 2019, we had a service Order Backlog of € 35 billion in our Gas and Power segment and € 12 billion in our SGRE segment, providing us with a strong basis for future profitable revenue generation.

Our growing and highly profitable service business provides us with continuous customer touch points and is a key profit contributor, characterized by a high level of resilience to main macroeconomic shocks. The main reasons for this are threefold: (i) energy infrastructure is critical and needs to be maintained in order to provide electricity, (ii) we have a broad customer base and (iii) our products are highly sophisticated which creates significant entry barriers to the service business. In addition, this technical sophistication of our products and the quality of the services we offer leads to a high conversion rate between new installations and service contracts. As an example, we estimate a conversion rate of close to 100% for high efficiency large gas turbines and estimated renewal rates of 60% for low efficiency gas turbines of our Generation

division (which we target to increase to 70% by the end of 2020) in our Gas and Power segment based on new unit projects sold together with service agreements. In our SGRE segment, we estimate a capture rate of approximately 60% based on our serviced own installed fleet compared to total installations. We estimate a high contract retention rate of approximately 80% and an average duration of approximately 12 years for long-term service programs in our Gas and Power segment and approximately 9 years on average in our SGRE segment (in each case as of June 30, 2020).

The long life-time of our products coupled with the high level of wear and tear during operations and increased fleet utilization in most regions lead to a particularly large share of service revenue as a percentage of total revenue. Especially the long-term service contracts generate a continuous revenue flow due to regular service inspections. Due to the rapid growth in its installed base, we see strong growth potential for the service business of our SGRE segment.

The services we offer are maintenance, spare parts, modernizations and upgrades and increasingly digital services. In maintenance, it is critical for our customers to keep installations operating at the designated performance level with little or no unscheduled downtime. 21 thousand highly skilled employees (as of June 30, 2020) active in 73 service centers in the world and sophisticated spare part logistics help us to support our customers running their machinery at maximum uptime and as efficient as possible. Our leading-edge product portfolio does not just help us to grow the installed base, but also feeds our modernization and upgrade activities, which are on average due after 20 years where we can often achieve significant efficiency improvements (cost reductions) for the customer. Digital services and innovation allow for an optimization of our customers' fleets, remote monitoring and predictive maintenance often enhancing availability and capacity of our customers' installations and offer additional revenue growth opportunities from our installed base. We are also de-emphasizing solutions and within solutions shifting from low-margin EPC contracts to more complex, higher-margin projects.

#### **12.2.5      Developing future portfolio with focus on sustainability and service**

Research and development expenses of € 1,001 million in the fiscal year 2019 stands testimony to our R&D efforts, which we believe are fundamental to our success. We steer the R&D activities of our 5 thousand R&D employees (as of June 30, 2020) active in 15 R&D centers along a clearly defined strategy. While we intend to keep our R&D spending roughly stable, we anticipate a shift in R&D spending between divisions and the type of projects we spend our R&D on. Going forward, we will develop the portfolio with clear focus on sustainability, service and new growth fields. While we will explore the details of our exit from coal and actively develop our portfolio to remove underperforming product lines, a focus lies on enhancements. Another focus lies on products with a large service potential and enhanced competitiveness of current products based on strict return criteria. Furthermore, we will enhance our electrolyzer product line to grow revenues. We target to explore new portfolio elements to tap into growth fields such as Decarbonized Energy Systems, Energy storage systems and Power-to-x technologies.

Recent development highlights include a floating power plant provided to our customer in the Dominican Republic delivering approximately 145 MW electrical power, remote control and monitoring applications for offshore, the integrated digital solution Topsides 4.0, a 14 to 15 MW offshore wind turbine (SG 14-222 DD) and industrial-scale electrolyzers for the production of green hydrogen (*Silyzer*).

#### **12.2.6      Increase EBITA and Cash Conversion**

Siemens Energy has a clearly defined financial framework to drive shareholder value. We have identified the improvement of Adjusted EBITA and Cash Conversion Rate as the key value drivers for Siemens Energy. For details on our profit forecasts for the fiscal years 2020 and 2021 as well as profitability and/or revenue targets for the fiscal year 2023 and the mid-term, see "*22 Recent Developments and Outlook*".

Our financial performance has stabilized pre COVID-19 with a stable topline and growing backlog. We strive to lift our significant upside potential in profitability and cash generation even though challenging market environment and COVID-19 impacts are expected to lead to a decline of Adjusted EBITA Margin before Special Items to an expected (1)% to 1% in fiscal year 2020. The Accelerating Impact phase of our Energy of Tomorrow program is expected to deliver an Adjusted EBITA Margin before Special Items in a range from 6.5% to 8.5% by the fiscal year 2023. In the mid-term, as a result of the Leading the Energy Transformation phase of our Energy of Tomorrow program, we target an Adjusted EBITA Margin after Special Items of at least 8%.

For the fiscal year 2023, we target a Cash Conversion Rate of 1 minus the CAGR of revenue, excluding portfolio effects and currency effects, over the fiscal years 2021 to 2023. These key performance indicators are captured by the Siemens Energy's incentive framework. Pursuant to our dividend policy in respect of fiscal years 2020 and following, we intend to propose a dividend in a distribution volume of 40% to 60% of the Group's net income attributable to shareholders of Siemens Energy AG as shown in the consolidated financial statements of the Company prepared in accordance with IFRS of the respective prior fiscal year; and our target to maintain a solid investment grade rating (see "9.9.6.1 Financial Liabilities").

### **12.3 Gas and Power Segment**

Our Gas and Power segment comprises our Transmission, Generation and Industrial Applications divisions. Together, these businesses cover key parts of the energy value chain and serve a broad base of customers with products, solutions and services for the energy infrastructure markets as described in our industry section (see "*11 Industry Overview*"). The key trends demand growth, decarbonization, decentralization and digitalization are common to all divisions within the Gas and Power segment, however, each is affected differently by these trends. To address the transformation in our markets we are developing new products, solutions and services, in particular hydrogen-based solutions as part of our New Energy Business. With our more than 90,000 service-relevant units, as of June 30, 2020 in our installed fleet and more than 12 years average LTP contract duration we have a resilient backbone to our business with a truly global fleet with approximately two-third installed in Europe and North America and a growing fleet in Asia. Based on our global fleet footprint increased large gas turbine utilization rates during the fiscal years 2017, 2018 and 2019, especially in Asia, Europe and North America resulted in high revenue recognition. Our total service revenue of € 7,931 million in the fiscal year 2019 can largely be attributed to gas turbines including our large gas turbine, industrial gas turbine and aero-derivative gas turbine business. We seek to continue to grow our fleet and expect in terms of number of units until 2025 the highest growth from the Transmission division and our industrial and our smaller aero-derivative gas turbines. We anticipate a stable outlook for our large gas turbines and a small decline in our steam fleet. In terms of revenue per unit we expect an overall growth, again with the highest increase coming from the Transmission division and industrial and aero-derivative gas turbines and a stable development in large gas turbines and steam. However, we will over time no longer actively market our larger sized aero-derivative gas turbines (for more information, see "*12.3.3.1.2(2) Aero-Derivative Gas Turbines*").

Operating in one segment allows all of our businesses to leverage their leading market positions, the Siemens Energy brand, our global footprint in more than 90 countries and our industry know-how. We have a common approach to R&D of, e.g., digital solutions or additive manufacturing, project excellence, manufacturing and procurement. As demonstrated by our large LNG-to-power projects (see "*12.3.5 Project Development and Execution*"), the comprehensive offerings of our Transmission, Generation and Industrial Applications divisions enable to us provide our customers with integrated solutions. Together with our SGRE segment we believe our Gas and Power segment is uniquely positioned to deliver complex large projects up to major infrastructure upgrades for entire countries and to serve the widely varying needs of our customers around the globe.

We believe that our Gas and Power segment is well diversified based on the regional split of its revenue by location of customer in the fiscal year 2019 between EMEA, Americas and Asia, Australia, which amounted to 49%, 33% and 18%, respectively.

In order to overcome structural issues in the Gas and Power segment we initiated programs (see “9.4.10 Integration and Operational Improvement Measures; Special Items”) to reshape our footprint, foster project excellence, streamline our portfolio in each of the divisions, excel in supply chain, sustainably reduce inventories and get closer to our customers. As of June 30, 2020, we operated 104 sites with more than 50 employees each, thereof 75, 89 and 73 primarily served as a basis for our (i) manufacturing, (ii) sales, execution, engineering (here, including sites with more than 25 employees) and (iii) service relevant internal facilities. In R&D, we run 15 centers with our employees spread in more than 90 locations. As of the same date, approximately 20% of our employees were located at our ten largest sites. Reducing the complexity of our footprint is one of our priorities. Furthermore, we aim to increase the utilization levels of our factories by optimizing our factory network and improving connectivity via digitalization.

In the past, our profitability was negatively affected by high proposal and non-conformance costs incurred in connection with project execution and selection. Accordingly, we have made it our priorities to reduce non-conformance costs by 30% and to increase the share of high margin projects (*project selectivity*) until the fiscal year 2023 in each case as compared to fiscal year 2019 levels. By overlooking approximately 2,700 projects in execution or warranty (projects with more than € 2.5 million order intake per project; as of April 30, 2020) we will foster our project excellence and have implemented ProjectDASH, a unified reporting system combining more than 20 legacy systems to improve performance by increasing transparency. Furthermore, to improve portfolio analytics and systematic risk management we will implement new unified project management and selection system for empirical based decision making and monthly KPI tracking. A similar approach had successfully been implemented in Siemens Mobility reducing the non-conformance costs by 55% and improving project margins by 350 bps from 2013 to 2019.

We strive to reduce material and organizational costs by an improved supplier base through e.g. reducing the number of suppliers in some commodities by 30%, fully exploiting our sourcing levers e.g. by increasing our global value sourcing share by up to 30% in some businesses, cost value engineering, simplifying our procurement organization, maintaining the procurement alliance with Siemens and the digitalization of procurement.

Furthermore, we are targeting to optimize our rounded 125 days of inventory, which is calculated based on inventories amounting to € 5,294 million divided by cost of sales before amortization of intangible assets acquired in business combinations and goodwill impairments amounting to € 15,403 million multiplied by 364.25 calendar days as of September 30, 2019 or the fiscal year 2019, respectively.

In order to get closer to our customers, we target to foster our key account management, provide differentiated offerings, expand our Asian business, increase our share of publicly funded projects with customer co-development, provide customized project financing (see also “12.3.5 Project Development and Execution”) and strive for intensified outage coordination as well as implement a clear accountability through end-to-end product responsibility.

Across the Gas and Power segment, we plan to drive our service margins by increased productivity, field service tools and utilization, and innovation, e.g., advanced repairs and technology download from product development, by increasing focus on service R&D and field service utilization.

### **12.3.1 Transmission Division**

The integration of renewables and the trend towards distributed power generation as well as the liberalization of energy markets is leading to an increasing complexity of grid infrastructures. Our Transmission division caters to these requirements by providing, what we believe to be an industry-leading and innovative portfolio focused on the key market trends: digitalization, decarbonization, grid stability and electrification (see “11.2.2 Market Size, Development and Trends”). In our view, these include the most advanced, leading-edge products and systems as well as complex solutions, such as HVDC offshore grid connection. Revenue from new units contributed approximately 92% of the division’s total new unit and service revenue in the fiscal year 2019 and revenue from services approximately 8%, respectively (including intercompany business). Most recent innovations include digital products such as the Sensformer and Sensgear,

which also provide a basis for other digital services. To reduce environmentally-harmful assets in the infrastructure, we offer products such as gas-insulated switchgear without SF<sub>6</sub> (one of the most detrimental GHG) and mineral oil free transformers.

In this context we have set ourselves the following key aspirations:

- Remaining a market and technology leader in our Addressed Transmission Market focusing on often mission-critical elements of the global energy system;
- Realizing excellent growth prospects driven by industry-leading and innovative portfolio focused on key market trends digitalization, decarbonization, grid stability and electrification; and
- Significant margin improvement supported by project excellence, portfolio streamlining and cost optimization.

Our Transmission division has set clear priority areas to achieve these objectives:

- *Growth* – We plan to leverage our market-leading position in our Addressed Transmission Market in a mission-critical area of the global energy system supported by our strong presence in growing markets and significant Order Backlog of € 9 billion as of June 30, 2020.

In particular, we believe we are well positioned with our portfolio and will continue to develop new products to capture growth driven by the shift toward renewable energy sources and increased electrification. Furthermore, our innovative digital products and systems (e.g., Sensgear) and our differentiated, environmentally-friendly portfolio (e.g., SF<sub>6</sub>-free) caters to the requirements of digitalization, decarbonization, grid stability and electrification. Siemens Energy understands itself as the first and to date only major supplier who is exclusively focusing on vacuum technology for SF<sub>6</sub> replacement, whereas core competitors replace SF<sub>6</sub> with chemical compounds that potentially contribute to global warming and potentially bear other environmental risks. We have seen a very successful start of marketing this portfolio with strong growth rates and target for a full SF<sub>6</sub>-free Blue Portfolio available by 2030.

- *Profitability and Cash* – We expect to grow our profitability by focusing our portfolio on high-margin, differentiated products and systems and reduced portfolio variants (especially of our switching portfolio) as well as increasing standardization and modularization of our non-switching portfolio. Furthermore, we seek to expand our margin by, e.g., partnering for non-core project elements, such as offshore platforms, and the standardization of the offer and project execution process of large transmission projects. Our cost optimization programs focus on fixed cost reduction programs, utilization of our global factory network and optimized selling, general and administrative expenses.

We aim to further accelerate our growth by being the partner of choice for our customers' energy concepts. At the core of this strategy are tailor-made offerings which help our customers to maximize their return on investments. This approach is underpinned by our strong customer relationships with TSOs and DSOs (amongst others TenneT, State Grid Cooperation of China, SSE), central and distributed power generation companies (including renewables, amongst others Engie, Ørsted, E.ON) and industrials (amongst others BASF, Dow, Ineos, The Linde Group) as well as by our continuous investments in value-adding R&D projects. We believe that there is customer trust in Siemens Energy's ability to deliver. Customer relations are reflected in a positive Net Promoter Score development (increased by 2% from fiscal year 2018 to fiscal year 2019).

We believe that our business across customers is very well balanced. Based on average order intake during the fiscal years 2017 to 2019, our top 10 customers accounted for approximately 25% of the total business of our Transmission division.

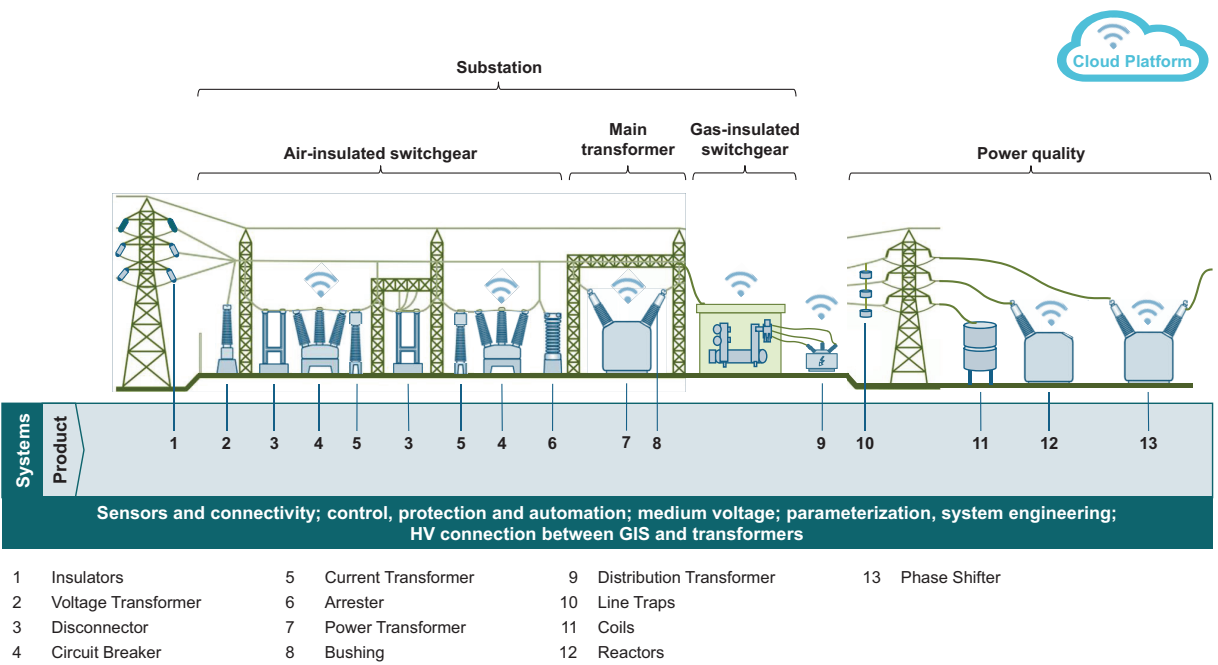
#### 12.3.1.1 Products and Systems

The Transmission product portfolio includes switchgear, transformers, as well as mainly high-voltage components. Our Transmission division's product offerings are highly customizable and



can help its customers reduce their CO<sub>2</sub>-footprints. In addition, the Transmission division supports its customers through a worldwide network of production facilities, own sales organization, sales partners and service providers to serve the customer needs with a high level of technological expertise.

The following chart provides an overview of the key portfolio elements of our Transmission division:



Source: Company Information

#### 12.3.1.1.1 Switchgear

A switchgear is the switching part of a substation which is used to control, protect and isolate electrical equipment. In electricity grids, voltage levels are increased or decreased at substations, and this change in voltage levels is realized by the main transformer (for our Transmission division’s transformer offering, see “12.3.1.1.2 Transformers”). The various equipment parts, including circuit breakers, disconnectors, surge arresters, current and voltage transformers as well as earthing switches, measure and switch electric power on or off for the main transformer and power line; all of this is collectively referred to as a switchgear. Typically, a switchgear is located on both the primary and secondary voltage sides of the main transformer. The main purpose of a switchgear is to connect or disconnect power paths, *i.e.*, power lines, power producers or consumers. The different components of a switchgear must be duly insulated to ensure their proper function. This insulation can be achieved by air (air-insulated switchgear) or gas (gas-insulated switchgear).

##### (1) Air-Insulated Switchgear

Air-insulated switchgear can be used for voltages of up to 1,200 kV and regularly require tailor-made solutions. The installation of air-insulated switchgear is influenced by the site, existing infrastructure and accessibility. In addition, the incoming and outgoing lines, the number and position of transformers and the rated voltage levels for which the switching devices are built must also be considered. Air-insulated switchgear requires more space than gas-insulated switchgear. On the other hand, air-insulated switchgear is more cost-efficient than gas-insulated switchgear. Our Transmission division’s air-insulated switchgear comprises circuit breakers, disconnectors, earthing switches, surge arresters and insulators. Circuit breakers interrupt short circuit currents in case of a fault. They use the signals provided by the instrument transformers as a basis for breaking operations under fault conditions and are fundamental to network reliability and security. Disconnectors and earthing switches are used to ensure that an electric circuit is

completely de-energized and safely earthed to allow isolation of various apparatus such as circuit breakers and transformers for maintenance, refurbishment and replacement. Disconnectors are usually not intended for normal control of the circuit, but only for safety isolation. Surge arresters protect electrical equipment from over-voltage. During normal operation, a surge arrester is designed to avoid negative effects on the power system. A surge arrester diverts the excess voltage to ground and is built to withstand typical surges without incurring any damage.

(2) *Gas-Insulated Switchgear*

(aa) *Conventional (SF<sub>6</sub>) Gas-Insulated Switchgear*

Short distance between a substation and the consumer results in more economical and better-quality power supply. Accordingly, the customers of our Transmission division often seek to build substations close to urban centers where space is limited. This is where gas-insulated switchgear can make a positive contribution. They serve the same purpose as air-insulated switchgear but require significantly less space. This type of switchgear provides higher economic efficiency compared to air-insulated switchgear and high reliability, as well as low noise and electromagnetic emissions. The different components of a switchgear are enclosed in a gas-tight metal enclosure. Their compact design allows for use in confined spaces, whether in a basement of a high-rise building, in an industrial plant or in a mobile container. Further, gas-insulated switchgear offers numerous advantages, from flexible switchgear designs to a long product life as well as low life cycle and maintenance costs. The comprehensive range of our Transmission division's gas-insulated switchgear for rated voltages from 72.5 kV up to 550 kV provides solutions that are particularly suitable for challenging and complex indoor and outdoor switching applications. Its conventional gas-insulated switchgear use SF<sub>6</sub> gas as insulation medium between live parts of the equipment and the metal enclosure. Due to a strong global footprint, it is well-positioned in the competitive environment as a gas-insulated switchgear manufacturer.

(bb) *Blue Switchgear*

Since 2010, the air- and gas-insulated switchgear series were innovated with the launch of the blue series. The blue series of switchgear features an SF<sub>6</sub> gas-free design, which provides clear environmental benefits. It uses a proven vacuum interrupter technology with compressed synthetic air (clean air) as an insulating medium. Synthetic air is a non-toxic, non-flammable, stable insulation medium. We believe that this technology will comply with upcoming norms and standards for environmentally-friendly insulation mediums. The portfolio of blue switchgear is available today for rated voltages up to 145 kV. In the coming years, our Transmission division plans to expand the portfolio to include blue switchgear for rated voltages up to 550 kV. Like conventional switchgear, blue portfolio elements offer safe and easy handling, maintenance-free operation as well as high operational safety. However, blue switchgear are currently more costly and in case of gas-insulated switchgear require more space than conventional switchgear. Based on the environmentally-friendly blue series of switchgear, we believe that our Transmission division is well positioned to meet expected future demand for these products.

#### 12.3.1.1.2 Transformers

Whether in infrastructure, industry or households, transformers play a key role in the reliable transmission and distribution of power. The rated power, voltage level, available space and the specific use case are all important factors that determine a transformer's design. The Transmission division provides different types of transformers for varying needs – from compact distribution transformers to large power transformers. The transformers are embedded in a complete power system encompassing power generation, transmission and distribution networks.

(1) *Power Transformers*

Power transformers are a core component of power transmission systems, which are designed to deliver power to consumers efficiently and reliably. Power transformers include generator step-up transformers, step-down transformers and system interconnecting transformers.

Generator step-up transformers are essential elements which create a link between the power station and the transmission network. They have to be built to withstand extreme thermal loading without ageing prematurely. They are responsible for the safe and reliable transmission of generated electricity from the power plant to the substations. Generator step-up transformers transform the voltage from the generator voltage level up to the transmission voltage level. Step-down transformers transform the voltage down from the transmission voltage level to a required distribution voltage level. System interconnecting transformers provide connections between different voltage systems, so that active as well as reactive power can be exchanged between the systems.

Our Transmission division offers all types of power transformers whether small, medium or large transformers. All of its transformers are highly customizable to best address the specific needs of each customer. Small power transformers are transformers from 5 mega volt ampere ("**MVA**") to 30 MVA with a maximum service voltage of 145 kV. They are used as network transformers in distribution networks. Medium power transformers feature a power range from 30 MVA to 250 MVA and a voltage of over 72.5 kV up to 300 kV and are used as network and generator step-up transformers. In the power range above 250 MVA and 300 kV, generator and system interconnecting transformers with de-energized or on-load tap changers are categorized as large power transformers. Even ratings of more than 1,000 MVA and voltages up to 800 kV / 1,200 kV are achieved by large power transformers.

Moreover, our Transmission division offers its customers benefit from the PRETACT concept which is aimed at ensuring the continuous operation of their critical transformers, thereby contributing to increased grid resilience. Events such as the big blackout in Canada in 1989 and the 2012 blackout in Manhattan due to Hurricane Sandy have exposed the crucial role of transformers in grid resiliency. PRETACT is a mix of products and services based on the three pillars: "Prevent", "Protect" and "React". This means that malfunctions of transformers due to aging or network failures should be prevented by monitoring, maintenance, repair and retrofit services. Further, the Transmission division has developed several designs to protect transformers against natural disasters (e.g., sun storms and the resulting geomagnetically induced current, earthquakes, etc.) and other forced outages (e.g., assaults with firearms). If all preventive and protective measures fail, the Transmission division reacts by swiftly deploying emergency countermeasures, which may include temporarily replacing a part of or an entire substation using its mobile transformers with plug-and-play connections or its portable power solutions (see "*12.3.1.2.2 Mobile Transmission Solutions ('e-houses')*") to insure power supply with minimum outage costs and outage times.

We also hold a 20% (as of June 30, 2020) stake in Maschinenfabrik Reinhausen GmbH whose core business is the regulation of power transformers. The investment is accounted for using the equity method. The consent of the shareholders' meeting required for the legal transfer was not yet granted and so, for the time being, Siemens will hold this shareholding on behalf and for the account of Siemens Energy.

## (2) *Distribution Transformers*

In traditional networks, distribution transformers are used to transform the distributed high or medium voltage to low voltage levels that can be used in industries, infrastructure and households. Distribution transformers are used at the last step in the conversion chain that brings electricity to consumers. They are also used at the first transformation step to feed power generated at lower voltage level by renewable sources like wind power generation into the electricity grid. The portfolio of distribution transformers ranges from fluid-immersed distribution transformers (FITformer series) over voltage regulators to cast-resin-insulated / dry type transformers (GEAFOL series). These products can be customized in detail to meet individual customer requirements.

In the wake of an enhanced electrification and decarbonization of industries, distribution transformers play an increasingly important role to support the sustainable system integration of producing industries, datacenters, e-mobility and distributed renewable generation.

### (3) *Other Transformers*

In addition to its main transformer portfolio range, our Transmission division also provides a wide range of special transformers for different applications, some of which gain special importance with the need to increase integration of intermittent renewable power into the power grid.

#### (aa) *HVDC Transformers*

HVDC transformers are key components of DC transmission networks that enable the transmission of large energy amounts with high efficiency (*i.e.*, minimal losses) over long distances. With the increase of renewable energy generation and rising energy prices, interconnection and power exchange between large transmission grids is becoming increasingly more common. HVDC transformers establish back-to-back links for connecting two AC networks with deviating frequencies. These types of transformers are key coupling elements between AC grids and high-power rectifiers. They adapt the voltage, insulate the rectifier from the AC grid and generate a phase shift for DC power transmission at high, extra-high- and ultra-high-voltage. Converting AC into DC using HVDC transformers and power electronics can facilitate an increase in the power transfer volumes through existing rights of way, typically cutting line losses by 30 to 50%. HVDC converter transformers are most efficient for overhead transmission lines above 1,000 MW and 600 km.

Within its HVDC transformer portfolio, our Transmission division offers HVDC Classic, HVDC PLUS and UHVDC (*i.e.*, ultra high-voltage direct current) transformers.

#### (bb) *Products for Grid Stabilization*

Phase-shifting transformers are devices for controlling the power flow through specific lines in a complex power transmission network. They ensure grid stability and reliability by actively balancing fluctuating power flows. This makes these transformers an essential equipment for the operation of the grid, in particular due to the increasing infeed of volatile renewable energy. The basic function of a phase-shifting transformer is to change the effective phase displacement between the input voltage and the output voltage of a transmission line, thus controlling the amount of active power that can flow in the line. It improves the stability and flexibility of grids by enforcing or blocking the loads or by creating balance of load sharing between two transmission lines.

Reactors can be used to limit over voltage and compensate reactive power (shunt reactors) or change current flow and limit short circuit currents (series reactors) with an increasing number of high, extra-high and ultra-high voltage overhead lines with long transmission.

#### (cc) *Special Transformers for Industrial and Railway Applications*

Transformers are also used in a variety of industrial applications, including steel manufacturing, electrolysis, mining as well as offshore oil and gas platforms. These industries require specific high current application transformers due to the high usage of power (current) as a major resource for production.

Railway applications need special transformers to transform available power voltage to the overhead contact line voltage, which ranges mainly from 15 kV to 25 kV, to voltages suitable for traction converters between 0.7 kV and 1.5 kV in the train. Transformers must ensure continuous operation under heavy overload and withstand frequent short circuits to assure uninterrupted train operations.

#### 12.3.1.1.3 Sensformer and Sensgear

Digitalized transmission and distribution products are a key enabler to manage decentralization and drive decarbonization for sustainable energy systems. Connectivity of assets is the first step towards digitalization. Our Transmission division equips all of its new transformers (since 2018) and switchgear with sensors and a digital interface enabling easy remote real-time monitoring of

key parameters. These features are referred to as “Sensformer” and “Sensgear”, respectively. They aim to increase productivity, reduce unplanned downtime and improve performance. Sensformer and Sensgear use a smart and robust Internet of Things (IoT) gateway which securely transmits a minimum amount of required information to a cloud-based storage and visualization platform. In “Sensformer Advanced” our Transmission division’s visualization software allows its customers to monitor a digital twin of the reporting equipment in real time with a variety of features (Internet of Energy). Each Sensformer and Sensgear has a unique ID, which is also used for encryption to provide a high level of cybersecurity. So far, we have seen strong growth rates for our SensProducts and their digital twins.

#### 12.3.1.1.4 Bushings, Instrument Transformers and Coil Products

The Transmission division’s core high-, medium- and low-voltage components include a range of bushings, instrument transformers and coil products. Generally, all these components are highly customizable to best meet customer needs.

Bushings are electrical components that insulate a high-voltage conductor carrying current passing through a metal enclosure or building. They are used for both AC and DC applications. Our Transmission division offers several types of bushings ranging from 24 kV to 1.200 kV voltage levels.

Electrical instrument transformers such as current transformers, voltage transformers, power voltage transformers, transform electrical signal from high level of current or voltage to standardized low and easily measurable level providing visualization to substation control rooms. They are used for metering and protection purposes.

Conventional current and voltage transformers use mineral oil or SF<sub>6</sub> gas as insulation medium between live parts of the equipment and the metal enclosure. However, as part of its innovative blue series, our Transmission division also offers SF<sub>6</sub> gas-free current and voltage transformers.

In addition, modern non-conventional instrument transformers support digitalization of substations and therefore help reducing wiring efforts and also improving the overall substation footprint.

Coil products are used, among others, to minimize capacitive power transmission losses, to limit power surges and to filter out oscillations.

#### 12.3.1.2 *Transmission Solutions*

Transmission solutions include substations in which switchgear, transformers and high-voltage components are installed and operated. Our Transmission division also offers modern solutions for managing complexity in the electricity grid through its FACTS and DC interconnectors as well as grid access solutions for connecting distributed generation sources to the electricity grid.

##### 12.3.1.2.1 Turnkey Substations

Around the globe, on either a turnkey basis or as a general contractor, our Transmission division plans and construct high-, extra-high- and ultra-high-voltage substations comprising switchgear, other electrical equipment and transformers as well as all ancillary equipment such as control systems, protective equipment, etc. The services offered range from system planning to commissioning and after-sales service, including training of customer personnel. All these installations have in common their high standard of engineering which covers all system aspects such as power systems, steel structures, civil engineering, fire precautions, environmental protection and control systems.

##### 12.3.1.2.2 Mobile Transmission Solutions (“e-houses”)

Our Transmission division provides a range of prefabricated substations that are equally suited for either temporary or permanent use in challenging grid expansion and maintenance programs. Our Transmission division’s mobile transmission solutions consist of self-contained “plug and play” switching stations built as a fully mobile substation on a trailer, a skid, or inside



a shelter as an “e-house”. The modules contain all components for a complete substation, including the power transformer, the gas-insulated switchgear, medium-, high- and extra-high-voltage cables, protection, monitoring and control systems as well as auxiliary AC and DC power supplies. The high mobility of a mobile transmission solution enables grid operators to restore power after a substation failure within short time. It also helps to avoid disruptions during grid maintenance and upgrade works. Mobile transmission solutions enable faster and more reliable grid connection for power-critical infrastructures such as electrical generation or process industries, and they ensure little exposure to site work contingencies. As a true “plug and play” solution, the mobile transmission solution requires little civil work, as it comes entirely pre-assembled and factory-tested. This reduces site works to an absolute minimum.

#### 12.3.1.2.3 Flexible Alternating Current Transmission Systems (FACTS)

The important shift of the energy mix towards an increasing share of renewables challenges grid operators with respect to enabling a safe and reliable transmission grid operation. In order to handle the resulting unpredictable load situations, our Transmission division has developed various solutions to ensure network stability. These solutions focus on managing reactive power, frequency and power flow. These solutions are referred to as flexible alternating current transmission systems (FACTS) and are continuously enhanced in line with customer requirements. For example, our Transmission division recently developed a FACTS system permitting system operators to store and release energy into the electricity grid to stabilize frequency. With these solutions installed in the system, unacceptably high voltage fluctuations and power failures can be prevented, network assets can be efficiently utilized, and load-induced disturbances can be mitigated.

In addition, our Transmission division provides tailor-made synchronous condenser solutions based on a FACTS network control and on its generator and transformer expertise and portfolio. With this offering, our Transmission division supports TSOs in reducing redispatch costs, *i.e.*, costs incurred by TSOs in connection with the balancing of power supply and demand in electricity grids. Its synchronous condensers consist of a synchronous generator, sourced from the product portfolio of our Generation division, and a step-up transformer integrated and combined with intelligent grid control from transmission solutions. Synchronous condensers can provide steady-state and dynamic voltage control as well as reactive power control of dynamic loads.

#### 12.3.1.2.4 High-Voltage DC (HVDC) Transmission Systems

Our Transmission division provides a comprehensive portfolio of efficient and sustainable solutions in a broad variety of fields of HVDC application. HVDC technology is particularly well suited to support and improve the sustainability, efficiency and reliability of power supply systems. HVDC transmission systems supplement the existing AC infrastructure in a number of ways, including through highly efficient long-distance power transmission, transnational grid connections as well as through the connection of asynchronous grids and grids with different frequencies.

Over the last years, demand for large-scale power exchange over long distances and often across national borders has increased steadily. To support this energy exchange, interconnectors have to be built bridging long distances, *e.g.*, to cross seas. The energy transition towards renewable energies has resulted in an increase in distances between power generation (*e.g.*, in offshore wind power plants) and electricity consumers. Transporting energy using AC systems is inefficient over long distances. Thus, the more efficient HVDC transmission solutions are becoming increasingly important to connect large-scale renewable generation and load centers. Our Transmission division’s HVDC technology has been successfully installed in more than 50 projects worldwide. Our Transmission division believes it is the best available solution for long-distance transmission, grid access, and grid stability. Today, its HVDC portfolio comprises two models: HVDC Classic transmission systems with line-commuted converters, and HVDC PLUS transmission systems with voltage-sourced converter.

Siemens Energy also provides the technology to use existing AC corridors for HVDC transmission.

#### 12.3.1.2.5 Medium-Voltage DC (MVDC) Transmission Systems

Our Transmission division's medium-voltage DC ("**MVDC**") transmission systems addresses the challenges that regional high-voltage transmission networks and medium-voltage distribution grids increasingly must deal with. The MVDC portfolio aims to apply the advantages of DC technology available for applications in traditionally AC networks.

MVDC PLUS is an innovative universal solution designed to help handle issues such as unstable grids, remote area connections, increased power infeed and increased autonomy from power transmission. Compact and cost-efficient MVDC PLUS connections via cable or compact overhead lines enable cost-efficient power transmission over distances. We believe that these systems are ideal for the grid connection of islands, offshore platforms and remote locations as well as the interconnection of autonomous smart grids.

MVDC PLUS is based on modular multilevel voltage-sourced converter technology. This mature technology has proven its efficiency and performance in numerous HVDC PLUS and SVC PLUS applications since its first operation in 2010.

#### 12.3.1.2.6 Grid Access Solutions

Grid access solutions are custom-engineered solutions for distributed generating units and remote loads. They are an essential part of so-called "intelligent grid solutions". Grid access solutions involve reconciling contrasting parameters, such as high reliability, low investment costs and efficient transmission in the best possible way. For example, in the design of high-, extra-high and ultra-high-voltage offshore platforms for offshore wind power plant connections to the grid, grid access solutions optimize the entire system with particularly well suited 66 kV and above voltage equipment to balance life cycle costs as well as performance and electrical losses, meeting local grid code requirements. By offering a turnkey solution, our Transmission division provides a comprehensive approach for complex projects involving project management, design and engineering services, subcontracting, procurement and expediting of equipment, inspection of equipment prior to delivery, shipment, transportation, control of schedule and quality, pre-commissioning and completion, performance guarantee testing, and training of owner's operating and/or maintenance personnel. Our Transmission division believes that it is uniquely positioned with its broad in-house engineering competence, from the initial system studies work through to primary and secondary engineering, including platform design/management competence.

We believe, that we are a technology leader in the area of grid access solutions. For example, the World Economic Forum recognized our Modular Multilevel Converter technology as a technological breakthrough for connecting large offshore wind parks to the grid (source: World Economic Forum, white paper entitled "Global Innovations from the Energy Sector 2010-2020", May 2020). Furthermore, our innovative AC offshore grid connection solutions rely on offshore transformer modules, which can reduce the size and weight of offshore platforms by approximately 30% compared to conventional AC substations whilst providing the same or even higher power ranges.

#### 12.3.1.3 Transmission Services

Our Transmission division provides a full-scope service offering through a global network of OEM experts covering the entire life cycle of transmission products, systems, solutions, and for the electrical balance of plants, all with the aim of increasing the reliability and availability of transmission grids. Our Transmission division's comprehensive modular service portfolio is available on demand, under framework agreements or under performance-based contracts to meet its customers' varying needs and requirements. The comprehensive service portfolio covers field service and maintenance, repair and emergency, modernization and retrofit as well as digital services, operation and long-term programs, training and support for customers.

#### 12.3.1.3.1 Digital Services

Our Transmission segment also offers advanced digital solutions for power networks, including a range of data-based monitoring and diagnostic services such as asset management, remote services and cybersecurity services. These services can be largely customized. The Sens-portfolio (see “12.3.1.1.3 Sensformer and Sensgear”) forms the basis for a growing digital service offering for our customers. Our digital portfolio and digital services comply with cybersecurity certifications and standards of all relevant markets.

#### 12.3.1.3.2 Field and Maintenance Services

Our Transmission division’s services include the installation of electrical equipment in a substation, a task that requires expert knowledge and experience and of which we have significant expertise. Our Transmission division offers complete erection and commissioning services, including project management and preventive maintenance (e.g., transformer life cycle management) of all the electrical equipment of a substation.

#### 12.3.1.3.3 Repair and Emergency Services

Electrical equipment failure can cause severe problems in a power network since equipment is a highly critical link. Although such electrical equipment typically has a high level of reliability, an unplanned event, due to either internal or external factors, can never be excluded. In case of a sudden failure, our Transmission division offers prompt support to its customers with emergency services offerings, including on-site or off-site repair services depending on the scope and availability of resources in the affected location.

#### 12.3.1.3.4 Modernization and Retrofit Services

Electrical equipment within a power network is subject to natural ageing processes during the network’s operation, including electrical and mechanical ageing. Typically, such equipment has an operational life of several decades, whereby technology also typically evolves over the equipment’s lifetime. Once the equipment reaches the end of its operational life, it needs to be either replaced or upgraded. Our Transmission division provides complete retrofitting and modernization solutions, including refurbishment, upgrade and extension alternatives.

#### 12.3.1.3.5 Operation and Long-Term Programs

Our Transmission division provides support solutions to its customers for the safe operation of entire substations or of their electrical equipment. Our Transmission division also offers extensive long-term programs encompassing the complete scope of operation and maintenance services, including key spare part supplies and spare part supply management for continued asset availability.

#### 12.3.1.3.6 Training and Support Services

Our Transmission division has a strong product and solution expertise, which it makes available to customers through a “24/7” customer support center. Moreover, our Transmission division provides on-site or off-site product training for its customers’ staff, including hands-on experience in its manufacturing and engineering locations. Our Transmission division customizes its training modules based on the specific needs of its customers. It also offers on-site condition assessments of all types of electrical products, including asset audits and consulting.

### 12.3.2 Generation Division

We believe that in many countries and regions gas remains an important and will be a transitional source of fuel providing a market for flexible, highly efficient large gas and steam turbines as well as for small and medium sized gas turbines for distributed power supply.

Moreover, our Generation division is catering to the needs of the energy transition by offering products, solutions and services for distributed energy generation, innovative services, increasing

product efficiency and investing in decarbonized energy systems. We believe we can leverage our broad portfolio of gas and steam turbines, generators and gas engines to support our customers decarbonization targets and utilize the existing infrastructure, e.g., increasing co-firing capabilities to operate our gas turbines with hydrogen or highly flexible load operation of our installed fleet. We provide tailored offerings to our central and distributed power generation customers in utilities, IPPs, entities that are state-owned (e.g., by ministries of energy and electricity or municipalities), EPCs and industrial customers which, based on new unit order intake with third parties in the fiscal year 2019, can be grouped in utilities or municipalities (approximately 30%), IPPs (approximately 20%), EPCs approximately 20% and industrial customers (approximately 30%) that generate power for their own consumption.

In the fiscal year 2019, the revenue of our Generation division was largely attributable to gas-related products, solutions and services, and we estimate the total new unit and service revenue to be split as follows (including intercompany business): approximately 34% new unit central power generation, approximately 15% new unit distributed power generation and approximately 51% service central power generation. The share of the service business of the Generation division was approximately 51% of their total new unit and service revenue (including intercompany service business) in the fiscal year 2019.

In this context we have set ourselves the following aspirations:

- Extending our position as a market leader with strong global presence, high customer intimacy and highly competitive portfolio;
- Growing our resilient service business with strong backlog, attractive profitability and a growing fleet;
- Driving the energy transition by growing distributed offering and innovations in decarbonized energy systems and digital solutions; and
- Additional value generation through potential cost out programs, footprint consolidation and portfolio streamlining as well as focus on service and growth in distributed power generation.

We are following clear targets along our key segments in Generation division:

- In central power generation we strive to be selective in project acquisition and mindful about margin quality. We aim for optimization of our footprint and driving excellence (lower non-conformance costs, more standardization);
- In distributed power generation we aim to continue our profitable growth and extend our leading position in industrial gas turbines and in industrial steam turbines; and
- In service we aspire to continue to grow our resilient service business based on our strong Order Backlog (which showed a CAGR of 3.9% from fiscal year 2017 to 2019), and attractive profitability. We target to continue growing our installed fleet and drive profitability e.g., through the introduction of technology upgrades and growth of program business.

Our main focus is on:

- *Growth* – Driving the energy transition by growing our distributed offering and innovations in decarbonized energy systems and digital solutions: We strive to grow our installed fleet, optimize our LTPs and provide new offerings. We already have a leading market position in distributed power generation, where the SGT-800 is a popular product in its core market. To back our service business, we target to extend our market leading position in industrial gas and steam turbines. With our decarbonized energy systems, we pursue a dedicated growth strategy to drive new businesses. With these businesses, we strive to drive the energy transition by being the partner of choice for our customers on their individual decarbonization journey. With the new HL large gas turbine we offer and further strive to establish one of the most efficient gas turbines available on the market. To cater to the prospect of the shift from carbon based to carbon-neutral fuels, we also have a suite of hydrogen-enabled products. In the fiscal year 2019, approximately 51% of our Generation division's total new unit and service revenue (including Intercompany service business) related to service, driven by our installed base of more than 11,000 service-relevant units. We believe the revenue generated by our service

business will be stable in the mid-term and that we will grow our installed fleet of large gas turbines by 6% until fiscal year 2025. Our large fleet and Order Backlog of € 32 billion, thereof 81.3% attributable to service, as of June 30, 2020, form a resilient basis to further drive our profitability through ambitious product cost-out programs, optimizing our portfolio mix and enhancing organizational efficiency.

We expect to grow our profitability by consolidating our footprint, *i.e.*, by eliminating overcapacities in order to adapt to the shrinking large gas turbine market and by improving our manufacturing utilization rates. Furthermore, we will follow a selective offering strategy to de-risk our project portfolio, run dedicated programs to reduce non-conformance costs and pursue technology partnerships. By streamlining our portfolio through a focus on high margin and high volume elements and by reviewing our options to exit coal as well as optimizing our cost structure by focusing our R&D spending on core revenue carriers and continuing rightsizing through implemented programs we believe to untap our potential.

- We will foster a more efficient organization. The approximately 27 thousand employees (as of June 30, 2020) of our Gas and Power segment's Generation Division are crucial to its success. Our new management will further drive the change towards a more efficient organization with end-to-end responsibilities and clear accountabilities.

#### 12.3.2.1 Products

The Generation division's product portfolio mainly comprises gas and steam turbines, generators and gas engines.

##### 12.3.2.1.1 Gas Turbines

Our Generation division's large and industrial gas turbines have robust and flexible designs and are suitable for peak, intermediate or base load generation as well as for CHP applications for its customers.

A gas turbine converts chemical energy of a fuel into mechanical energy of a rotating shaft. Gas turbines may utilize a variety of fuels, including natural gas, fuel oils, synthetic fuels, and mixtures of hydrogen. In SCPPs applications, the gas turbines show gross efficiencies in the range of approximately 30 to 43%. CCPPs use the thermal energy of the hot gases at the outlet of the gas turbine to produce additional electricity in a steam turbine generator. Advanced CCPPs based on the HL-class technology aim to achieve efficiencies of more than 63%.

#### (1) Large Gas Turbines

Our Generation division divides its large gas turbine portfolio into the E, F, H and HL class for 50 Hz and 60 Hz regions with their power outputs ranging from 117 MW (simple-cycle) or 174 MW (combined-cycle) to 593 MW (simple-cycle) or 870 MW (combined-cycle). All large gas turbines provide for hydrogen co-firing capabilities of 30%.

The HL-class is our Generation division's most-advanced gas turbine class. It was derived from the proven H-class technology and efficiency levels beyond 63% are achievable in combined-cycle operations. In addition, the HL-class is also designed for fast cold starts and hot re-starts, minimum maintenance costs and short outage times. The first HL-class successfully completed its first fire in the U.S. in April 2020. As of July 2020, in total 7 HL-class turbines are installed or under installation.

The H-class is an efficient and powerful gas turbine with approximately 100 turbines installed or under installation as of July 2020.

The F-class is optimized for high fuel flexibility, operational flexibility such as fast start-ups and load changes, efficiency, reliability, as well as low emissions. As of July 2020, the F-Class is the backbone of our Generation division's installed fleet, with approximately 800 units installed or under installation.



The E-class is characterized by a robust design making it suitable for all load ranges, including peak load and offering outstanding fuel flexibility. As of July 2020, there are approximately 400 E-class turbines installed or under installation.

All of our Generation division's gas turbine technologies are being continuously improved with modernizations and upgrades available to support its customers' changing needs, e.g., by the increase of hydrogen co-firing capabilities, and to ensure their competitiveness.

(2) *Industrial Gas Turbines*

Our Generation division's industrial gas turbines are characterized by their compact and robust design for industrial power generation. They deliver power outputs ranging from 5 MW to 62.5 MW with hydrogen co-firing capabilities of up to 60%. Industrial gas turbines are well suited for CHP where more than 80% of the fuel energy can be utilized to provide electricity, process steam and thermal energy for heating. Our Generation division's most advanced industrial turbine is the SGT-800 which achieves up to 60% efficiency in combined-cycle power generation application and is capable of burning up to 50 volume-% hydrogen. As of June 30, 2020, more than 400 SGT-800 have been sold worldwide, achieving a fleet reliability of approximately 99.7% over the period since April 2019.

For more details regarding industrial gas turbines delivering small-sized power outputs from 5 MW to 14 MW, see "12.3.3.1.2(1) *Industrial Gas Turbines*".

(3) *Shanghai Electric Power Generation Equipment Co., Ltd.*

The Siemens Group holds a participation of 40% in the Shanghai Electric Power Generation Equipment Co., Ltd. joint venture that is allocated to the Generation division. The joint venture provides equipment for power plants. Siemens AG and Siemens Energy agreed that Siemens Energy shall acquire Siemens' participation in Shanghai Electric Power Generation Equipment Co., Ltd. in the fiscal year 2021 (subject to the consent of the joint venture partner). The transfer depends on the consent of the joint venture partner that shall be requested after the Spin-Off Completion. According to the existing shareholder agreement, the joint venture partner is entitled to a pre-emptive purchase right, which means that the transfer of the participation in the joint venture to Siemens Energy is not secured. The expected purchase price for the participation was contributed in advance to Siemens Energy in cash. Should the joint venture partner exercise its pre-emptive purchase right, the cash contribution by Siemens AG would remain with Siemens Energy up to the purchase price to be paid by the joint venture partner; the purchase price itself would accrue to Siemens AG.

(4) *Collaboration with State Power Investment Corporation Limited of China*

In July 2018, we entered into a memorandum of understanding with the Chinese State Power Investment Corporation Limited ("SPIC") regarding a technology collaboration in the field of heavy-duty gas turbines. In the memorandum we agreed to support SPIC in conducting R&D for such turbines and to provide training and technical consultation to SPIC to support their development of heavy-duty gas turbines. Following a technology collaboration agreement in the same field with China's United Heavy-duty Gas Turbine Company (which is majority-owned by SPIC), in March 2019 we signed a comprehensive strategic partnership framework agreement with SPIC to further expand the cooperation in power generation and to create a China-based supplier eco-system. The agreement also contemplates the collaboration in high-technology product demonstration (e.g., in the field of digitalization of power plants or in hydrogen utilization projects and smart energy management for a decentralized energy system) and in project execution as well as the joint development of gas-to-power projects worldwide. The goal of both agreements is to establish a long-standing partnership that is beneficial for both parties. China is one of the world's most important markets for large gas turbines and is expected to intensify its investment in large gas turbine technology in the coming years, driven by growing electricity demand and governmental initiatives to improve air quality by switching from coal to natural gas in its energy mix.

#### 12.3.2.1.2 Steam Turbines

Our Generation division's steam turbine portfolio is divided into utility steam turbines (250 MW to 1,900 MW) and industrial steam turbines (<10 kW to 250 MW). Main features are high efficiency, fast start-up and load shift operating modes and easy accessibility for operating and maintenance purposes.

Utility steam turbines are mainly used for central power generation in CCPPs as well as in conventional coal-fired steam power plants or as a conventional island in nuclear applications. Further applications include desalination applications or co-generation.

The industrial steam turbines are used for distributed power generation and industrial applications. Typical applications include captive power plants for industrial customers, biomass power plants and sugar mills, pulp and paper mills, and concentrated solar power. Small scale industrial steam turbines (<25 MW) are either sold individually to other OEMs or in complete packages including gears, lube oil systems and controls to customers from process industries such as oil refinery operators.

#### 12.3.2.1.3 Generators

A generator produces electric energy by utilizing mechanical rotational energy, for example from a gas turbine or a steam turbine. Air-cooled generators are commonly used for lower output ratings and water-cooled generators may be required for higher output demands.

With large generators for power generation, industrial generators and wind generators our Generation division offers a diverse portfolio of generators for a wide area of applications. For example, its generators are used on board of ships or oil platforms, in industrial plants, large gas or steam power plants or for power generation from renewables. Our Generation division continuously improves its generators and focuses on increased reliability, improved serviceability, high efficiency, and optimum plant integration. The Generation division supplies generators for large SCPPs or CCPPs, suitable for peak, intermediate or base load duty, as well as cogeneration applications. They include high- and low-voltage generators, diesel gensets (*i.e.*, sets of motors and generators), small hydro- and turbine-driven generators.

#### 12.3.2.1.4 Heat Transfer Technology Solutions

Our Generation division is one of the top three players in the field of heat recovery steam generators ("**HRSG**"), both in terms of capacity (in MWe) and in the number of ordered units (based on McCoy Power Reports, "Heat Recovery Steam Generators (HRSGs), 3M'20 Report", which considers data for the first three months of 2020), with more than 90 years of experience and approximately 1,000 units installed worldwide. Our Generation division provides heat recovery solutions for example to traditional CCPPs or the oil and gas industry, but also for district heating facilities and other applications where heat transfer is required, onshore as well as offshore. We support the energy transition with new products in the field of energy storage as well as the electrification of the offshore oil and gas industry. Our products can be offered as part of the solutions described below as well as on a standalone basis or in combination with, *e.g.*, a gas turbine train.

The heat transfer technology business is organized around four product lines:

- *HRSG* – HRSGs recover energy from the exhaust gas of gas turbines to generate steam. Without an HRSG the energy in the exhaust gas would be lost. Recovering the energy from the exhaust gas increases fuel efficiency by about 40% to 50% thereby lowering emissions as well as fuel costs per produced KWh.
- *Waste Heat Recovery Units* – Waste Heat Recovery Units (WHRU) significantly increase overall plant efficiency by lowering both fuel demand and emissions. WHRU can also be used to recover the energy from other heat sources such as thermal energy storage systems. In addition, advanced power plant cycles such as a supercritical CO<sub>2</sub> cycle or an organic rankine cycle require WHRUs, making it a relevant product in the energy transition.

- *Exhaust and Diverter Systems* – Exhaust and Diverter Systems offer five main products that focus on increasing plant flexibility and maintainability.
- *Service and Warranty* – Our Generation division is an OEM with the reputation for solving steam generator challenges, whether on its own or others' installed base.

#### 12.3.2.1.5 Gas Engines

Our Generation division also offers reciprocating gas engines in the range from 190 kW to approximately 2065 kW. The areas of application of its gas engines are manifold and include power generation in the industry and utility sector. The offering includes complete gas engine power plant solutions. In addition, the Generation division's reciprocating gas engines are used at farms or biomass power plants for the efficient use of waste to power generation. Power generation using landfill gases from garbage dumps are another area application for our robust, reliable, fuel flexible engines, which can be operated using synthetic gasses. For the marine industry our Generation division offers diesel engines products and gearboxes.

#### 12.3.2.2 Solutions Business

Our Generation division's solutions business is addressing customers and applications beyond pure product scope. This includes different scopes of supply and capabilities for power plant solutions with a focus on large and industrial gas solutions using our broad product generation equipment portfolio. Besides that, there are specific systems and technology solutions required for power plant solutions (e.g., HRSG, I&C and electrical) which in part also address new business fields (e.g., high temperature electrical heat pumps for district heating and industrial applications requiring heat, energy storage solutions to complement renewables), which are key for future decarbonization of energy systems. In addition to the large and industrial gas turbine solutions business, we also provide solutions which address new challenges in the markets and support our customers in the energy transition based on, e.g., high temperature heat pumps, distributed, hybrid and storage.

##### 12.3.2.2.1 Modular Offering

Our Generation division's solutions range from individual components over power trains, power islands and power cores to turnkey power plants. The process of handling a turnkey project starts with preparation of a quotation and proceeds through clarification of the order, engineering design, manufacture, supply, transportation, erection and commissioning until the project is finally transferred to the customer. A network of business hubs located in different regions and specialist departments support and advise in order to deliver customized solutions addressing customer needs. Our Generation division's sophisticated engineering tools, extensive project management experience and global engineering network, ensure efficient management of customer projects.

The scope of solutions offered by our Generation division is based on its product portfolio. It offers modular power plant solutions with varying levels of complexity and integration of components suited for its customers' specific needs.

##### 12.3.2.2.2 Power Plant Solutions

As energy consumption will continue to increase in the years to come, efficient power generation will be a vital component to reliable, eco-friendly energy systems. To this end, our Generation division offers a variety of power plant solutions which address its customers' needs.

- *Large Gas Power Plant Solutions* – Highly efficient and flexible gas power plants are required for reliable, affordable, dispatchable and sustainable energy systems. Our Generation division offers both SCPPs and CCPPs using the key equipment as well as I&C and electrical from a single source and in different scopes. SCPPs typically offer a more robust solution covering peak loads under challenging conditions. In CCPPs, a HRSG transforms thermal energy of the gas turbine exhaust gases to a water/steam cycle to produce additional electricity in a steam turbine

generator. CCPPs recover waste heat from the electricity-generating gas turbine generator train through a HRSG to drive a steam turbine for generation of additional electricity. CCPPs reach higher efficiencies and cover base and part loads at optimized costs. To optimize, among other features, flexibility and efficiency of our large gas power plant solutions and thereby improve their ability to adapt to changing market conditions, our Generation division offers customized solutions. To this end it has developed a wide range of specific plant technologies addressing the major challenges that the energy market transformation is increasingly posing on customers and plant operators (e.g., plant flexibility features, high efficiency plant features, emissions control). In addition, our Generation division's modular solutions concept also allows us to reduce construction time and costs, increase project planning security and ensure best in class EHS performance.

- *Industrial Gas Power Plant Solutions* – For many of our Generation division's industrial customers, electricity and heating are a major cost factor for the operation of their industrial plants. Exhaust, process, heating or waste steam as byproducts of industrial plant operations can be used for producing electricity independently. Our Generation division's customers can realize long-term cost benefits and a reliable energy supply with its industrial gas power plant solutions. As in the case of large gas power plant solutions, its offering ranges from power trains over power islands to turnkey power plants and are available as SCPPs and CCPPs. Industrial gas power plant solutions are tailor-made to fit our customers' needs in different industries such as steel and cement production, pulp and paper (fiber industry), mining, chemical industry and utilities (as flexible back-up for renewables). A recent highlight is the Industrial power plant at Marl Chemical Park, Germany where we deliver two 90 MW power plant units in turnkey scope leading to up to 1 million tons in annual CO<sub>2</sub> savings compared to the so far installed coal-based facility.
- *CHP Plant Solutions* – Using waste heat generated in the energy conversion process in a power plant or industrial process can significantly increase energy efficiency and reduce overall product cost of the energy conversion system. In CHP plants, waste heat is utilized for other industrial processes, extracted to cover the heat demand of individual buildings, or exported to a district heating system. While only 30% to over 63% of the fuel used in conventional power plants is converted to electricity, fuel efficiency levels of over 90% can be achieved in CHP plants because of heat utilization. CHP plants not only offer energy cost savings but also high security of supply and help our customers in achieving their environmental goals by significantly reducing their carbon footprint.
- *SeaFloat Power Plant Solutions* – Our Generation division's SeaFloat power plant solutions offer different sizes of floating SCPP and CCPP solutions based on our gas turbine portfolio. Optimized to the project-specific requirements in power output, efficiency and load regime, they can be installed on different types of floating devices such as a simple barge.
- *Re-Powering Solutions* – Our Generation division also offers to convert (i.e., re-power) its customers' existing fossil power plants into low-carbon or carbon-free energy systems (e.g., by shifting from coal to gas, from gas to hydrogen, installation of storage technologies, etc.), thereby avoiding stranded assets and supporting the achievement of decarbonization goals.

#### 12.3.2.2.3 I&C

Our Generation division's I&C portfolio addresses key customer requirements such as improving operator effectiveness and efficiency through our solutions for turbine / power plants controls, in particular, tailored solutions based on our SPPA-T3000 system which enables the integration of thousands of sensors and measurements, motors and pumps, drives and fans into one distributed control systems ("DCS").

These needs are comprehensively addressed by our technological portfolio composed of our core solutions for turbine/power-plants controls which is enhanced by our broad range of digital offerings (see "12.3.2.3.3 Digital Services for Energy").

For the operation of renewable and fossil power plants, SPPA-T3000 is our Generation division's most advanced, hardware and software solution using specific control algorithms controlling and

steering all plant operation tasks through the entire life cycle of a power plant. It is a scalable solution which can be used in all types and different sizes of central or distributed power generation units. Its operator centric design integrates operation controls with real-time monitoring of critical key performance indicators. SPPA-T3000 provides the capability to generate a digital twin during the real plant design with a minimum additional effort allowing us to simulate and optimize the plant design as well to shorten the plant commissioning phase to a minimum.

In addition, SPPA-T3000 is equipped with comprehensive cybersecurity solutions, which our Generation division continuously develops further. Our Generation division also offers long-term support to its customers ensuring the constant fully effective availability of our cybersecurity solutions.

As of September 30, 2019, more than 2,500 SPPA-T3000 control systems were installed.

For the operation of the non-safety part of nuclear power plants, our Generation division offers the SPPA-T2000 and the SPPA-T3000 which are versatile engineering systems fully certified for I&C in power plants. To fulfil the requirements in nuclear plants, these are combined with the operation and monitoring system OM690. This fulfillment is a key success factor and high market-entry-barrier. Compared to “pure play” automation competitors, Siemens Energy contributes with its broad domain know how and experience to the success of nuclear power projects.

#### 12.3.2.2.4 Decarbonized Solutions

Decarbonized Solutions support our customers in the energy transformation towards more sustainable, yet affordable and reliable solutions. Our decarbonization support addresses both individual projects and global fleet transformation over time. We see ourselves as the decarbonization and efficiency leader in fossil fuels, which we underlined with our latest project wins such as the Santo Domingo floating power plant, which is a hybrid power plant solution with integrated battery energy storage providing 145 MW of flexible power generation or the hybridization project with a German IPP combining battery storage systems and industrial gas turbines with the capability to switch from gas to hydrogen and show readiness for transformation to 100% hydrogen firing.

In combining all decarbonization levers – efficiency increase, hybridization and deep decarbonization – we develop future proof energy systems via co-creation, resulting in an individualized decarbonization roadmap based on the customer’s current fleet and decarbonization targets. The implementation steps of such roadmaps are a combination of available technologies, like heat pumps or hydrogen-ready gas turbines, as well as technologies in development. A special focus is on the integration of renewables, hybridization, and energy storage combined in customer specific optimal system designs for power generation producers and energy intensive industrial verticals. Nevertheless for the transition phase also a coal to gas shift can increase the efficiency up to 25 percentage points (source: Storm, 2017) and reduce CO<sub>2</sub> emissions and therefore support the customers decarbonization targets.

In our view, we have a unique position to design and implement decarbonized energy systems. With our domain know-how from years of building and servicing our customers’ assets we deeply understand the challenges of our customers. Due to our global presence we know how to adapt to regional developments, especially regulatory requirements. Our broad technological and construction experience secures high-end and implementable technical solutions, including integration and management of external technology partners.

Key elements in our decarbonized solutions are decentral hybrid power plant solutions, industrial heat pumps and storage systems such as SIESTART and heat recycle solutions. Hybrid solutions combine storage technologies (batteries, thermal or mechanical storage, hydrogen) with different sources of renewable energy and complementing this integration with conventional technologies such gas engines and gas turbines in both simple or combine-cycle configurations. Based on customer specific challenges within the industry or power sector, Siemens Energy provides optimized low-carbon or carbon-free hybrid solutions. In doing so, we are supporting our customers and partners to achieve their long term decarbonization goals.



### 12.3.2.3 Services

Our Generation division's service business typically relates to critical infrastructure, which needs to be maintained in order to provide electricity. Our broad base of more than 11,000 service-relevant gas and steam turbines, generators and engines form the basis of the service business, while our Generation division also services and upgrades third-party equipment. Out of our broad installed product base approximately 3,500 units (as of June 30, 2020) are large gas and steam turbines including our licensed fleet. With 31% in the Americas, 15% in Europe, 20% in Middle East & Africa, 19% in Asia Pacific (excl. China) and 15% in China we believe to have a globally balanced footprint. The high level of technical sophistication of our products and the quality of our service offering leads to a high conversion rate between new installations and service contracts, which is also reflected in the number of LTPs and O&M contracts (see below). The service business is further enabled by our global footprint and deep industry know-how resulting in long-lasting service relationships for O&M and LTPs of overall approximately 16 and 18 years as of June 30, 2020, respectively.

Our product portfolio not only helps us to grow the installed base, but also supports our modernization and upgrade activities, where we can often achieve significant efficiency improvements (*i.e.*, cost reductions) for the customer. Digital services allow for an optimization of our customers' fleets, remote monitoring and predictive maintenance often enhancing availability and capacity of our customers' installations.

Due to a high share of service revenue from the long life-time of our products and the high wear and tear during operations, we expect our service business to be resistant to a coal to gas shift as the majority of today's revenue are already realized through gas.

The comprehensive services range from transactional and contractual business models for service of gas turbines, steam turbines, generators, controls, electrical auxiliaries, and all associated equipment throughout power plants. This includes parts supply, field service and repair operations, modernizations and upgrades, monitoring and diagnostics, life-time extension and digital services, general maintenance including operations of entire plants, and asset management. Under contractual business models our Generation division offers its customers extensive services aimed at enabling customers to smoothly and efficiently operate their power plants. Finally, we have the technical and commercial capabilities supported by global references to operate our customers' power plants.

Our Generation division also consults and supports its customers to maximize their profitability, manage their transformation into a low carbon future and avoid stranded assets. It does this based on a deep understanding of its customers' business model by performance optimization, introducing innovative products and advanced business models.

#### 12.3.2.3.1 Performance Enhancement Solutions

Our Generation division's performance enhancement solutions aim to improve efficiency and flexibility, optimize capacity, reduce major maintenance and downtime, minimize customer operating costs and maintain high reliability of the products we offer. Our Generation division improves the competitiveness of its customers, specific to their markets, by offering state of the art solutions. It offers modernizations and upgrades of gas and steam turbines, generators, condensers, I&C, flex-power services (covering fossil power plants), and related auxiliary equipment. Our Generation division offers solutions above the necessary standard maintenance with periodically assessment of component conditions to extend their operating life either by modernization of these components with various service pack upgrades or another alternative to exchange the aging equipment with completely new unit equipment that includes the very latest production technology.

BEX is the replacement of power plant equipment or an entire engine (*i.e.*, gas turbine and its related auxiliary systems) with an advanced new production unit respecting a thermodynamic and structural fit within the existing power plant, which reduces GHG-emissions. Whether a service pack upgrade or a BEX Upgrade is the most effective solution will depend on many

specific parameters of the power plant and it is also possible to exchange equipment made by a different OEM. Siemens Energy also offers repowering by adding or replacing gas turbines core engine and components to increase efficiency and unit capacity, provide additional operating capabilities, and convert to alternative and renewable fuels, while reducing emissions. Our performance enhancement programs also apply for control systems modernizations and upgrades.

#### 12.3.2.3.2 Operation, Maintenance, Repair and Parts Solutions

Our Generation division's service programs support customers to achieve long-term goals and proactively improve plant performance through various service options. This includes framework contracts to full-scope O&M programs, LTPs as well as remote monitoring. Our Generation division's service solutions can be flexibly adapted to different needs ranging from scheduled inspections, preventive maintenance, remote monitoring to replacement parts programs and incentives. The benefits of such solutions include an optimized return on investment, increased performance, optimized strategic planning for operating assets or reduced maintenance costs. Service options consist of field service, factory repairs, spare parts, diagnostic services, flexible outage planning, O&M, overhaul services, refurbishment or I&C maintenance solutions. Full O&M and asset management are available for value-driven customers including IPPs, public utility, municipalities and energy equity investors. With experienced and highly qualified personnel, Siemens Energy can provide a variety of services such as remote operation, plant value enhancement, digital solution and O&M assessment.

Currently, 38 plants totaling approximately 38 GW are covered by O&M programs, whereby in most cases these include LTP scope. Our LTPs provide strong support for our customer's rotating equipment. By utilizing our OEM fleet knowledge and experience and combining it with big data analytics, tailored maintenance solutions based on our customers' individual needs are provided. Our customers benefit from extended warranties, performance guarantees, new technology integration and shared operating risk. High predictability for both, customers and ourselves allow for resource optimization. The focus lies on increased availability and reliability, cost reduction or timing of maintenance. Today, we have LTP contracts in place for more than 650 large gas turbine units covering more than 150 GW across all regions, with long-term service agreements contributing 93.2% based on Service Order Backlog as of September 30, 2019. We are optimizing LTP competitiveness through focusing on technology upgrades for cost-out, increased utilization and displacement of older frames. As per fiscal year 2020 data, the average term of a LTP contract is overall approximately 18 years depending on the operating regime. As a weighted average 66% of our new unit projects include a LTP or O&M contract with an initial term of 12 years. In fact, the more advanced the gas turbine is, the more likely customers purchase an LTP or O&M contract. Accordingly, 100% of HL-class, approximately 95% of H-class, approximately 75% of F-class and approximately 40% of E-class customers entered into a LTP or O&M contract.

#### 12.3.2.3.3 Digital Services for Energy

With our Omnivise digital services portfolio we offer our customers a data-supported, collaborative approach to optimize power plant operations and maintenance with customized solutions. Together with our customers, we analyze the data, provide advice on making smarter decisions, and implement improvements of asset, unit and fleet operations. The energy assets performance can be managed with real time data analysis, lower operational and maintenance costs, risks can be mitigated and higher return on investment achieved. Offerings include solutions and classical services where software is embedded as well as a software-as-a-service model. We are building on an established portfolio to address key customer needs and to combine digital technologies with our strengths in domain expertise and delivery:

- **Availability** – offerings to manage and optimize inspections, periodic maintenance activities and condition-based maintenance, as well as balancing operation and maintenance efforts with reliability and inventories of spares and consumables.

- *Performance* – offerings to improve plant operational flexibility and performance thus increasing profitability under frequently changing market demands, i.e., plant startup optimization, decrease part load limits or increase of power, efficiency and reserve capability.

An example is the first commercially deployed gas turbine controller that uses artificial intelligence to boost efficiency and cut down emissions: Co-developed with one of our customers, an increase of operation efficiency and power output by approximately up to 1 percentage point could be achieved on each gas turbine installed. In addition, the operations emit 10% less Nitrogen Oxides per annum.

- *Fleet Management* – central monitoring, diagnosis and management of entire generation fleets (i.e., combination of fossil and renewable sources) to move from standalone assets to integrated fleet management.

Customers with our Fleet Management Suite are able to achieve an up to 4% higher fleet efficiency according to our own assessment through improved monitoring and diagnostics of assets and optimized dispatch in reaction to changing market & environmental conditions. Through this, Siemens Energy tackles the growing market demand for distributed, decentral and hybrid generation (so-called 'Virtual Power Plants') – a market which market experts estimate amounted to approximately USD 1.3 billion in the calendar year 2019 and for which they see a strong growth potential, with a CAGR of 21.3% for 2020-2027 (source: Allied Market Research, overview of the "Virtual Power Plant Market Report", May 2020, available on the Allied Market Research website).

- *Remote Services* – offerings ranging from early detection of anomalies to the operation and service of assets, plants and fleets anytime and anywhere with less or no personnel on-site.

Besides providing our service portfolio remotely we are supporting our customers to transition from remote to autonomous operations to unman sites and unlock greater cost savings. As part of the transition journey, we offer solutions to operate power plants with less or no people on-site, e.g., from a central control room in another plant. For the customer, Siemens Energy offers to build up the remote to autonomous capabilities or contract our digital support and/or operations as a service operated by Siemens Energy.

- *Risk & Compliance* – protection, detection, and monitoring solutions against cyber threats.

Digital technologies and connectivity of our assets enables Siemens Energy to enhance value beyond selling digital solutions and services. For example, the more than 2 TB (and growing) of operational data generated each month by monitoring our turbines allow us to generate insights to improve turbine design, project planning and business processes, e.g., through a digital turbine twin or live virtual reality applications.

#### 12.3.2.3.4 Training Programs

Our Power Academy offers courses related to practice for the entire Siemens Energy's product and service portfolio which can be customized. Our training programs cover all areas of central and distributed energy conversion (power generation, fossil and renewable sources, power transmission and distribution, grid connections). Our Generation division offers training programs for automation and I&C systems in power generation as well as for O&M. The training aims at providing the division's customers with the knowledge to optimally use their products.

### 12.3.3 Industrial Applications Division

We believe our broad portfolio of rotating equipment (mainly turbo compressors, reciprocating compressors and certain gas turbines), integrated drive-train systems, electrification automation and digital-, marine-, fiber- and water treatment solutions as well as our resilient service business and top-tier market position place us well to thrive in our growing market environment.

We expect to benefit from the trends of increasing demand for carbon-optimized energy technologies, the shift towards a hydrogen-enabled economy (sector coupling) and the electrification, automation and digitalization of industry by our large portfolio of sophisticated products and solutions such as BlueVault, Topsides 4.0 and Pipelines 4.0.

We aim to capitalize on our key strengths:

- leading market positions with diversified customer base across industries and regions;
- highly resilient and growing service business reinforced by strong partnerships with customers;
- leading-edge innovations in decarbonization, digitalization and additive manufacturing; and
- value generation by ambitious cost out programs, footprint consolidation, portfolio streamlining and service-led growth.

Our Industrial Applications division has set clear priority areas to achieve these objectives:

- *Growth* – In the fiscal year 2019, approximately 60% of the division's total new unit and service revenue was attributable to service (including intercompany service business) and was driven by its installed base of more than 79,000 units, which we plan to further leverage to grow our business. The service business forms the Industrial Application division's financial backbone and contributed 70% to its Order Backlog of € 10 billion as of June 30, 2020. This is the result of long-lasting customer partnerships with oil & gas operators, such as international, national and independent oil companies, and customers within industries such as marine, chemical, fiber, metallurgy, and air separation. We also provide services for oil & gas and distributed generation customers, including other industries such as food and beverages, minerals and metals, industrial parks and municipalities, among others.

Our Orders in the fiscal year 2019 can be grouped in Orders from our upstream (approximately 30%), midstream (approximately 20%) and process industries business (includes downstream business (approximately 15%) as well as Orders from industrial customers (approximately 35%)), addressing both the new units business and our service relevant rotating equipment installed base of approximately 7,000 units in the upstream as well as midstream business, approximately 25,000 in the downstream business and approximately 40,000 in the industries business. Based on our average Orders over the fiscal years 2017 to 2019, we received Orders from more than 5,000 customers and thereof more than 20% from fifteen customers. The orders in the fiscal year 2019 were geographically well balanced and recorded in the regions of Europe and Africa (36.4%), Middle East (9.7%), Asia, Australia (16.6%) and the Americas (37.3%).

Major installations of often mission-critical equipment are with our customers from the oil and gas industry, such as Shell (approximately 2,300), BP (approximately 1,000 units), Total (approximately 910 units) or petrochemical and chemical companies, e.g., Dow (approximately 530 units), BASF (approximately 280 units), Braskem (approximately 210 units) or Ineos (approximately 320 units) based on our aero-derivative and industrial gas turbines, generators, compressors & industrial steam turbines portfolio.

Moreover, we will drive our growth based on the growing share of industries, cross selling and synergies across fully-integrated businesses with our joint regional structure and common strategy and our shared technology. We will leverage our R&D investments, which accounted for 3.6% of overall revenue in the fiscal year 2019, to monetize our innovation and help our customers to decarbonize and digitalize their portfolio.

- *Profitability and Cash* – We believe we can untap our profitability and cash potential by streamlining our portfolio, such as by selective phase-outs or consolidating compressor platforms, increased standardization and digitalization, eliminating overcapacities and by reducing complexity. For example, in the third quarter of the fiscal year 2020, we re-assessed our portfolio of aero-derivative gas turbines and made a strategic portfolio decision to streamline our offering with a view to increase profitability. Furthermore, since the Rolls-Royce Energy and Dresser-Rand acquisition we have been consolidating our footprint to reduce overcapacity and complexity and have closed more than 20 sites since then. We expect to drive cost optimization especially targeting R&D effectiveness and SG&A efficiencies, which is supported by a growing, service-led top-line. Moreover, reduced non-conformance costs through project management excellence as well as our world class service and supply chain excellence are expected to benefit our profitability.

### 12.3.3.1 Products

The product portfolio of the Industrial Applications division mainly comprises compressors covering an extensive range of industrial processes and aero-derivative and industrial gas turbines as well as subsea products. The product portfolio also serves as the basis for our integrated systems and solution offerings.

#### 12.3.3.1.1 Compressors

Our Industrial Applications division offers an extensive portfolio of compressors with different technical designs suited for a wide range of applications for many different process industries, including the oil & gas industry. Such applications comprise, among others:

- *Upstream production* – Our Industrial Applications division's compressors are used for gas lift (i.e., lifting of fluids by introducing high-pressure gas), boil-off / residue gas, export, natural gas gathering, natural gas liquids, shale, coal bed methane and enhanced oil recovery by injection of natural gas into an oil field to increase pressure, floating production storage and offloading units (FPSO) and floating liquefied gas ("FLNG") operations.
- *Midstream segment of the oil & gas industry* – Our Industrial Applications division's compressors are used for applications such as gas transportation and storage, on- and offshore LNG and fuel gas and natural gas processing.
- *Downstream processing, process and other industries* – Our Industrial Applications division's compressors are used for gas-to-liquids processes in petrochemical plants, hydrogen production, various other refining applications, methanol and ethylene, ammonia, nitric acid, and urea, as well as for, e.g., air separation, fertilizers, metallurgy, carbon-capture and storage, compressed air energy storage and power generation applications (such as fuel gas).

Our Industrial Applications division's compressors are engineered-to-order or configured-to-order according to customer needs, in particular due to the specific requirements for different gas compositions.

Turbo compressors come in different technical designs based on gas composition, flow rate, inlet and outlet pressure requirements. Technical designs of turbo compressors range from single-shaft centrifugal compressors, over pipeline centrifugal compressors, axial compressors, integrally geared centrifugal compressors to single-stage compressors and gas expander. Our Industrial Applications division's turbo compressors are generally sold as an integrated system together with a driver turbine or motor serving as a train, including auxiliary systems such as oil and control systems on a joint or individual base frame.

The technical design of reciprocating compressors is based on positive displacement of gas through pistons. Our Industrial Applications division's reciprocating compressors are often individually supplied to tier-one suppliers combining these into the overall train system.

#### 12.3.3.1.2 Gas Turbines

With its industrial and aero-derivative gas turbines, Industrial Applications addresses a wide variety of market segments along almost the entire value chain of the oil & gas industry and process industries. Based on robust and flexible design, they are applied as mechanical drive for compressors and pumps or for power generation and co-generation applications. Turbines are a type of internal combustion engine in which the burning of a fuel or air-fuel mixture produces hot gases that spin a turbine to produce power or compressors and pumps to move hydrocarbon gases and fluids. Our turbine portfolio covers industrial gas turbines and aero-derivative gas turbines.

##### (1) Industrial Gas Turbines

Our industrial gas turbines are characterized by their compact and rugged design for process industries such as the oil & gas, petrochemical, chemical, cement, metals and mining, fiber (pulp and paper), construction and infrastructure as well as other manufacturing industries. Industrial



gas turbines are commonly used for mechanical drive applications such as driving compressors or pumps. Therefore, in many cases industrial gas turbines are sold as a train package together with a compressor or a pump. In addition, industrial gas turbines are used for on-site captive power and co-generation. They deliver power outputs ranging from 5 MW to 62.5 MW. The hydrogen co-firing capabilities of our smaller sized industrial gas turbines delivering power outputs from 5 MW to 15 MW range from 10% to 30%. For more details regarding industrial gas turbines delivering power outputs from 24.5 MW to 62.5 MW, see "*12.3.2.1.1(2) Industrial Gas Turbines*".

#### (2) *Aero-Derivative Gas Turbines*

The technical design of aero-derivative gas turbines is based on turbine designs used in aviation. Due to this technical background, aero-derivative turbines are used for applications that require flexible, compact and lightweight equipment, such as applications in the onshore and offshore oil & gas industry (e.g., LNG, onshore and offshore production and pipelines). When compared with industrial gas turbines, aero-derivative gas turbines also have significantly faster start-up times. Presently, we offer aero-derivative gas turbines that deliver power outputs from 4 MW to 71 MW. However, in the pursuit of higher profitability, we re-assessed our portfolio of aero-derivative gas turbines and made a strategic portfolio decision to streamline our offering. While we will continue to service all types of our aero-derivative gas turbines and still deliver all aero-derivative gas turbines that have already been ordered, we will over time no longer actively market our larger sized aero-derivative gas turbines (see also "*9.4.10.3 Special Items*" and also "*9.7.2.13 Adjusted EBITA and Adjusted EBITA before Special Items*").

#### 12.3.3.1.3 Subsea Products

For subsea applications, our product portfolio includes wet mate connectors and sensors (for our subsea solutions, see "*12.3.3.3.9 Subsea Power Grid Solutions*" below).

Wet mate connectors are used to distribute power and communication signals from the main umbilical or power cable to diverse equipment such as the so-called "Christmas trees" (which are assemblies of valves and other components used to control the flow of an oil or gas well), manifolds (which are a type of flow routers) control modules or subsea processing equipment like pumps or compressors on the seabed. Our product range of wet mate connectors includes low-voltage ("**LV**"), ethernet, optical/fiber and medium-voltage ("**MV**") connectors up to 45 kV.

Sensors are used on subsea structures, such as so-called "Christmas trees" and manifolds, to measure pressure and temperature in the fluid flow from a production well, or are used in single phase or multiphase flowmeters to measure the differential pressure in the fluid flow.

#### 12.3.3.2 Integrated Systems

Our Industrial Applications division's portfolio includes integrated systems for unconventional production, energy storage, energy generation and heat-to-power systems that extend our product offerings. Where other products and services are required for its integrated systems offerings, these are sourced either from other divisions of Siemens Energy (e.g., medium industrial gas turbines and steam turbines are sourced from our Generation division), from Siemens, or from other third-party providers.

##### 12.3.3.2.1 Siemens Electrical and Mechanical (SEAM)

With our Siemens Electrical and Mechanical ("**SEAM**") portfolio, our Industrial Applications division provides electric and mechanical solutions for in-field unconventional oil & gas activities, including drilling, exploration of shale gas and enhanced oil recovery. These solutions allow its customers to replace diesel or dual-fuel reciprocating engines with electric motors and variable-speed drives that are powered by gas turbines, which may run on compressed natural gas (CNG) or wellhead gas. SEAM products and systems enable our customers to reduce operating expenses (due to lower fuel and maintenance costs), improve safety, lower emissions (when compared with the use of diesel engines) and ultimately increase profitability.

The SEAM portfolio ranges from individual products to mobile units and integrated power generation, distribution and pump trains. Moreover, it offers integrated micro-grid solutions, which combine multiple turbines of the same or varying sizes that are linked together. Such micro-grids have built-in redundancy and allow for faster rig-up times and safe operations, ultimately increasing efficiency and exploration performance for our customers.

Our Industrial Applications division's electric solutions allow us to build in digital controls and analytics. These solutions reduce non-productive downtime, increase visibility and control, and allow for real-time data analytics and remote diagnostics as well as predictive maintenance.

#### 12.3.3.2.2 E-Houses & Modules

Our Industrial Applications division offers pre-fabricated and pre-tested fully-integrated electrical houses (e-houses) as well as power generation and compression modules.

E-houses are customized, pre-assembled and pre-tested modular power substations. They are ideally suited for use in situations where interim solutions are needed or in locations that are difficult to access. Our Industrial Applications division offers a full range of solutions that link power generation to consumer terminals and sockets.

Power generation modules are self-contained, plug-and-play sources that generate electrical power and in which all necessary components are already assembled and fully tested. Our Industrial Applications division also offers compression modules, which are fully-featured, assembled and tested units with compressors and drivers for process gas, gas injection, liquefaction, boil-off gas and regasification applications. Its portfolio also includes fully-assembled, turnkey compression stations for both offshore and onshore requirements of the oil & gas industry.

#### 12.3.3.2.3 Siemens sCO<sub>2</sub> Waste Heat to Power System

Siemens supercritical CO<sub>2</sub> ("sCO<sub>2</sub>") Waste Heat to Power System is our waste heat recovery system using sCO<sub>2</sub> as the working fluid to convert waste heat into power eliminating the need for a secondary thermal loop, and further reducing the total installed cost of the system.

The Siemens sCO<sub>2</sub> Waste Heat to Power System consists of a power skid, which converts high-energy sCO<sub>2</sub> to electrical power, and a process skid, which manages operating pressure and heat utilization to assure optimum operations. The power skid is composed of a turbine, a gearbox, a generator and other auxiliary equipment while the process skid is composed of a compression unit, a recuperator used to recover waste heat, valves and other auxiliary equipment.

#### 12.3.3.3 Solutions

Our Industrial Applications division provides oil & gas solutions, including LNG solutions, power generation solutions, flare gas solutions, sustainable energy solutions, electrification, automation and digitalization ("EAD") process solutions as well as rotating equipment, electrification, automation and digitalization process solutions ("R-EAD"), process safety solutions and consulting, subsea solutions, industrial security services and water treatment solutions.

Our Industrial Applications division drives the digital transformation of the process industry including oil & gas customers over the entire life cycle and supports its customers' digital journey towards autonomous operations. This supports its mission to provide lifetime value with its division-specific know-how, integrated EAD solutions and services transforming the process and energy industry towards a sustainable and zero emission society.

In the oil & gas industry (including on- and offshore applications and water treatment applications), the subsea, marine and fiber industry, our Industrial Applications division also acts as a system integrator.

Our Industrial Applications division's offering ranges from products over systems to entire assets and across plants.

#### 12.3.3.3.1 Liquefied Natural Gas (LNG) Solutions

Our Industrial Applications division offers comprehensive LNG solutions throughout the LNG value chain. Our solutions offering is suited for on- or off-shore, mid-scale and large-scale LNG operations and comprises pre-front end engineering design services ("**pre-FEED**"), front end engineering and design services, traditional equipment supply, and trusted partnerships through EPC joint ventures to long-term services centered on the equipment. In the pre-FEED phase of an LNG project, our Industrial Applications division delivers concept studies encompassing liquefaction technology selection, layout, modularization, process design, gas pre-treatment design and constructability. Its LNG solutions are enabled by its broad range of products, including gas turbines and electric drives, compressors, e-houses and modules, and solutions for power generation, electrification, compression and process automation.

#### 12.3.3.3.2 Power Generation Solutions

Primarily focused on the oil & gas industry as well as process industries, our Industrial Applications division also offers solutions for distributed power generation drawing on our industrial gas turbine portfolio with outputs below 100 MW for simple-cycle or combined-cycle power generation in on- and offshore applications (for our Industrial Applications division's gas turbine portfolio, see "*12.3.3.1.2 Gas Turbines*", for the medium-sized gas turbine portfolio of our Generation division see "*12.3.2.1.1 Gas Turbines*"). Its power generation solutions' can also be offered through business models aimed at constructing, owning and operating and then transferring a power generation asset to the customer.

Applying Siemens Energy's industrial gas turbine for utilizing hydrogen in the fuel mix allows for up to 60% hydrogen combustion and supports reduction of the power plant and overall process plant carbon footprint. For example, in Braskem, Brazil, we supported our customer in achieving an overall CO<sub>2</sub>-reduction of 6% for a process plant.

#### 12.3.3.3.3 Flare Gas Solutions

For the use of flare gas, such as associated petroleum gas from an oil well that would otherwise be burned off, our Industrial Applications division offers solutions for gas gathering, gas compression, gas injection, power, storage and gas export. Utilization of treated flare gas or direct use in our Industrial Applications division's power generation solutions drives the reduction of emissions from the exploration and production of oil wells.

#### 12.3.3.3.4 Sustainable Energy Solutions

Sustainable energy solutions comprise decarbonization of petrochemical processes, production of emission free hydrogen applying advanced energy systems such as CHP including gas turbines and process electrification for improving energy efficiency. Using hydrogen in gas turbines and increasing its share in the fuel mix enables additional energy efficiency improvements and emission reductions. Furthermore, our Industrial Applications division provides solutions for compression and transportation of hydrogen in pipelines as well as rotating equipment (compressors and gas turbines), and EAD solutions for the production of synthetic fuel.

It addresses the market with concept development, front end engineering and design, consulting, project execution and its life cycle services.

#### 12.3.3.3.5 EAD Onshore Solutions for Oil & Gas

For onshore oil & gas applications, our Industrial Applications division offers EAD process solutions, acting as a system integrator. It offers tank farm management solutions, truck-, railcar- and ship loading stations, process modules and packages, wellhead production units, wellhead compression packages, containerized electrical pump stations at (e.g., pipelines and electrical drive solutions).

Process critical electrification solutions comprise the electrification of customers' onshore assets, including power management or power generation systems and electrical drive trains (also if containerized).

(1) *SIFIELD – EAD Solutions for Oil & Gas Fields*

Our Industrial Applications division's SIFIELD portfolio comprises systems and solutions for oil and gas fields from the wellhead to the separation and treatment, *i.e.*, for all stages of an onshore production process. Dedicated solutions are available for unconventional gas production and depleting fields, where factory-built, modular units are required. Integrated facility automation and control systems provide for consistent operations management from the local control room to the dispatching center. Upstream EAD process solutions are adding value using integrated control and safety systems ("**ICSS**"), supervisory control and data acquisition ("**SCADA**") systems, remote terminal units, instrumentation and analytics, motors and drives systems, electrical equipment, electrical distribution management systems, telecommunication, edge- and cloud-computing, and advanced analytics.

In addition, our Industrial Applications division provides standardized, pre-engineered skid-based solutions to reduce lead time and cost. The pre-assembled and tested solutions require short installation and commissioning time and are therefore for harsh environments. Modular concepts provide means for a significant reduction of capital expenditure and project management complexity.

(2) *SIPIPE – EAD Solutions for Pipelines*

For pipeline customers worldwide, our Industrial Applications division acts as solution and service provider for integrated systems and comprehensive solutions. With its SIIPE portfolio, it is able to offer its integrated systems and solutions as a main automation and electrical contractor providing technically proven, standardized solutions from a single source, which enables it to help its customers to reduce risk and increase reliability. SIIPE represents an integrated approach which includes front end engineering design (FEED) support, design, engineering, supply, testing, commissioning and life cycle optimization of pipeline assets, which are tailored to meet the needs of operators in the midstream segment of the oil & gas industry.

Our Industrial Applications division's portfolio further includes integrated solutions for SCADA, ICSS, fire & gas protection systems, instrumentation, electrical systems, energy management systems, pipeline management systems, integrated telecommunication systems, physical security systems, e-houses, electrical drive train systems, pumping module solutions, compression Revamp solutions and cybersecurity solutions. As pipelines are considered critical infrastructure, our cybersecurity solutions and services enable customers to protect their assets. For example, our Industrial Applications division's digital solutions for pipeline corridor inspection provide for third-party intrusion and leak detection. To fulfill environmental standards for CO<sub>2</sub>, NO<sub>x</sub> and noise emissions, our compressor revamp solution can replace mature gas turbines driving a compressor with electrical drives.

Furthermore, our Industrial Applications division provides related services (for our services portfolio, see "*12.3.3.4 Services*").

(3) *SITERMINAL – EAD Solutions for Tank Farms, Storages, LNG & Refineries*

With its SITERMINAL portfolio, our Industrial Applications division provides tailor-made EAD process solutions for petroleum tank terminals, underground gas storages, refineries and LNG facilities. Its offering includes process modules, MV and LV electrical systems, automation process control systems and terminal management systems, complemented by life cycle services. The automation and control technology integrates all assets, ensuring high levels of availability and efficiency of the complete station, and features full remote-controlled operation with a goal to improve efficiency, simplify maintenance, increase availability and reliability, resulting in improved business continuity.

Our Industrial Applications division's terminal management system is a dedicated manufacturing execution system, which provides all functionality required for tank farm administration and management from inbound oil or gas transfer, to storage and outbound transfer. This technology enables cost-effective, flexible and open terminal management and monitoring. A digital twin provides customers with insights on the performance and efficiency of the processes.

(4) *Electrical Drive Solutions*

Our Industrial Applications division offers electrical drive solutions as well as revamp solutions to replace existing gas and steam turbine-driven rotating equipment such as pumps and compressors. With its seamless solution approach, it enables its customers to reduce their CO<sub>2</sub> and noise emissions by utilizing electricity from renewable sources. Additionally, our Industrial Applications division helps its customer to increase their plant profitability, operational flexibility and efficiency. It uses highly standardized products for drives, electrification, automation and digitalization and combine them to a holistic solution.

(5) *Energy Distribution Management and Power Management Systems*

For oil & gas facilities such as refineries, offshore platforms, compressor stations, LNG plants and well sites located in remote areas, power stability is essential for successful operation. System outages due to power failures or even minor disturbances in electricity supply can impact production, process equipment, and result in significant financial and safety losses. Energy Distribution Management, our onshore power management system, performs critical functions such as electrical energy switching and monitoring, generation management and load shedding. With overall system availability of 99.99%, the power management system ensures safe and reliable operation of mission-critical equipment and processes by preventing energy blackouts and plant shutdowns.

12.3.3.3.6 EAD Offshore Solutions for Oil & Gas (Drilling, Offshore Vessels and Offshore Production)

Our Industrial Applications division offers EAD process solutions for offshore oil & gas applications, where it acts as system integrator. The portfolio comprises propulsion trains, AC and DC power solutions (such as our DP3 closed ring and eSiLOOP solutions for dynamic positioning of vessels or our SISHIP BlueDrive solutions for diesel-electric propulsion systems) and marine certified energy storage solutions, drilling drives solutions, EAD process solutions for applications such as floating production, storage and offloading units, fixed production platforms, FLNG, LNG, onshore and offshore drilling and offshore vessels. With BlueVault, we offer an advanced lithium-ion battery based energy storage solution that is suited for both all-electric and hybrid energy-storage applications in the offshore oil & gas industry. The solution is designed to help ensure continuity of power and to minimize CO<sub>2</sub> emissions, with a goal of low-emissions platforms. Applying BlueVault and DC PowerGrid in one green-electricity powered leg of ColorLine's ferry trip leg to support all-electric operation, we have contributed to a reduction of diesel fuel by 20% (source: Louagie, Mike, "Color Hybrid, The World's Largest Plug-In Hybrid Ferry, built by Ulstein Verft") and therefore related CO<sub>2</sub> emissions by 20% to our own assessment.

12.3.3.3.7 R-EAD Solutions

The Industrial Applications division offers R-EAD solutions for focus market segments, such as Topsides 4.0 and Pipelines 4.0 to increase operational safety, e.g., remote monitoring and asset integrity services for key mission critical equipment, to shorten time to first oil and de-risking return of investments through efficient and integrated R-EAD project management and to improve uptime and reliability via integrated and digital operations and monitoring.

(1) *Topsides 4.0*

With Topsides 4.0, the Industrial Applications division offers an integrated digital solution for rotating equipment, electrical and automation systems, and secure communications throughout the whole life cycle of offshore oil & gas exploration and production, storage and transportation assets (e.g., oil rigs and FPSOs). It also covers the integration of subsea equipment when available. The 'digital twin', a virtual representation of a facility, is used for designing and configuring a facility as well as for its operation. It provides access to equipment, maintenance, and real-time operations data analytics for construction, commissioning, diagnostics and maintenance planning. By integrating equipment with the EAD process solution and with the help of the digital twin, Topsides 4.0 enables remote operations of offshore facilities from an



onshore control center, which enables low offshore manning strategies. In addition, Topsides 4.0 reduces our customers' capital expenditures and operating expenses, in particular by shortening project development cycles and minimizing risks during the whole value chain, e.g., interfaces risks for EPCs.

For critical equipment such as compressors and turbines, our Industrial Applications division supplements the monitoring capabilities of Topsides 4.0 with OEM-connected services for predictive diagnostics, spare parts management, and outage planning (for its service portfolio, see "12.3.3.4 Services" below). Based on our own assessment, we believe to be able to contribute significantly to the overall plant availability with an increase of up to 3%.

#### (2) *Pipelines 4.0*

Our Industrial Applications division's Pipelines 4.0 solution represents an integrated approach to the engineering, supply and life cycle optimization of pipeline assets, tailored to meet the needs of operators in the midstream segment of the oil & gas industry. The solution combines equipment and associated peripherals for pipeline pumping and compressor stations with data analytics, life cycle services and cybersecurity.

##### 12.3.3.3.8 Process Safety and Consulting Business

Our Industrial Applications division provides consulting, engineering services, and software technology solutions for customers in process industries to improve process-safe design, process safety management, risk visibility, and operational performance. The areas of focus include process safety management, relief and flare systems management, hazard and risk assessment, asset integrity management, management of change, and conceptual design of oil and gas developments. Its software solutions include Process Safety Pressure Protection Manager (PSPPM), Process Safety Asset Integrity Manager (PSAIM), UltraPIPE, Process Safety Change Manager (PSCM) and Oil & Gas Manager (OGM).

##### 12.3.3.3.9 Subsea Power Grid Solutions

Our Industrial Applications division offers comprehensive subsea power grid solutions. We believe that subsea power distribution can transform the way offshore oil and gas fields are developed, especially by connecting remote satellite fields to existing installations (so-called "long tiebacks"), and for marginal and dispersed fields, by extending tieback ranges and substantially reducing cabling costs. Our subsea power grid solution is a mega-volt power distribution solution suitable for water depths down to 3,000 meters (approximately 10,000 feet). The grid consists of a subsea transformer, subsea switchgear, a subsea variable speed drive ("VSD"), which is used to drive pumps, subsea wet mate connectors (see also "12.3.3.1.3 Subsea Products" above), and a remote control, monitoring and power management system that includes cloud-based user dashboards and data analytics. By moving heavy, space-consuming power equipment like VSDs and pumps and compressors to the seafloor, our subsea power grid solution allows operators and EPCs to implement more flexible designs. The subsea power grid also has environmental benefits as it improves the economics of tying into onshore power grids or using renewable energy from offshore wind power plants.

Other solutions include power solutions for subsea pipeline heating systems using our Direct Electrical Heating (DEH) or Electrical Trace Heating (ETH) technologies as a flow assurance measure to control or remove hydrate formation in subsea pipelines. Subsea DigiGRID is a modular and open architecture control and automation infrastructure that can be interlinked with Topsides 4.0 to create one seamless control infrastructure covering both subsea and topside assets.

##### 12.3.3.3.10 EAD Marine Solutions

Our Industrial Applications division's marine EAD portfolio consists of products, systems, solutions and services for the entire life cycle of a vessel, which our Industrial Applications division offers for international ship owners or operators as end customers to major or smaller regional

shipyards worldwide, governmental authorities, naval architects, certification bodies and scientific institutes. Naval customers are defense ministries, subcontracting to commercial markets and international shipyards, mostly acting as EPCs. Marine solutions are based on the same EAD capabilities as oil and gas and fiber solutions, utilizing our electrical and automation project expertise from different industries applying them to our addressed industries for customer-specific solutions.

As a system integrator for vessel automation, electrification, “bridge-to-grid” solutions (enabling the bridge to monitor a vessel’s power grid), related life cycle and cybersecurity digital solutions, our portfolio includes instrumentation, process control, safety systems and telecommunication, as well as marine certified AC and DC power systems. The portfolio also includes energy storage systems with related control systems and charging infrastructure on board or from shore. Our digitalization solutions include on-board ship optimization solutions, as well as fleet management solutions for shore based use, serving the needs for efficiency monitoring and optimization as well as predictive and preventive maintenance strategies, based on the individual customer needs. Our offering consists of consulting, planning, engineering, project management, installation, commissioning, modernization and extension of our solutions for all types of commercial vessels and cruise ships, special vessels, navy surface vessels and submarines. Furthermore, our Industrial Applications division provides related services (for its services portfolio, see “12.3.3.4 Services”). Through our digitally enabled integrated solutions we believe to significantly increase availability and efficiency of our customers’ operations.

For passenger vessels, including ferries and cruise liners, cargo vessels, container vessels, special vessels, e.g., windmill installation vessels and ice breakers, our Industrial Applications division is providing hybrid or all-electric propulsion solutions ranging from large podded propulsion solutions with up to 23 MW for cruise liners to small-size all-electric systems for ferries with less than 1 MW (direct current) propulsion power to enable our customers to comply with existing and future emission regulations. For podded propulsion systems, our solutions include design, development, engineering and manufacturing, including the whole supply chain such as sourcing, assembly and final testing, installation and commissioning. Our Industrial Applications division offers similar solutions for the integration of our hydrogen/oxygen-based polymer electrolyte membrane (PEM) fuel cell modules and other fuel cell systems for mobile applications and operation on all types of ships, floating devices, unmanned underwater vehicles (UUVs) and submarines.

#### 12.3.3.3.11 EAD Fiber Industry Solutions

Drawing on Siemens’ more than 100 years of expertise and experience in the pulp and paper industry, our Industrial Applications division accompanies the transition of this energy-intensive process industry to a bio-based sustainable fiber business, one that already is a circular economy and has great potential for a decarbonized future. Its fiber industry solutions are based on the same EAD capabilities as oil & gas and marine solutions, utilizing our electrical and automation project expertise from different industries applying them to its addressed industries for customer-specific solutions. Our Industrial Applications division offers integrated solutions and a comprehensive portfolio of products, systems and services for power generation and distribution, electrification and process automation for the entire life cycle of pulp mills, board mills, tissue and specialty paper machines as well as production sites for non-woven products, bio-chemicals, bio-fuels and other bio-based products. Ranging from full turnkey solutions to partial upgrade, modernization and relocation services, our Industrial Applications division is serving operators as well as consultants, OEMs, EPCs and system integrators who are active in this industry. Depending on market requirements, it also offers add-on solutions, digitalization solutions and services, for example for bio refineries and bio energy production. For its general services portfolio, see “12.3.3.4 Services”.

Our fiber industry solutions are based on our pre-engineered, industry-specific SIPAPER modules, which are built on Siemens’ automation platforms and comprehensive industrial products. It forms the basis for mill-wide automation in pulp and paper mills, covering all applications like energy control, drive systems, process automation and SCADA. For example, for one customer’s

operation, our pre-integrated digital solution is capable to increase production capacity while reducing energy consumption by up to 7% as per our own assessment.

#### 12.3.3.3.12 Industrial Security Services and Solutions

Our Industrial Applications division offers protection of automation systems against targeted (e.g., sabotage or espionage) and untargeted cyberattacks (e.g., ransomware) within the scope of its portfolio. Its offering consists of security assessments, standardized packages to increase security (e.g., firewalls, virus protection, hardening, whitelisting, security information and event management, industrial anomaly detection) and security management (e.g., vulnerability management, management of implemented protection measures on behalf of the customer, remote incident handling).

#### 12.3.3.3.13 Water Solutions

Our Industrial Applications division offers water treatment solutions and life cycle management services. The applications for its water treatment solutions range from offshore and onshore upstream exploration over transportation in the midstream segment of the oil & gas industry's value chain to the refinery and petrochemical industry in the downstream segment. Other applications are industrial effluent toxicity control (i.e., control of the toxicity of oil and gas outflows into natural waters) and municipal wastewater treatment, which allows the reuse of landfill leachate (i.e., liquid that passes through a landfill and contains dissolved and suspended material).

Water treatment solutions include biological and hydrothermal solutions as well as solutions for the separation of oil and water. Biological treatment solutions use bacteria and microorganisms to treat wastewater. Our PACT family of systems and solutions combines biological treatment with powdered activated carbon absorption technologies in a single treatment step thereby minimizing treatment footprint. Our PACT Membrane Bioreactor (MBR) systems combine biological, physio/chemical and ultrafiltration liquid-solids separation into a single treatment technology, which is specifically designed for the oil & gas industry. Our Zimpro family of hydrothermal treatment solutions for the treatment of spent caustic (i.e., corrosive industrial wastewater) includes wet air oxidation, electro-oxidation, catalytic gasification and wet air regeneration systems.

Our portfolio for oil/water separation includes products for primary and secondary separation as well as for tertiary treatment, describing sequential stages of processing.

#### 12.3.3.4 Services

Due to technological and operational synergies, our Industrial Applications division provides its services also for distributed generation customers and other industries such as food and beverages, minerals and metals, industrial parks, municipalities and more. As of June 30, 2020, more than 79,000 service-relevant industrial gas turbines, aero-derivative gas turbines, industrial steam turbines, compressors and generators form the solid basis of the service business. According to our own assessment, we converted more than 70% of the service-relevant fleet potential (in euro) related to gas turbines into revenue in the fiscal year 2019. Key contributors are our long lasting customer partnerships with frame agreements (approximately 300 as of September 30, 2019) and our long term gas turbine service programs which account for approximately 50% of our total service Order Backlog.

As our customers place a high importance on the reliable functioning of their equipment, a significant portion enter into framework agreements or long-term service contracts with the purchase of our products, systems and solutions. Such service contracts usually cover a longer contract period, averaging 13 years as of June 30, 2020 across different equipment types making our service business resilient and profitable. Our global footprint based on regional service centers and a team of local engineers facilitates short response times and a high level of service support to its diverse customer base around the world.

Our product portfolio not only helps us to maintain and grow our installed base, but also provides the basis for our modernization and upgrade activities, where we are able to realize efficiency improvements (e.g., SGT-800 upgrade with 10 MW extra power and 3.5% efficiency improvement for simple cycle) for our customers. Digital services allow for an optimization of our customers' fleets, remote monitoring and predictive maintenance often enhancing availability and capacity of our customers installations.

#### 12.3.3.4.1 Standard Maintenance Services

Our Industrial Applications division's standard maintenance services include spare parts, repairs, overhauls and field service. It may, for instance, repair a customer's equipment by refurbishing or replacing worn-out or defective components in an assembly or provide OEM spare parts. An increasing number of our OEM spare parts is manufactured using additive manufacturing technologies (3D printing), reducing response times to short-term customer requests. Overhaul services within major inspections are key elements of our maintenance services, as they are part of the original design life of the equipment. Typically, major inspections follow a defined overhaul cycle preserving the performance of the equipment. Overhaul services are provided either on-site or in our service workshops. Field service refers mainly to on-site services such as technical field assistance, planned outage management services as well as installation and commission services.

Our Industrial Applications division also manages our 50% participation (as of June 30, 2020) in RWG (Repair&Overhauls) Limited, whose core business is service activities related to aero-derivative gas turbines. The participation is accounted for using the equity method. The necessary consent of the joint venture partner for the legal transfer has not yet been obtained; as long as this is not granted, Siemens will continue to hold the participation economically for and on behalf of Siemens Energy. If no agreement is reached with the joint venture partner on the legal transfer of the participation to Siemens Energy, economic ownership may be transferred back to Siemens. Such retransfer would take place at fair market value.

#### 12.3.3.4.2 Long-Term Service and O&M Programs

For customers with the highest expectations for availability and reliability, our Industrial Applications division offers two main flexible program types, which can be tailored to our customers' exact needs with regard to scope and timeframe: LTPs and O&M programs:

- LTPs are bundles of standard maintenance services contracted for a specific scope and timeframe for its rotating equipment, such as gas turbines and compressors, and often include specified performance guarantees.
- O&M programs include the operating and servicing of either parts of or an entire customer facility, but may also be limited to the rotating equipment or exclude certain systems of the facility. Services may further include site compliance, for example with regard to environmental, health and safety ("EHS") or emissions compliance.

In addition to these two major program types, our Industrial Applications division offers total asset management services covering any additional, performance-driven services in a comprehensive package to maximize its customers' overall financial returns and reduce customer risks. They may include the elements of fleet management and optimization, insurance handling and responsibility, financial reporting, recommendations for capital investments, oversight of operations & maintenance.

#### 12.3.3.4.3 Performance Enhancements and Replacements

Performance enhancements and replacements include all kinds of modernizations and upgrades (e.g., retrofits, revamps, controls upgrades) for installed equipment as well as lifetime replacements of old units (also called brownfield exchange services (BEX)). Through the upgrade to and the use of the latest technology, performance enhancements and replacements play a major role in reducing emissions.

Performance enhancements cover engineered solutions changing the technology or design of a component or assembly, enhancing the equipment's performance regarding efficiency, output or reliability. As an additional benefit, such enhancements usually also extend the lifetime of equipment. A gas turbine exchange can deliver additional power output (compared to the previously installed turbine) and supports a lower carbon footprint for the power plant. For example, for our customer BASF, we materially support a CO<sub>2</sub> reduction of 17 percentage points for one of its power plants compared to the average of German grid power plants by exchanging one of the installed gas turbines targeting a 10% increased electrical output.

BEX for our own installed fleet or competitor equipment covers the replacement of components or assemblies with our own components, thereby helping us to broaden our serviced fleet. It includes the complete exchange, revamp, retrofit or upgrade of existing components with minimum interference in the customer's current setup.

#### 12.3.3.4.4 Electrical, Automation and Digital Services

Our service portfolio also covers a wide range of electrical, automation and digital services, including digital software or applications for both our own serviced fleet and equipment of other OEMs (so-called "oOEM" business). Digital services can include cybersecurity, performance improvement, optimization solutions, analytics, documentation services and other digital offerings.

Digital product-related services also enable remote value to our existing services, such as allowing remote diagnostics, remote fixes, remote collaboration which avoid costly on-site visits and improve response time.

#### 12.3.3.4.5 Training & Consulting

Our Industrial Applications division further provides expert information, documentation, training and consulting for topics related to operations, maintenance, quality and EHS. Trainings may be conducted on-site or in one of its service facilities.

### 12.3.4 Other Operations and Shareholding in Siemens India

Our Other Operations include our New Energy Business and at-equity investments in Voith Hydro Holding GmbH & Co. KG and EthosEnergy Group Limited. Furthermore, Siemens Energy holds 24% of the shares in Siemens India (as of June 30, 2020).

#### 12.3.4.1 New Energy Business

Our New Energy Business complements our portfolio by driving new technologies in the field of decarbonization. The current focus of the New Energy Business is to enable the green hydrogen economy and to drive decarbonization with "power-to-x" solutions. We believe that hydrogen is at the core of an entirely new energy business, as it is expected to foster sector coupling (see "11.1.3.2.2 Decarbonization"). Our New Energy Business currently offers electrolyzer systems for the production of green hydrogen, which can be used to produce, e.g., synthetic fuels and other chemicals. These are integrated into the energy value chain, where they connect with several products and services provided by our other divisions within the Gas and Power segment. Various lighthouse projects have proven the technical feasibility and industrial scalability of our electrolyzer-based solutions in several multi-MW plants and large-scale commercialization is expected in the near future. In August 2020, we signed an agreement to provide a customized hydrogen production system for a hydrogen fueling station in Beijing. The megawatt green hydrogen production solution features our Silyzer 200 electrolyzer system and is the first of its kind to be built by us in China. It is expected to be delivered in 2021. The project is part of a broader cooperation in green hydrogen development between Siemens Energy and SPIC (for information on the cooperation with SPIC in other business fields, see "12.3.2.1.1(4) Collaboration with State Power Investment Corporation Limited of China").

Our New Energy Business is currently in the start-up phase; consequently, the customers so far consist mainly of users of pilot plants. The future customer structure will depend on the further



development and penetration of this new market. In particular, the extent and implementation of sector coupling will have an impact on future customers in other economic sectors. Given the start-up nature of our New Energy Business, we are not expecting a positive profit contribution from these activities in the coming years.

#### 12.3.4.1.1 Systems

Due to high flexibility of design, our electrolyzer systems can be tailored to the specific needs of its customers. They feature modular designs and are available for various fields of application. We have carried out projects based on two large-scale electrolyzer systems so far: the Silyzer 200 and the Silyzer 300. The Silyzer 200 system consists of 1.25 MW stacks including the necessary process technology which produces approximately 20.5 kg of hydrogen per hour with a system efficiency of around 65%. Multiple stacks can be combined into a PEM electrolysis system in a higher performance class. The scope includes an optional cooling system, water treatment system, power grid connection and more. Currently, our New Energy Business offers the latest Silyzer 300 system as our most powerful product line with peak performance in the double-digit megawatt range, which allows for the efficient scaling to minimize overall investment costs in large-scale industrial electrolysis plants. We believe that the Silyzer 300 produces hydrogen at competitive costs with a system efficiency of up to 75%. Its hydrogen production output can range from 100 to 2,000 kg of hydrogen per hour.

#### 12.3.4.1.2 Solutions

To operate electrolyzer systems as part of the energy value chain, they must be integrated efficiently. This is where our solutions business can provide customized combinations along the entire value chain. To produce green electricity, the SGRE segment can provide its wind turbine products. To connect the renewable power to the electrolyzer, the Transmission division has various products (e.g., transformers, switchgear, and rectifiers) as well as solutions for grid connection and grid management. To compress the hydrogen that our electrolyzers produce, the Industrial Applications division has products and solutions available. Over the coming years, we aim to expand into “power-to-x” solutions (e.g., power-to-fuels) based on our portfolio of products and systems.

#### 12.3.4.1.3 Services

New Energy Business provides several services for electrolyzers. Services range from basic maintenance and troubleshooting activities on demand over advanced services, such as preventive maintenance, remote service and condition monitoring, to integrated comprehensive service using state-of-the-art data analysis based on a performance-based maintenance contract.

New Energy Business plans to provide digital services and consulting to help customers on decarbonization solutions based on the domain expertise, techno-economic modelling and optimization, global footprint and local experts, with the focus on hydrogen and “power-to-x” solutions.

Based on our industry knowledge, long-standing expertise in the management of large-scale and complex projects, global footprint and network of experts, we believe that our New Energy Business is in a strong position to drive our customers’ decarbonization projects, with the focus on hydrogen and “power-to-x” solutions.

#### 12.3.4.2 Other Operations / At-Equity Investments

Siemens Energy is actively managing its at equity investments and holds minority interests of 35% (as of June 30, 2020) in Voith Hydro Holding GmbH & Co. KG and 49% (as of June 30, 2020) in EthosEnergy Group Limited, which it recognizes as at-equity investments and which are presented under Other Operations. In addition, Siemens Energy holds 24% (as of June 30, 2020) of the shares in Siemens India, which is recognized as an at-equity investment.

#### 12.3.4.2.1 Voith Hydro Holding GmbH & Co. KG

With its portfolio of components for various hydro-electric power plants as well as the adjoining service business, the joint venture Voith Hydro Holding GmbH & Co. KG is active in the area of energy generation and as such complements the activities of Siemens Energy Group. The Voith Hydro Holding GmbH & Co. KG joint venture provides for a worldwide infinite non-competition obligation in the field of electricity generation by way of hydropower, except for activities relating to small hydro applications.

#### 12.3.4.2.2 EthosEnergy Group Limited

The EthosEnergy Group Limited joint venture was formed on May 6, 2014 and is an independent service provider for rotating equipment in the power generation, oil & gas and industrial markets. John Wood Group PLC and Siemens AG entered into an agreement on October 8, 2013 to form the joint venture; consisting of the Maintenance and Power Solutions businesses of Wood Group GTS and Siemens' TurboCare business unit.

#### 12.3.4.2.3 Shareholding in Siemens India

Siemens Energy holds 24% of the shares (as of June 30, 2020) in Siemens India it acquired under a share transfer agreement dated March 30, 2020. Siemens India offers products, integrated solutions for industrial applications for manufacturing industries, drives for process industries, intelligent infrastructure and buildings, efficient and clean power generation from fossil fuels and oil & gas applications, transmission and distribution of electrical energy for passenger and freight transportation, including rail vehicles, rail automation and rail electrification systems. Any funds received from Siemens India are split between the divisions of our Gas and Power segment. Based on a share price of INR 1,173 as of August 12, 2020, Siemens India had a market value of € 1.1 billion. In the fiscal year 2019, Siemens India contributed € 30 million of income from investments accounted for using the equity method, net.

For more information on the contractual relations and related risks regarding Siemens India, see "18.1.1.1(6) Agreements Related to the Conduct of Siemens Energy's Gas and Power Business in India" and "3.5.10 In certain countries, carve-outs may be deferred or even fail or Siemens will retain parts of the Siemens Gas and Power business. In these countries, limited access to the local markets, established facilities, research and development resources may have an adverse impact on our business prospects and operations. In addition, contractual agreements may require us to purchase the local business after termination of the contract, which may result in significant cash outflows."

### 12.3.5 Project Development and Execution

Our Gas and Power segment develops and executes projects worldwide and offers engineering, procurement, execution, project management, project development and finance, as well as after-sales services, including training of customer personnel. It not only offers strong engineering expertise to develop the project, but it takes a holistic approach with multi-disciplinary teams, which have long-term experience in project development, finance, construction and operation of large energy projects. Each project is designed to best suit its customers' needs. Its execution strategies range from delivering solutions packages to EPCs, partnering with other EPC companies to jointly execute projects up to full turnkey delivery of a project. As an example, in our generation division approximately 25% of Orders in the fiscal year 2019 were attributable to exclusive deals. Successful project management requires strong risk management capabilities. A worldwide network of business hubs, along with the specialist departments, support and advise our customers and partners on all aspects of our projects.

Prominent examples include its energy roadmap for Egypt and the LNG-to-Power projects in the Porto do Açu in Brazil. The projects in Egypt exemplifies the major contribution that we can make to the development of entire economies in terms of sustainable, reliable and affordable energy supplies: three natural gas-fired CCPPs and six substations to transmit the electricity generated in Egypt's transmission system boosted Egypt's power generation by over 40% and

gained our customers more than \$1 billion annual cost savings (own assumption). The new CCPPs in Beni Suef, El Burullus and New Capital, have increased Egypt's power generation capacity by 14.4 GW – enough to supply up to 40 million people reliably and efficiently with electrical energy. In the three power plants, 24 of our H-Class gas turbines as well as 12 steam turbines with total net efficiencies beyond 60% are in operation. In addition, 24 of our HRSG as well as 36 generators, 36 transformers and three 500 kV gas-insulated switchgears from our component's portfolio were installed. To operate the power plants, our Generation division's most advanced DCS SPPA-T3000 is used. As part of the Generation division's service offering, we also trained local engineers and technicians, who will operate and maintain the power plants. In addition, it secured LTP contracts to service the site for eight years along with an operation and maintenance contract for three CCPPs.

Developing and financing especially large projects entails challenges throughout the project life cycle. For the integrated LNG-to-Power project GNA 1 in Brazil, the first installation in Porto do Açú was developed together with our partners in the projects and Siemens Energy has a first right of refusal for all further extensions. We provided equity investment via Siemens Financial Services ("SFS"), owning one third of the project company, and developed an innovative financing structure.

GNA 1 is our largest fully integrated LNG-to-power project, including the construction of a 1.3 GW power plant as well as an LNG import and regasification terminal, a substation and a transmission line to connect the plant to the grid. We developed the project together with our partners and are building the combined power plant turnkey in consortium with a Brazilian construction company. Three H-class gas turbines, one steam turbine, four generators, three HRSGs and instrumentation and control systems will be provided as well as long-term service and O&M for the power plant. The service scope includes advanced remote monitoring and diagnostics, part of the digital services portfolio. The GNA 1 LNG-fired CCPP will be one of the most efficient thermal power plants in Latin America providing affordable and clean energy for Brazil.

Based on our Preferred Financing Agreement with Siemens (see "18.1.1.1.3(2) Preferred Financing Agreement") and drawing on our access to other banks and investors, our Gas and Power segment is able to support its customers in finding the best financing solutions for their projects with us. In select cases, our Gas and Power segment also facilitates equity investments for its customers' projects. Securing the appropriate funding is crucial in the development of energy infrastructure. We have access to a global banking and financial institutions network which also includes export credit agencies. In addition, part of our Gas and Power segment strategy is to engage in early stage development of power projects and to bring such projects to financial close with investment partners, potentially including own investment by Siemens Energy.

### **12.3.6 Digitalization as Value Driver**

Our extensive experience in designing, producing and delivering products, solutions and services for the energy industry have given us a unique understanding of our customers' needs. We believe that digital applications can help meet many of these needs more conveniently and economically. This is why we are determined to continue to expand our value-adding digital solutions offering in line with our customers' requirements. Combining our domain know-how with our digital expertise, we are offering asset-related digital technologies such as remote services, condition monitoring or performance optimization which differentiates our asset in the market.

Beyond such current highlights as the Sensformer and Sensgear applications of our Transmission division (see "12.3.1.1.3 Sensformer and Sensgear"), the Omnivise digital services for Generation applications (see "12.3.2.3.3 Digital Services for Energy"), the Topsides 4.0 and Pipelines 4.0 solutions offered by our Industrial Applications division (see "12.3.3.3.7 R-EAD Solutions"), we believe digital solutions exploiting the potential of artificial intelligence and machine learning present significant opportunities for further value-adding digital solutions.

We are transforming our organization and way of working through digitalization. For instance, we are generally able to manage plant outage services remotely through our connected worker solution which combines augmented reality technology with equipment experts in different locations. We believe to be strongly growing through remote outage services and that the degree of automation will increase significantly over the coming years which will not only drive our internal digitalization but also opens up new business possibilities. We assess our digital revenue to grow multifold in the coming years.

### 12.3.7 Manufacturing

The Gas and Power segment strives to improve its productivity with innovative production processes and production plants, such as the use of additive manufacturing methods or the automation of manufacturing processes. To be close to our customers worldwide, our Gas and Power segment has established a global manufacturing network that operates according to high quality standards and high standards in the area of EHS. To increase flexibility, a network of certified contract manufacturers is accessed in selected areas of production.

The global production sites for our Gas and Power segment's main products are as follows:

- Switchgears are realized as (i) air-insulated switchgears or (ii) gas-insulated switchgears. Our air-insulated switchgear factories are located, amongst other locations, in Jackson (United States), Berlin (Germany) and Hangzhou (China), our gas-insulated switchgear factories in Berlin (Germany) and Shanghai (China).
- Our Gas and Power segment manufactures its power transformers in, amongst other locations, Weiz (Austria), Nuremberg (Germany) and Guangzhou (China) and our distributed transformers in, amongst others locations, Weiz (Austria), Guangzhou (China) and Budapest (Hungary). Special transformers are manufactured in, among other locations, Weiz (Austria), Nuremberg (Germany) and Jundiai (Brazil).
- Our Sensformer and Sensgear manufacturing facilities are located in, amongst other locations, Berlin (Germany), Weiz (Austria) and Nuremberg (Germany).
- Bushings, instrument transformers and coil products are manufactured in, among other locations, Troisdorf (Germany), Bamberg (Germany), and Toronto (Canada).
- Gas turbines:
  - Factories for the large gas turbines are located in Berlin (Germany) and Charlotte (United States) with main feeder plants in Budapest (Hungary) and Charlotte (United States). Furthermore, our Gas and Power segment is currently active in a joint venture in St. Petersburg (Russia).
  - Small-scale industrial gas turbines (up to SGT-400) are mainly manufactured in Lincoln (United Kingdom); medium-scale industrial gas turbines (SGT-600 and above) are manufactured in Finspång (Sweden). Finspång as well as Berlin have at the same time showcases for sustainable gas turbine operations in development with the Zero Emissions Hydrogen Test Center.
  - Aero-derivative gas turbines are mainly manufactured in Montreal (Canada).
  - Industrial gas turbines and aero-derivative gas turbines are packaged, *i.e.*, the gas turbine train is assembled including its auxiliaries and tested in Finspång (Sweden), Houston (United States), Lincoln (United Kingdom), Montreal (Canada), Santa Barbara (Brazil) and Kongsberg / Drammen (Norway).
- Steam turbines convert thermal energy of steam into mechanical energy of a rotating shaft. Our main factories are located in Muelheim an der Ruhr (Germany), Charlotte (United SA), Goerlitz (Germany), Brno (Czech Republic), Jundiai (Brazil) and Le Havre (France). Our main feeder plant is Budapest (Hungary).
- Generators are manufactured in Muelheim an der Ruhr (Germany), Charlotte (United States) and Erfurt (GER), with a feeder plant in Ft. Payne (United States).

- Our gas engines manufacturing facilities are located in Zumaia (Spain).
- Turbo compressors are manufactured in Duisburg (Germany), Leipzig (Germany), Huludao (China), Le Havre (France) and Olean (United States). Manufacturing facilities for reciprocating compressors are located in Olean (United States), Painted Post (United States) and Naroda (India). Similar to industrial gas turbines, also turbo compressors are packaged in the locations Duisburg (Germany), Leipzig (Germany), Huludao (China), Olean (United States), Santa Barbara (Brazil) and Dammam (Kazakhstan).
- Subsea, marine and water solution products are manufactured in Bomlo-Ternetangen (Norway), Trondheim (Norway), Ulverston (United Kingdom), Rothschild (United States) and Erlangen (Germany).
- Additive Manufacturing (3D printing) allow for the manufacture of complex 3D structures in short time frames. Our main facilities are located in Finspång (Sweden) and Berlin (Germany). Furthermore, we have a wholly-owned subsidiary Materials Solutions in Worcester (United Kingdom) and an innovation center in Orlando (United States).
- Our manufacturing facility for electrolyzer systems is located in Erlangen (Germany).

### **12.3.8 Sales and Marketing**

#### *12.3.8.1 Sales*

Our Gas and Power segment is present in every important energy market through subsidiaries, regional sales hubs and offices, and local business partners. To ensure customer proximity, our Gas and Power segment's sales operations are organized along the energy value chain with regional hubs. Our global presence is backed by regional sales hubs in seven regions: North America, Latin America, Europe, Africa, Middle East, Asia, Australia and China. These hubs manage front-end sales and most of the scope carried out directly by the factory, including execution, logistics, project management, and offer consolidation.

To serve its diverse customer base, our Gas and Power segment employs various sales channels, depending on what is most appropriate for each part of the energy value chain. These sales channels include direct-end customer/operators, developer/IPPs, key account management, through and/or with EPC companies, and business partner-reseller businesses. For each sales channel, our Gas and Power segment pursues a distinct strategy that includes the set-up of sales (local front-end sales in countries and expert sales for respective technology), targets, and strategies for pricing, marketing, communications, customer support, and training. In addition, global, regional and local customers are served by professional key account management teams, which support cross-channels and regional sales opportunities. Our Gas and Power segment also supports governments to assess future demands and develops programs to shape their energy infrastructure.

#### *12.3.8.2 Marketing and Customer Relations*

Our Gas and Power segment's marketing and sales operations are organized on a global and regional level. This organizational structure enables the regions to develop new and strengthen existing customer relationships to acquire new orders and grow our business. Its marketing activities play an important role to support business development and sales activities and serve as input for product development as well as R&D. Marketing efforts focus on the marketing of our Gas and Power segment as part of Siemens Energy which is itself an integrated energy company and service provider, a driving force of decarbonization, and the partner to navigate the energy transition. All marketing activities, analysis (market, competition, trends, customers, regional/economic development) and communications (events, brand positioning, advertisements, white papers, media relations and social media), are designed to contribute to the achievement of these targets. With selected lighthouse projects, our Gas and Power segment spotlights our portfolio together with globally recognized energy trade fairs and events, including the World Energy Congress, the Offshore Technology Conference, and the International Council on Large Electric Systems (CIGRE).



A major task of the Gas and Power segment's marketing is to guide customers in finding the application, product or solution they need. Therefore, a major part of its marketing activities focus on consulting its customers in all sales channels drawing on its extensive portfolio of products, solutions and services. Depending on the situation, our Gas and Power segment offers specific project development and project support (project development activities, financing, joint pilot projects, customer education and training) as well as consulting, including energy studies, feasibility and grid studies, and technical advisories. To help customers find the right product from our Gas and Power segment's portfolio, we provide specific online consulting tools. Our Gas and Power segment also offers rapid response services to provide support and assistance from experts, answering technical application questions remotely through remote control centers or via on-site assistance.

### 12.3.9 Procurement

Our Gas and Power segment's procurement function is managed globally. Its procurement activities are organized by material fields within commodity management and based on defined strategies. The country specific aspects and local procurement activities are covered by the respective regional procurement organizations that report to the head of procurement and to the respective business head.

Our Gas and Power segment's procurement function is an integrated part of its business and strives to provide essential and sustainable value contribution for the business, namely in the fields of productivity, quality, availability and innovation. Consequently, its organization is decentralized to ensure proximity to its businesses. The cross-business activities of its commodity management are bundled at the highest effective organizational level. Additionally, a joint pooling agreement ("**JPA**") has been agreed with Siemens Group for selected commodities for direct and indirect material. The main categories of direct materials include large steel fabrications, cables, measuring instrumentation and a variety of raw materials such as copper or steel. Indirect materials include logistics, travel, temporary labor, factory and office supplies as well as IT to realize synergy effects.

Of the total purchasing volume managed by our procurement function (in 2019: approximately € 10.5 billion, including approximately € 0.4 billion related to non-carve-out countries (see "*18.1.1.1(5) Agreements with regard to Siemens Energy's Gas and Power Business in Algeria, Greece, Indonesia and Pakistan*") but excluding SGRE), approximately 84% related to direct materials incorporated into our products and solutions and 16% to indirect materials. The purchasing volume is split into business specific, direct material pooling, and indirect pooling. In 2019, approximately 28% of the purchasing volume would have been incurred in connection with the JPA.

Our manufacturing facilities and sales organizations are located around the world. The purchasing volume is distributed accordingly. In 2019, the main purchasing countries, by volume, were the United States and Germany (representing approximately 45% of the purchasing volume). Approximately 30% of the purchasing volume was spent in emerging markets, such as Eastern Europe, China and India. Respective sourcing decisions are based on a transparent total cost base to ensure all relevant aspects, e.g., lead time, quality and logistical efforts are covered to achieve the best cost position based on an end-to-end cost approach. Our procurement strategy strives for the best technology in the market which is reflected in the innovation power of our suppliers being involved in certain product development projects. Similarly, our Gas and Power segment is continuously working with its suppliers to generate material-related productivity improvements.

Our Gas and Power segment's procurement function operates on the basis of a supplier management framework. The function secures an optimal supplier portfolio via an established strategic method and process and follows a stringent sourcing risk methodology. It strives for the highest practical level of supplier localization in order to follow the "local for local" principle. Our Gas and Power segment regularly evaluates its key suppliers and agrees with them on improvement measures to deliver quality, availability and performance/productivity. Its

procurement function has developed a risk management approach to mitigate identified supplier or other significant risks, including risks resulting from single-source or dominant suppliers as well as financial risks. A key imperative for collaborating with its global supply base is their acceptance and adherence to its compliance standards and the respective ethical behavior which is firmed up in the code of conduct for suppliers.

The main objective of our Gas and Power segment's procurement strategy is to introduce cutting-edge technologies of innovative suppliers into its portfolio in order to create value for its customers. It simplifies its processes and embeds its supply base via digitization to continuously generate productivity and thus contribute to profitable growth of its businesses.

#### **12.3.10 Information Technology and Cybersecurity**

IT is an essential part of our Gas and Power segment's operations. The effective use of IT enables it to generate sustainable added value in the context of productivity increases and process optimization, to drive digitalization and to implement and use new and innovative digital and data-driven business models. Our Gas and Power segment regularly monitors and updates its IT systems and processes to ensure reliability, business continuity and performance which is essential to maintain our operations. In that regard, it continuously strengthens and scales company-wide strategic platforms such as SAP, Salesforce, Teamcenter and the Microsoft suite running on standardized infrastructure components or in the cloud. In addition, our Gas and Power segment uses various specialized IT solutions to provide distinct capabilities such as in product design and engineering, logistics, manufacturing and outage management. The IT organization offers regional support, business embedded IT teams and ensures a company-wide and cost-efficient provision of IT services. Its global value centers cover infrastructure, application and digital platforms of all central IT systems. Our Gas and Power segment has the necessary competence to maintain and operate its IT systems and to further develop their functionality in-house or with external business partners. It will invest in the further simplification and modernization of its IT systems and invest in the rationalization and standardization of our infrastructure. This includes the adoption of secure, scalable and flexible state-of-the-art and mainly cloud-based IT Infrastructure services, in addition to core data centers in Europe, the United States and China. Our Gas and Power segment has built up innovation competences to identify key technologies for its future success and to continuously improve and modernize its IT portfolio.

Our Gas and Power segment handles significant volumes of sensitive business-related data, including detailed information about customers, employees, partners and suppliers. In preparation of our separation from Siemens, it established a cybersecurity function (the "CYS") which ensures a coherent and effective management of cybersecurity threats and coordinates adequate countermeasures. The CYS is led by the Chief Cybersecurity Officer who regularly updates the Executive Board on cybersecurity risks and CYS activities. The CYS consists of national and international teams. The core tasks of the CYS include facilitating cybersecurity risk management, supervising the cybersecurity activities as well as coordinating and implementing our company-wide cybersecurity projects. In addition, the CYS provides several supporting measures to increase awareness and knowledge of cybersecurity related topics and defines our cybersecurity principles, policies and minimum standards in cooperation with certain businesses such as IT which may implement and operate specific security controls adapted to their requirements. In the area of protecting the Company's information assets and managing cyberattacks, CYS closely cooperates with other Company's functions such as data protection and governance risk & compliance.

#### **12.3.11 R&D**

Our Gas and Power segment's R&D investments are critical for driving future growth. We believe that sustainable economic value is created through continuous innovation and that investment in R&D is fundamental to our Gas and Power segment's success. We steer all R&D activities of the Gas and Power segment to best address the challenges posed by the market-defining mega trends: digitalization, growing electricity demand, decarbonization and decentralization. Recent development highlights include Topsides 4.0, the HL-class turbines, SF<sub>6</sub>-free switchgears,

increasing hydrogen co-firing capabilities of our turbine fleet and industrial-scale electrolyzers. As part of our R&D strategy and growing market segments we see a shift towards growth products and service.

The R&D activities of our Transmission division focus on preparing the portfolio for a deregulated environment in which total cost of ownership is decisive. R&D activities of the Generation and Industrial Applications businesses concentrate on developing products and solutions for enhancing efficiency and flexibility and reducing GHG emissions. Our Gas and Power segment is also intensifying R&D in innovative materials, advanced manufacturing methods and plant optimization. Innovations accordingly focus on product digitalization, power electronics, software-driven power control, environmentally-friendly products and systems, and grid stabilization.

We see ourselves as a leading company in additive manufacturing, which is one of our long-established innovation fields. As of June 30, 2020, we have installed more than 60 printers globally and more than 10 years of user experience and development cooperations with, e.g., Werner-von-Siemens Centre, Göteborg Energi, IDEA and Equinor, proving our experience. We believe additive manufacturing benefits ourselves and our customers in multiple ways

- **Improved design and flexibility**, e.g., reflected in approximately 1% higher percentage points efficiency (as assessed by us for contribution of additive manufacturing components (heatshields, vanes, blades) to overall gas turbine efficiency (SGT-800)), up to 50% longer lifetime (SGT-800 heatshields from additive manufacturing versus conventional components) and more than 30% reduced GHG emission in the repair process of gas turbine burners using additive manufacturing versus conventional manufacturing;
- **Faster development**, e.g., 75% reduction of development time due to fast development and validation circles and more frequent modernization and upgrades to improve power plant performance and profitability;
- **Decreased costs** by e.g., more economic production of small volumes or up to 50% faster repairs as observed for manufacturing time of laser metal deposition vs. conventional welding repair; and
- **Lower inventory**, e.g., through above mentioned fast repairs and to the same degree to reduced lead time reduction and consequently reduced inventory and digital inventory.

For more information see "12.3.11.2 Generation Division" and "12.3.11.3 Industrial Applications Division".

Where appropriate, our Gas and Power segment joins forces with other industry participants and/or research institutions to advance research projects. Prominent examples include AGTurbo, EUTurbines or our participation in the Research Association for Combustion Engines (*Forschungsverbund Verbrennungskraftmaschinen*). For more details, see "12.3.11.5 Organization".

In the fiscal years 2019, 2018 and 2017, we incurred research and development expenses before amortization of intangible assets acquired in business combinations and goodwill impairments in the Gas and Power segment of € 787 million, or 4.2%, of the segment's total revenue, € 897 million, or 4.7%, of the segment's total revenue and € 921 million, or 4.1%, of the segment's total revenue, respectively. Amortization of intangible assets acquired in business combinations and goodwill impairments in the Gas and Power segment in the fiscal years 2019, 2018 and 2017 amounted to € 6 million, € 7 million and € 1 million, respectively.

In the fiscal year 2019, our Gas and Power segment employed on average 3 thousand employees in R&D (based on headcount).

#### 12.3.11.1 Transmission Division

R&D activities in our Transmission division focus on developing products and solutions that help to increase the transient and dynamic stability of electrical grids, while improving the overall transmission capacity, quality, reliability, availability and environmental compatibility. In this

regard, demand for innovative transmission solutions and new technologies is primarily driven by the increasing share of renewable energies. Furthermore, our R&D activities seek to reduce our environmental impact. For example, our Transmission division is continuously improving its transformers using ester instead of mineral oil and transmission products using clean air instead of SF<sub>6</sub> gas, as implemented in SF<sub>6</sub> gas-free switchgear (see "12.3.1.1.1(2)(bb) Blue Switchgear"). In addition, it is developing ultra and extra high voltage alternate current and DC voltage transmission technologies which enable a highly efficient transmission of bulk power over long distances.

As part of our R&D efforts, our Transmission division increasingly focuses on equipping our products and systems with digital capabilities. These digital products and systems shall become key instruments to improve productivity and performance and to reduce unplanned downtime. For example, it equips all of its new transformers and switchgear with sensors and a digital interface enabling easy remote real-time monitoring of key parameters (see "12.3.1.1.3 Sensformer and Sensgear"). It is further developing these products to attain the next level of digitalization by introducing machine learning and advanced intelligence for cost-effective management of complex energy networks to further improve the overall cost of ownership.

Our Transmission division is also intensifying R&D in innovative materials, advanced manufacturing methods, plant optimization and disruptive transmission technologies for continuous improvement and enhancement of its existing product portfolio. Innovative service concepts and service technologies are also under development to enable grid operators and owners a better utilization of existing assets along with an increased reliability and availability.

#### *12.3.11.2 Generation Division*

R&D activities in our Generation division focus on the development of new and improvement of existing products, such as the advanced air-cooled 9000HL gas turbine product line with efficiencies over 63% in combined-cycle applications. It uses highly efficient internal cooling features for blades or vanes and an advanced combustion system to increase firing temperature. Product development activities are supported by base technology programs that focus on additive manufacturing (3D-printing). As an example, gas turbine repairs using additive manufacturing technology increase components life cycle cost value through improved durability and performance and reduce CO<sub>2</sub> emissions.

A key action field of our R&D in the Generation division relates to hydrogen co-firing capabilities of our gas turbines. It is currently developing emission technologies for the flexible combustion of natural gas / hydrogen mixtures in the range of 0-100 volume % of hydrogen for both, new units and as upgrades to operating units. In 2019, our Generation division successfully performed a combustion test at real gas turbine conditions with up to 100% hydrogen in the burner used in SGT-800, SGT-700 and SGT-600.

Another core area of our Generations R&D is the development for technology upgrades of the operating fleet. With our technology upgrades our customers can not only reduce their GHG emissions but also reach high return on their investments through decreased fuel consumption, increased output and higher operational flexibility.

Our Generation division focuses not only on improving the operating fleet's efficiency and emissions but also on improving plant operations to enhance dispatch and service factors such as service costs and response time reduction. It is currently developing four new major gas turbine frame upgrades which aim to improve operating efficiency and extend service intervals. Several projects are also in progress to reduce service costs for all major components. It is significantly investing in advanced product operational monitoring and diagnostics to reduce costs and improve plant performance and related services via digital tools and products.

#### *12.3.11.3 Industrial Applications Division*

R&D activities in our Industrial Applications division focus on developing technologies that support decarbonization. This includes addressing the dimensions of our compression solutions,

increasing efficiency in all our rotating equipment, reducing emissions in our gas turbine product lines, and increasing gas turbine hydrogen co-firing capabilities. Further, our Industrial Applications division develops novel compression applications for cleaner gases in order to drive the decarbonization of various industries.

For the in-service fleet and other aftermarket activities, R&D is focused on optimizing the overall life cycle cost as well as lifetime extension measures to safeguard and maximize its customers' competitive position. This includes, but is not limited to, a variety of improvements of performance, life, emissions, as well as upgrades to state-of-the-art control systems for drivers and driven equipment (gas turbines, steam turbines, compressors and gas engines). Enhancing control systems with latest developments in remote monitoring, diagnostic capabilities and artificial intelligence, making maintenance activities more flexible, is all aimed at lowering operational cost while maintaining high reliability and availability. Digitalization efforts will furthermore support our customers to keep the operation and maintenance of their critical equipment as efficient as possible, e.g., enabling not only remote support, but also remote inspection, by Siemens Energy's highly experienced and knowledgeable engineering staff.

Latest development in the supply chain include decentralized additive manufacturing (3D printing), employment of spare parts on-demands and on-site repair technologies.

Industrial Applications was an early adopter of Additive Manufacturing technology and has successfully scaled its production from R&D to serial parts production to achieve by today more than 1,200,000 operation hours in our turbines. Our extension of laser metal deposition to repairs has reduced the lead time by approximately 50% with further improvement potentials applying digitized order configurator tool.

#### *12.3.11.4 New Energy Business*

R&D activities of our New Energy Business aim to support the transition towards a decarbonized world with electro-chemical solutions. In order to further develop our position as a technology leader in the field of industry grade hydrogen electrolyzer systems (for more information on our electrolyzer systems, see "*12.3.4 Other Operations and Shareholding in Siemens India*"), our New Energy Business plans to expand its portfolio towards a higher power range of 100 MW and above. In the future, power ranges of up to 1,000 MW are conceivable. Building on our hydrogen electrolyzer systems at the core of our "power-to-x" value chain, our New Energy Business plans to expand its offering from "power-to-hydrogen" to "power-to-liquid" solutions (e.g., power-to-fuels or power-to-methanol) together with partners and depending on the development of customer and market demand.

Our R&D efforts increasingly focus on digital services ranging from the (a) design and optimization of "power-to-hydrogen" plants and "power-to-x"-solutions, (b) standardized, high efficient electrolyzer modules and plants, (c) maintenance services based on monitoring & diagnosis systems up to (d) digital twins to optimize the plant design and to improve the productivity and lifetime of electrolyzer systems and solutions. In addition, our New Energy Business aims to develop these products and services towards the integration of artificial intelligence and machine learning methods.

#### *12.3.11.5 Organization*

We organize our product-focused R&D activities in our Gas and Power segment along our Transmission, Generation and Industrial Applications divisions, while separately developing products for our New Energy Business. The separate development units promote technology and product developments as well as system integration world-wide. A central technology and innovation department orchestrates and aligns R&D efforts and is scouting technology trends and innovations in order to improve existing products and bring new technologies into Siemens Energy. Cross-business unit issues, material innovations and major decisions are coordinated by joint development teams.

Siemens Energy follows the "open innovation" approach in R&D. This approach is characterized by cooperation partnerships with third parties for innovative concepts, products or technological



solutions. Our Gas and Power segment forms such partnerships with many leading industry companies as well as with world-renowned universities and research institutes such as German Aerospace Center DLR (Cologne, Germany), RWTH Aachen (Aachen, Germany) and Georgia Tech (Atlanta, USA). These activities allow our Gas and Power segment to obtain information on relevant technologies at an early stage, enabling it to develop and launch innovative products on the market.

Other research collaborations include our involvement in AGTurbo, EUTurbines and the Research Association for Combustion Engines (*Forschungsverbund Verbrennungskraftmaschinen*). AGTurbo is a global network of university institutes, research centers and the world market leaders in the turbomachinery industry with headquarters or branches in Germany. AGTurbo develops pre-competitive R&D project ideas (especially application-oriented turbomachinery research in Germany), coordinate them within the research network and submit these project proposals to the German Federal Ministry of Economics and Technology (*Bundesministerium für Wirtschaft und Energie*) for joint funding. EUTurbines is the association of the European gas and steam turbine OEMs. It aims at integrating all European manufacturers of the sector, covering all relevant applications. The Association advocates a competitive economic and legislative environment for the sector. The Research Association for Combustion Engines (*Forschungsverbund Verbrennungskraftmaschinen*) supports collective research on new technologies for clean, efficient and sustainable automotive engines, industrial engines and turbomachinery. Members include Siemens Energy, Rolls Royce, MTU Aero Engines and General Electric. The share of publicly funded co-development projects with customers aiming at e.g. pilot projects to accelerate market introductions was below 5% of our R&D expenses in the fiscal year 2019; a share which we intend to increase.

#### 12.3.11.6 Awards

Over the years, our Gas and Power segment has won many awards recognizing the results our R&D efforts deliver. Recent examples include, the Spotlight on New Technology Award 2019 of the Offshore Technology Conference for its BlueVault energy storage solution, which is a lithium-ion battery-based energy storage solution suited for both all-electric and hybrid (e.g., diesel-electric) offshore power applications. Furthermore, our Gas and Power segment won the Spotlight on New Technology Award 2019 of the Offshore Technology Conference for the subsea power grid for subsea power distribution in large depths. In 2015, it received the German Renewables Award in the category “Product Innovation of the Year” for the Silyzer electrolysis system for hydrogen production.

#### 12.3.12 IP Rights

IP is an essential part of our Gas and Power segment’s business and IP assets are, in the aggregate, of material importance. However, we believe that no single IP asset is material to its business as a whole, except for its right to use the trademark name, “SIEMENS ENERGY”. We believe our Gas and Power segment’s IP portfolio is a competitive advantage for the business and, accordingly, our Gas and Power segment devotes significant resources to develop, protect, defend, and exploit its IP assets.

Our Gas and Power segment’s patent portfolio is predominantly based on employee inventions from our R&D efforts. The IP organization has offices in Germany, the United States, Great Britain and China and each office is located in close proximity to its primary R&D sites, which are based in Berlin, Düsseldorf, Erlangen, Munich, Orlando (US) and Beijing. As of June 30, 2020, our Gas and Power segment held about 18,400 single patents and utility models in approximately 5,200 patent families, including approximately 12,600 granted patents or registered utility models, globally. In addition, it currently maintains, protects, and owns approximately 2,000 marks, including approximately 1,800 registered trademarks.

Our Gas and Power segment has defined and implemented dedicated IP strategies for each business. Its divisions are supported by experienced IP organization of patent professionals specialized in energy IP matters. Key elements of its IP framework strategy include generating

clusters of IP rights addressing different aspects of selected unique selling point features. Our Gas and Power segment actively manages its IP portfolio to maintain and enhance its technological position and competitive advantage as well as to create business opportunities from IP.

In recent years, our Gas and Power segment has been pursuing a more selective strategy when filing for new patents, which is aimed at reducing costs while at the same time adequately protecting its innovations. As a result, the average number of new filings decreased from approximately 780 in the fiscal year 2017 to approximately 530 in the fiscal year 2019. This decrease was mainly driven by a reduction in patent filings for inventions related to rotating equipment which decreased from approximately 320 in the fiscal year 2017 to approximately 100 in the fiscal year 2019.

Generally, our Gas and Power segment's IP strategy is based on three pillars: protect, defend and exploit.

- *Protect* – It protects its IP rights by, among other things, filing new patents, utility models, designs, trademarks, copyrights and registering domains with appropriate regional coverage.
- *Defend* – It monitors third-party IP rights and takes appropriate countermeasures to defend against allegations of infringing on third-party IP rights. Such countermeasures include invalidation actions, implementing alternative solutions, or seeking to obtain a license. In the fiscal year 2019, the Gas and Power segment filed 45 objections against third party patents. In addition, it entered into license agreements regarding third-party IP rights from selected companies and universities, as well as from the Siemens Group to support our current and future businesses (see, also "18.1.1.4 Trademark and Name Use (Sub-)License Agreement with Siemens Energy").
- *Exploit* – It makes its IP visible in tenders and contracts, particularly when there is a focus on its patents and the underlying protected technology. Furthermore, by actively licensing its patents it tries to generate additional value for its business. For example, it generates additional income from the licensing of its patents.

We have applied to register our brand "SIEMENS ENERGY" in more than 100 countries worldwide. Several hundred product names are registered as trademarks in numerous countries. Among them are several marks with a longstanding tradition in the business such as Benson, Trafo-Union, Geafol or Elin.

### 12.3.13 Insurance

Our Gas and Power segment's current insurance coverage is provided under the Siemens global insurance policies until September 30, 2021 and in amounts that we believe are consistent with customary industry practices in its businesses and for its business operations, including insurance for property damage, business interruption and construction coverage, general liability insurance (including products, operations and services liability), marine and cyber insurance. Following the expiry of its insurance coverage under the Siemens global insurance policies, our Gas and Power segment intends to enter into new global policies substantially similar to the previous insurance policies, giving due consideration to the size and risk profile of its business and the volumes available in the insurance market at reasonable economic conditions. Accordingly, no assurance can be given that our Gas and Power segment will be able to obtain insurance coverage that has a comparable scope at similar costs. The directors and officers liability insurance ("**D&O insurance**") and other financial lines programs (e.g., employment practices liability, crime insurance and criminal legal defense cost insurance) will be replaced by its own policies at the latest upon Spin-Off Completion.

## 12.4 SGRE Segment

Our SGRE segment is a leading global supplier of wind power solutions to customers all over the world and had the second highest installed capacity (in GW) of wind turbines worldwide as of the end of 2019 (source: Wood Mackenzie 2019 Market Share Report, database of historical capacity installations).

With almost 40 years of experience in the wind power business, SGRE designs, develops, manufactures, sells, installs and maintains both onshore and offshore wind turbines. SGRE offers, in its own assessment, one of the broadest product portfolios in the industry as well as industry-leading service solutions, helping to make clean energy more affordable and reliable.

SGRE S.A. is headquartered in Spain. Our SGRE segment generated € 10.2 billion in total revenues in the fiscal year ended September 30, 2019 (fiscal year 2019). Its Order Backlog stood at a strong € 32 billion as of June 30, 2020.

The activities of our SGRE segment are organized in two main businesses: (i) Wind Turbines, which consists of the business units Onshore Wind Power and Offshore Wind Power (also referred to as **"Onshore"** and **"Offshore"**, respectively), and (ii) Operation and Maintenance (Service). As of June 30, 2020, 46.9% (or € 15 billion) of the Order Backlog related to the SGRE segment's service activities, which have higher profitability and have expanded considerably over the past few years, driven by a higher installed base (e.g., an increase by 9.1% in the fiscal year 2019 compared to the fiscal year 2018). In addition, in the context of energy transition trends, the SGRE segment explores opportunities in adjacent renewable business fields. The SGRE segment's wind turbine and service portfolio creates value reducing the Levelized Cost of Energy (LCoE), contributing to long-term returns for customers and to the development of the industry. There is more than 100 GW of installed capacity of SGRE wind turbines spread across the globe delivering more than 260 Mt GHG savings per year in more than 70 countries and a fleet of approximately 72 GW under maintenance (including the integration of the fleet acquired in the Servion Acquisition), in each case as of June 30, 2020.

SGRE has a leading product and service platform in place to benefit from the favorable outlook for the wind energy market. As described in our industry section (see *"11.5.3.2 New Unit Market Segment – Offshore"* and *"11.5.3.3 Service Market Segment"*), the Offshore New Unit and the Services market segments present strong growth prospects (with expected CAGRs of 22% and 8% respectively for the period from 2019 to 2025; sources: Wood Mackenzie, "Global Wind Power Market Update: Q2 2020", June 2020, and 2019 O&M Reports, including related data sets) and SGRE has a very strong competitive and profitable position in both of them. In offshore, SGRE is the market leader (both in terms of new capacity additions in 2019 as well as of the offshore turbine installed base, according to Wood Mackenzie data; see *"11.5.4.2 Competitive Environment in the Offshore New Unit Market Segment"*) with unparalleled track-record with more than 1,000 direct drive turbines installed and an Offshore Order Backlog of € 9 billion as of June 30, 2020. The Order Backlog consists of 7.6 GW of firm orders; additionally, SGRE has 9.3 GW in the pipeline from preferred offshore agreements, the highest in the industry (according to our assessment, based on competitors' and industry-related publications). With respect to Service, SGRE has also the second largest fleet under maintenance in the industry (onshore and offshore), with a Service Order Backlog of € 15 billion as of June 30, 2020.

At the same time, the Onshore New Unit market segment is expected to remain the largest wind market segment in the coming years (see *"11.5.3.1 New Unit Market Segment – Onshore"* for more information). SGRE also has a leading product platform in this sector, with 89 GW installed and with an Onshore Order Backlog of € 7 billion as of June 30, 2020. In general, profitability in the onshore sector has significantly decreased in recent years due to the introduction of auctions and tensions in the supply chain (e.g., so-called trade wars and the recent impact of the COVID-19 pandemic, among others). Additionally, our SGRE segment has been recently negatively affected in its Onshore business by cost overruns in some projects and also by the structural challenges in the Indian market, where SGRE has a leading position.

Our SGRE segment aims for value creation by improving the profitability in onshore activities through a dedicated turn-around effort and capturing the growth potential of the offshore and services sector while maintaining profitability. Furthermore, our SGRE segment has set a clear priority on profit over volume, in particular in onshore, as well as strong focus on cash generation. With significant progress made already in recent years, our SGRE segment remains committed to sustainability.

With its new “LEAP” program, our SGRE segment has set clear priority areas:

- *Innovation* – Strive for technology leadership and business model innovation. Within Onshore, its recently announced 5.X platform is expected to become the mainstream product platform in 2022/2023. In Offshore, the SG 11.0-200 DD wind turbine, for which several orders were received in 2020, is expected to reach serial production in 2022, and the recently announced SG 14-222 DD wind turbine, which has also been selected for several projects (subject to certain conditions) is expected to reach serial production in 2024.
- *Productivity & Asset Management* – Continued focus on cost out and stringent cash management and control across our SGRE segment to optimize profitability and cash generation. For example, in procurement, a program has been launched aimed to achieve more than 5% productivity increase in third-party spend each fiscal year until 2023 and in manufacturing, to adapt the internal footprint to shifts in demand and supply.
- *Operational Excellence* – Strengthening process and project execution discipline and achieving industry benchmark safety and quality levels. SGRE also plans to reduce risks in its operations, for example by adopting a more selective approach or reducing its direct exposure to development activities in some countries, e.g., by seeking collaboration with third parties. Furthermore, SGRE plans to strengthen project management quality controlling and to leverage on cross-business best practices.
- *Sustainability and People* – Becoming the ‘go to’ company in renewable energy by setting the industry benchmark in sustainability and employer attractiveness.

In addition, our SGRE segment will invest in digitalization, which is believed to be a key enabler for accelerating the achievement of its objectives.

In this context, SGRE’s key objectives for the period until 2023 are focused on:

- **Returning Onshore to sustainable profitability** with a turnaround plan focused on the following priorities: (i) focus on **profitable volume and de-risking** of the business; (ii) introduction of new leading technology; (iii) reduction of supply chain complexity; (iv) reinforcement of project execution capabilities; and (v) reorganization to optimize performance. SGRE strives to complete the operational turnaround of its Onshore business by the end of 2022.
- **Capturing offshore market growth through profitable leadership position** with the following priorities: (i) maintain technological differentiation; (ii) globalization with market expansion and early customer engagement; and (iii) maintaining the focus on execution excellence.
- **Sustainably growing faster than the market at benchmark profitability in services** with the following priorities: (i) continuously develop new business models together with customers; (ii) focus on innovation, productivity and operational excellence; and (iii) capture potential of the profitable multi-brand business.

Following these outlines, SGRE’s business mix based on revenue share is expected to shift towards a higher share of Offshore and Service and consequently less Onshore business. In addition, following the energy transition trends, SGRE is also actively exploring adjacent business areas to untap the full potential of its core wind business, such as hybrid solutions, storage, floating or hydrogen.

With the LEAP program as key enabler for value creation, we expect our SGRE segment’s topline to grow above market by 2023 and to deliver Adjusted EBITA Margin before Special Items in a range from 8% to 10% in the fiscal year 2023. Furthermore, our SGRE segment targets to maintain a book-to-bill ratio above 1.0 on average during the fiscal years 2021 to 2023. As part of its overall financial framework, SGRE will aim to maintain these levels also beyond 2023.

#### 12.4.1 Products and Services

The core business portfolio of our SGRE segment comprises wind turbines for onshore and offshore wind power plants as well as a wide range of services. These business lines allow SGRE

to be present across the wind value chain, by offering a wide range of products and services for different project types and site conditions. Innovation is a key driver in the wind energy sector. SGRE believes it is at the forefront of technological development and innovation, and that it has one of the most comprehensive wind turbine and service portfolios in the sector, enabling it to minimize the LCoE (for more information on LCoE, see “11.5.2.5 Cost Trends”) and to provide optimal returns for its customers.

The SGRE segment’s Wind Turbines business generated total revenue in the amount of € 8.6 billion (or 84% of the SGRE segment’s total revenue) in the fiscal year 2019, thereof € 5.2 billion attributable to the Onshore business unit and € 3.4 billion to the Offshore business unit. SGRE’s Service business generated total revenue in the amount of € 1,617 million (or 15.8% of the SGRE segment’s total revenue), in the fiscal year 2019. During the fiscal year 2019, our SGRE segment received Orders amounting to € 12.7 billion (as stated in the “Orders” line item corresponding to SGRE in Note 24 to the Combined Financial Statements). From those orders, € 10.0 billion related to Wind Turbines (thereof € 6.9 billion in Onshore and € 3.1 billion in Offshore) and € 2.7 billion to Service.

Our SGRE segment develops and manufactures wind turbines which are suitable for a broad range of wind speeds (low, medium and high wind) and a full spectrum of weather conditions, and which are capable of fulfilling specific local requirements. Every wind generation location presents specific challenges, which require the choice of the most appropriate product. To meet the specific needs of its customers, SGRE offers versatile solutions for onshore and offshore power plants.

According to its “one segment, one technology” strategy, SGRE uses mainly geared technology for onshore and direct drive technology for offshore wind turbines. In the direct drive technology, a low-speed permanent magnet replaces the gearbox, the coupling and the high-speed generator, combining simplicity with a high level of efficiency (see also “12.4.1.3 Offshore Wind Turbines”).

With wind turbines installed in more than 70 countries worldwide, having a total capacity of more than 100 GW as of June 30, 2020, and a full range of product platforms, SGRE sees itself as one of the main global technological leaders in the multi-megawatt wind turbine segment. Our SGRE segment had wind turbines with over 1 GW installed in each of the following 16 countries as of September 30, 2019 (based on cumulative installed capacity figures, including all SGRE onshore and offshore wind turbines for each country): United States, Spain, United Kingdom, Germany, India, China, Brazil, Canada, Mexico, Italy, Denmark, France, Sweden, Turkey Egypt and Poland.

Offshore projects are typically significantly larger in size than onshore projects. For example, one recent reference offshore project is Hornsea One in the United Kingdom, the world’s largest offshore wind power plant commissioned to date (source: Ørsted’s website for the project, [hornseaprojectone.co.uk](https://www.hornseaprojectone.co.uk), section “About the project”), in which 174 SGRE offshore turbines were installed. With a total capacity of 1.2 GW, the plant can power over 1 million homes. In addition, in June 2020, SGRE conditionally received an order for 100 units of its new SG 14-222 DD offshore wind turbine for Innogy’s 1.4 GW Sofia offshore wind power plant in the United Kingdom. When completed, the project will have the capacity to generate enough electricity to power more than 1.2 million British households (source: Power Technology website, information on Sofia offshore wind project, available from <https://www.power-technology.com/projects/sofia-offshore-wind-farm/>).

For the onshore business, reference projects include a landmark order for 35 units of its new SG 5.8-155 turbine (the most powerful geared onshore wind turbine so far, according to SGRE) for the 231 MW Skaftåsen project in Sweden. The turbines will be installed with flexible power rating operating at 6.6 MW, and they will be covered by a 30-year full-service agreement. The first of the 35 units is expected to be installed in the second quarter of 2021. In 2020, SGRE received additional orders for the SG 5.8-170 variant of its 5.X onshore platform for further projects in Sweden and in other countries like Brazil.



In addition, our SGRE segment has a track record of excellence in operation and maintenance (for more details, see “12.4.1.4 Services”). Leveraging scale and global reach, and also capitalizing on its extensive fleet of installed wind turbines, SGRE offers a flexible service portfolio that can be tailored to its customers’ diverse operating models. SGRE also provides advanced diagnostics and digitalization capabilities, as well as customized offshore services. Recently, SGRE was able to extend the service agreement for the 288 MW Meerwind project off the German Northern Sea coast for an additional seven and a half years, with an option for a further three-year extension period. Moreover, in 2020, SGRE signed a 20-year service agreement and another 30-year service agreement for Senvion turbines for two wind projects in Australia with a combined capacity rating of approximately 360 MW.

#### 12.4.1.1 Overview of Wind Class Classification

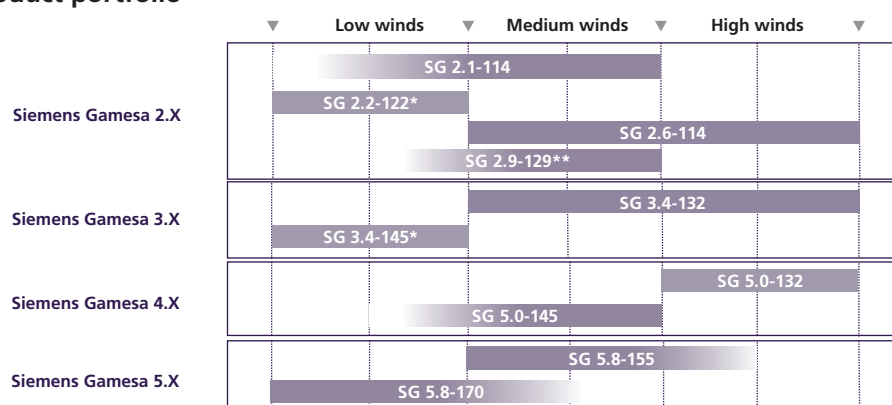
The characteristics of the wind turbines in SGRE’s portfolio vary depending on the type of location for which they are designed. The industry uses a classification of wind classes that focuses on aspects such as wind speed (both maximum and average wind speeds at a certain location are considered), extreme gusts and turbulence. The International Electrotechnical Commission (“IEC”) sets international standards for the wind speeds each wind class must withstand; the latest version is contained in “IEC 61400 – Edition 4” (2019). The IEC wind classification goes from Class IEC I (high wind), over IEC II (medium wind) to IEC III (low wind). In addition, wind class “S” refers to parameters that are user-defined and/or location-specific, while wind class “T” is used for tropical cyclone classes (typhoon, hurricane and cyclone). In addition, the suffix “A”, “B” or “C” used after the roman number corresponding to a wind class refers to the categories of higher, medium and lower turbulence intensity characteristics, respectively. Some of the IEC standards provide technical conditions verifiable by an independent, third party and as such are necessary in order to enter into agreements relating to financing and erection of wind turbines. In certain countries, like in the United States for offshore wind turbines, the fulfillment of further standards may be required.

#### 12.4.1.2 Onshore Wind Turbines

SGRE’s onshore approach focuses on geared technology, in which it has extensive knowledge and expertise. SGRE’s onshore portfolio relies on proven concepts with extensive track record in the market and which offer high levels of reliability, such as the combination of a three-stage gearbox and a doubly-fed induction generator. Other advantages of SGRE turbines are robustness and a modular, flexible design and flexible power ratings for optimum adaptation and maximization of production at different kinds of sites and in all wind conditions.

The following chart provides an overview of SGRE’s main onshore wind turbine platforms currently being offered and product variants. In addition, several products from the former onshore Siemens and Gamesa portfolio are still available for selected projects.

#### Onshore product portfolio



\* Designed for the Indian market, but available worldwide.

\*\* Designed for the North American market, but available worldwide.

Source: SGRE

Note: Siemens Gamesa 5.X platform and the SG 3.4-145 within the Siemens Gamesa 3.X platform are not yet in serial production. First prototypes of the Siemens Gamesa 5.X platform are expected to be delivered towards the end of 2020. The new SG 3.4-145 turbine has been commissioned in a Spanish wind farm in 2020; it is already being commercialized and is expected to begin commercial production in India in 2021.

As of September 30, 2019, SGRE had installed onshore wind turbines with a total capacity of approximately 84 GW in more than 70 countries as well as an Onshore Order Backlog of € 7 billion.

#### 12.4.1.2.1 Siemens Gamesa 2.X Platform

SGRE's 2.X platform had more than 57 GW installed in the 2.0-2.9 MW segment as of September 30, 2019, with fleet availability levels exceeding 98%. With a comprehensive portfolio of rotors, towers and adaptable environmental options, the versatile SGRE 2.X platform offers optimal performance in all types of sites and wind conditions.

##### *SG 2.1-114*

Boasting a 114-meter rotor, various tower options (from 68 to 153 meters) and nominal power of 2.1 MW, the SG 2.1-114 wind turbine is the benchmark in the sector for medium- and low-wind sites within SGRE's 2.X platform. This model has low power density, allowing maximum profitability at sites with moderate and low winds. A significant backlog of orders and a strong market presence bears testament to this, with over 6,400 MW installed worldwide as of September 30, 2019. SGRE also offers optimized solutions based on this model for Class S sites, so it can be adapted to the environmental conditions in markets such as India, China and Brazil. With a 56-meter blade and aerodynamic profiles developed using state-of-the-art technology, the SG 2.1-114 wind turbine enables maximum energy production combined with low noise emission thanks to the "DinoTails Next Generation" serrated trailing edges. Furthermore, by applying comprehensively validated and certified technologies from the SGRE 2.X platform, this turbine significantly reduces the LCoE.

##### *SG 2.2-122*

The SG 2.2-122 wind turbine is one of the latest additions to the SGRE 2.X product platform, with a high capacity factor and profitability. Specifically optimized for low-wind low-turbulence conditions, this model seeks competitive positioning in markets with locations of this type, such as India. With a 122-meter rotor combined with a 2.2 MW generator, this turbine addresses customers' needs at Class S sites thanks to its extremely low power density and reduced LCoE. The SG 2.2-122 wind turbine has a 60-meter blade. This is a new development from the 56-meter variant extensively validated in SGRE projects involving wind turbines with a 114-meter rotor, through which maximum production has been achieved. In addition, the electrical system that it incorporates is also common to all other SGRE solutions with 2.1 MW of nominal power.

##### *SG 2.6-114*

The SG 2.6-114 wind turbine is designed for medium- and high-wind sites. This model complements the SGRE 2.1 MW offer in projects requiring higher nominal power. With a 114-meter rotor, various tower options (from 63 to 125 meters) and increased nominal power of up to 2.625 MW, this turbine enables maximum efficiency at a reduced LCoE. It is a natural evolution of the SG 2.1-114 model and inherits most of the technologies, components and subsystems while incorporating the necessary modifications to achieve increased power. By incorporating a 56-meter blade, designed by SGRE using advanced technologies and specifically reinforced for sites with moderate and high winds, along with a 2.625 MW generator, SGRE has been able to increase the turbine yield by over 13% and achieve a significant reduction in the LCoE compared to the SG 2.1-114 model. This makes the SG 2.6-114 turbine one of the most efficient and cost-effective solutions available to SGRE's customers.

### *SG 2.9-129*

The SG 2.9-129 wind turbine is the latest SGRE onshore turbine developed to meet the medium to low-wind site and market conditions of the American market. The turbine is designed based on the foundation of the proven 2.3 MW geared product series and maintains a similar design, utilizing components from its predecessor, the SWT-2.625-120. To deliver a low LCoE and maximize performance across various sites in the United States, the SG 2.9-129 wind turbine is designed with a higher capacity factor that customers in that country demand. This improved model demonstrates SGRE's ability to offer flexible solutions for every context while delivering a certified 25-year design lifetime on a standard basis.

The experience acquired through SGRE's latest products, specifically in the optimization of design, prototyping, validation and industrialization processes, along with enhanced design tools such as "Finite Element Analysis" (for the simulation of physical phenomena), thermal modeling and grid analysis, has been a key factor in the development of the SG 2.9-129 wind turbine. SGRE has incorporated proven technologies into this wind turbine, boosting capacity and simplifying maintenance.

#### *12.4.1.2.2 Siemens Gamesa 3.X Platform*

The SGRE 3.X product line completes the product offering for medium and high-wind sites, where customers require a nominal power rating between 3 and 4 MW at an optimum LCoE. Within this platform, several tower height options make it possible to comply with various blade tip height restrictions.

### *SG 3.4-132*

The SG 3.4-132 wind turbine complements SGRE's product offering for medium- and high-wind sites in markets where customers require solutions with nominal powers higher than 3 MW with an optimum Levelized Cost of Energy.

The SG 3.4-132 turbine, available for locations with high and moderate wind conditions, improves on the production capacity of the SG 2.6-114 model, both increasing the nominal power up to 3.465 MW and increasing the rotor swept area by 34%. This model also has an extensive portfolio of towers with heights ranging from 84 to 165 meters, which enables it to comply with the different maximum blade tip height restrictions in the market. With a new 64.5-meter fiberglass blade, especially developed for medium- and high-wind sites and with high-quality airfoils, the SG 3.4-132 model was developed for both high energy production and low noise emission levels due to the "DinoTails Next Generation" serrated trailing edges. SGRE incorporates proven technology into this model, such as the combination of a three-stage gearbox (two planetary stages and one parallel) and a doubly-fed induction generator, which is also used in the SGRE 2.X platform.

### *SG 3.4-145*

In July 2020, SGRE presented the new SG 3.4-145 wind turbine, which is specifically designed and optimized for wind conditions in India (Class S/III). The turbine is based on the SG 3.4-132, which has several GW installed worldwide.

The SG 3.4-145 turbine delivers a nominal power of 3.465 MW and can operate up to 3.6 MW under specific site conditions. With an increased rotor swept area of 41%, which delivers 48% more AEP than its predecessor model in India (the SG 2.2-122 turbine), the SG 3.4-145 model is one of the most efficient and cost-effective solutions in the market, according to our assessment. This model stands 127.5 meters tall, with a blade-tip height of 200 meters, which helps to harness the maximum available wind potential at every site. With a 71-meter fiberglass blade, optimized for low-wind sites along with thoroughly tested and validated air foils, the SG 3.4-145 model enables both high-energy production and low-noise emission levels. The high-performance passive cooler outside the nacelle and the cabinets' improved ventilation ensures efficient thermal conditioning and performance at high-temperature sites.

A prototype of this turbine was commissioned successfully in the Alaiz wind farm in Spain. The SG 3.4-145 turbine is already being commercialized and is expected to begin commercial production in SGRE's facilities in India starting in early 2021. The SG 3.4-145 wind turbine has been designed to comply with the global IECRE Standards and meets the Indian CEA 2019 requirements.

#### 12.4.1.2.3 Siemens Gamesa 4.X Platform

The SGRE 4.X platform is one of the latest additions to the SGRE product portfolio, designed to deliver an outstanding LCoE for turbines with nominal power ratings in the 4 MW segment. Due to the modularity and flexibility of these turbines, they are suitable for a variety of sites. SGRE's 4.X platform incorporates proven technologies, significantly minimizing technological risks, while also integrating innovative technologies to achieve higher efficiency and cost-effectiveness.

#### *SG 5.0-132 and 5.0-145*

The SGRE 4.X platform consists of the SG 5.0-145 and the SG 5.0-132 wind turbines, two benchmark solutions in the market for sites with medium and high winds. With a new control system, enhanced blade aerodynamics and structural modularity, both the SG 5.0-145 and SG 5.0-132 wind turbines offer SGRE's customers higher flexibility to adapt to sites with a wide range of wind conditions and logistics constraints. SGRE's 4.X platform uses proven concepts with extensive track record in the market, such as the combination of a three-stage gearbox (two planetary and one parallel) and a doubly-fed induction generator, offering high levels of reliability. In addition to this, the inclusion of an optional premium converter allows SGRE's 4.X wind turbines to meet demanding grid connection requirements. The new 71-meter and 64.5-meter blades, made of fiberglass reinforced with epoxy resin, integrate innovative aerodynamics. The DinoTails® Next Generation technology enables a balance between high energy production and reduced noise emission levels. SGRE's 4.X platform introduces a new control system to optimize the efficiency of the wind turbines and their applicability in a wide range of sites. It also offers flexible power rating, depending on the noise requirements, temperature and electrical properties of the project. The SG 5.0-145 and SG 5.0-132 models allow for an increase in annual energy production ("AEP") of more than 30% compared to previous solutions from the SGRE 3.X platform.

#### 12.4.1.2.4 Siemens Gamesa 5.X Platform

The SGRE 5.X platform achieves new parameters in terms of performance, cost-efficiency and reliability: in power output, with 5.8 MW and a rotor size of 155 and 170 meters, depending on the variant, for a highly competitive LCoE; in technology, based on SGRE's know-how and expertise; in versatility, with a highly flexible design for logistics, construction and service; in site adaptability, to configure the optimal solution for each project and, ultimately, in value for SGRE's customers. SGRE's 5.X platform was announced in April 2019 and is not yet in serial production. SGRE expects that first prototypes of the turbine models of this platform will be available towards the end of 2020.

#### *SG 5.8-155 and SG 5.8-170*

The SG 5.8-155 and SG 5.8-170 wind turbines include a doubly-fed generator and partial converter combination, a compact drive train design with a three-stage gearbox, and the use of components widely validated on the other SGRE platforms. The result is a wind turbine design that delivers optimum performance and LCoE. SGRE's 5.X platform is a new generation platform with a high unitary power rating of 5.8 MW combined with two of the largest rotor diameters currently in the market, 155 and 170 meters (depending on the variant), resulting in maximum performance in high-, medium- and low-wind conditions.

The SG 5.8-155 and SG 5.8-170 turbines allow for a higher AEP per wind turbine and optimized capital expenditures for wind projects compared to previous generations. This is also due to their versatility, a modular, flexible design for maximum ease of logistics, construction and O&M, reducing the operational expenditure, which results in a lower LCoE for projects.

The SGRE 5.X platform focuses on enhancing profitability as a key factor in generating value for SGRE's customers. Contributing factors to profitability include (i) a flexible, personalized configuration of power modes fully tailored to the needs of each site, (ii) an extensive catalog of towers with multiple available technologies and the additional capability to create specific project designs, (iii) the use of advanced control strategies that enable intelligent load reduction and a greater applicability for the SGRE 5.X platform in different wind conditions, (iv) a modular, optimized structure for local transport and construction conditions, (iv) a maintainability-oriented design with advanced diagnostics and remote operation solutions, as well as the possibility of replacing main components without requiring a crane, and (v) optional product solutions to cover all types of market requirements.

SGRE has already secured orders for the 5.X platform, for example for projects in Sweden and in Brazil (see "12.4.1 Products and Services").

#### 12.4.1.2.5 Legacy Onshore Wind Turbines

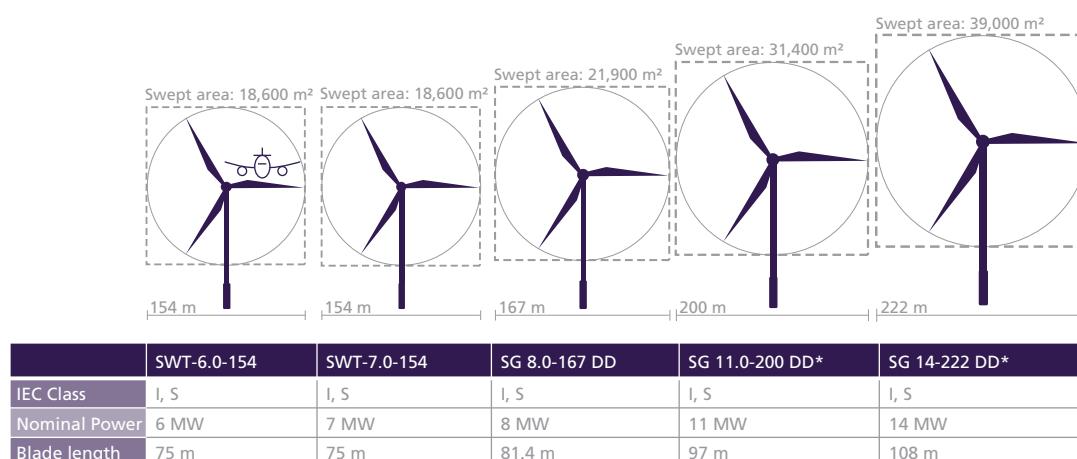
Certain onshore products from the former Siemens Wind Power and Gamesa portfolios are still available for selected projects. SGRE's legacy portfolio includes, among others, the following wind turbines (which are based on the direct drive technology): the SWT-DD-120 and the SWT-DD-130 turbines, both with a nominal power from 3.9 to 4.3 MW and a rotor length of 120 meters and 130 meters, respectively, as well as the SWT-DD-142 model, with a nominal power ranging from 3.5 MW to 4.1 MW and 142-meter rotor length.

#### 12.4.1.3 Offshore Wind Turbines

SGRE's offshore approach is focused on direct drive technology (as opposed to geared technology for the onshore products), which is particularly suitable for offshore conditions. Replacing the gearbox, main shaft and a conventional high-speed generator with a low-speed generator eliminates two-thirds of the conventional drive train arrangement. As a result, the number of rotating and wear-prone parts is vastly reduced, so that a SGRE Direct Drive wind turbine has 50% fewer moving parts than a comparable geared machine. The simplistic design also translates into lower weights. Furthermore, it reduces the likelihood of failures, and the use of fewer moving parts in the direct drive technology (compared to geared machines) also means fewer spare parts are needed over the course of a wind power plant's lifetime.

The following chart provides an overview of SGRE's current offshore wind turbine portfolio (platforms and product variants):

#### Offshore product portfolio



Source: SGRE

Note: "DD" stands for "direct drive". The models marked with an asterisk (\*) are now being sold, but serial production is planned to begin later. For more information, see the description below.

SGRE ventured into offshore as a pioneer in 1991, installing the first commercial offshore wind power plant (Vindeby project) off the coast of Denmark. As of September 30, 2019, SGRE had



installed offshore wind turbines with a total capacity of approximately 15 GW worldwide as well as an Offshore Order Backlog of € 7 billion.

#### *SWT-6.0-154*

The SWT-6.0-154 has a 6 MW output and a swept area of 18,600 square meters, making it an ideal offshore solution. The drive train design has evolved from an onshore 3 MW direct drive design with enhanced electrical components and upgraded magnets adapting it to the harsh offshore wind environment. This turbine comes with a 154-meter rotor and 75-meter blades, and has been designed for Class I or S sites, *i.e.*, for high-wind and high-turbulence offshore environments where reliability matters most.

#### *SWT-7.0-154*

With high-energy production and assured reliability, the SWT-7.0-154 is a Class I/S design with an increased MW rating. It features small upgrades in the electrical components (converter, transformer) and magnets compared to the proven 6 MW technology. Staying within the SWT-6.0-154 design envelope, the 7 MW variant offers various advantages: a shorter certification process, re-use of equipment and tools, known manufacturing and installation processes as well as minimal balance-of-plant supply chain impact from turbine configuration.

#### *SG 8.0-167 DD*

The 8 MW version of the SGRE Offshore Direct Drive platform, the SG 8.0-167 DD, allows for even higher energy yields (compared to previous SGRE offshore turbines) at all wind speeds. By integrating proven concepts together with an increased rotor size, the latest offshore Direct Drive turbine combines lower risk and improved energy output in terms of AEP. The 8 MW rating is made possible by using new and more powerful magnet technology with an even higher grade than in previous models. A Siemens Integrated Control System (SICS) ensures optimized control of power- and grid performance. By introducing a larger rotor (with a diameter of 167 meters) using the new aerodynamic 81.4-meter-long B81 blades, the SG 8.0-167 DD is able to yield up to 20% higher AEP than the 7 MW Direct Drive turbine. The fact that – with the exception of the blades, which are now longer – SGRE utilizes components that are already in play in other models also means operating with an established supply chain and established, standardized processes. It also reduces product risks and enables the manufacturing of high volumes and a fast time-to-market. This wind turbine is available in different variants, including Typhoon wind class and a high temperature package to cater to varying regional market conditions. The production start of the SG 8.0-167DD was in the European autumn of 2019 – by which time over 1,000 units of the Direct Drive offshore turbine family had been installed since such Direct Drive offshore turbines were launched in 2011.

#### *SG 11.0-200 DD*

The new SG 11.200 DD was publicly presented in February 2020 and is scheduled for serial production in 2022. The 11 MW rating is made possible through a larger generator diameter, reusing the proven Direct Drive generator technology. By increasing the rotor diameter to an impressive 200 meters with 97-meter-long blades, the SG 11.0-200 DD offers up to 40% more AEP than the SG 8.0-167 DD under similar conditions. The most significant change compared to previous models is the introduction of carbon in the blade, which was first introduced in the onshore blade portfolio, to achieve lighter and stiffer blades. The rest of the components are tried and tested over generations of offshore turbines, including the Direct Drive technology, “IntegralBlade” technology, tower concepts, as well as maintenance and safety systems. Features such as “High Wind Ride Through” and the power boost function enable the turbine to maintain an industry leading availability. Again, building the new turbine based on the experience of previous turbine generations allows SGRE to improve profitability and reduce risk for its customers. It is designed for high-wind classes (I, S).

In June 2020, SGRE received a firm order for 140 SG 11.0-200 DD wind turbines for the subsidy-free projects Hollandse Kust Zuid I to IV off the Netherlands. The project will feature nearly 1.5

GW of installed power and is expected to be commissioned in 2023. The new SG 11.0-200 DD offshore wind turbine is also planned to be deployed, for example, in two offshore projects, Borkum Riffgrund 3 and Gode Wind 3 (which is still subject to certain conditions), in the German North Sea totaling 1,142 GW (for more information, see the introduction under “12.4.1 Products and Services”).

#### *SG 14-222 DD*

In May 2020, SGRE announced the SG 14-222 DD offshore wind turbine, released with a nameplate capacity of 14 MW, but which can reach 15 MW with a “power boost” option. This new wind turbine is designed with a 222-meter rotor diameter and massive 108-meter long blades, and particularly for wind class I, S. According to SGRE’s calculations, this new turbine would avoid approximately 1.4 million tons of CO<sub>2</sub> emissions per machine over the turbine’s projected 25-year lifetime. The SG 14-222 turbine offers over 25% more AEP than the SG 11.0-200 DD offshore wind turbine under similar conditions. It is designed with a light 500-ton nacelle weight that enables optimized substructure at lower cost. SGRE plans to have a first prototype ready in 2021 and currently expects that this turbine will be commercially available in 2024. For example, in late May 2020, SGRE’s new SG 14-222 DD offshore wind turbine was selected to be used at the upcoming 300 MW Hai Long 2 project. The deployment of the turbine for the rest of the 1,044 MW Hai Long pipeline is also being considered. The exact number of units for the first 300 MW of the project remains to be confirmed based on site-specific conditions, and the preferred supplier agreement remains subject to certain conditions (for more information, see the introduction under “12.4.1 Products and Services”). In May 2020, SGRE was named as the preferred turbine supplier to supply its SG 14-222 Direct Drive offshore wind turbines to the 2,640 MW Dominion Energy Coastal Virginia Offshore Wind (“**CVOW**”) project, the largest offshore project to-date in the United States (according to Dominion Energy’s website section regarding the CVOW project), with turbine installations expected to be completed by 2026. Decisions on sourcing and supply chain to serve the U.S. market are expected to be made within 2021. In addition, in June 2020, SGRE conditionally received an order for 100 units of this new SG 14-222 DD offshore wind turbine for Innogy’s 1.4 GW Sofia offshore wind power plant in the United Kingdom, among other projects.

#### *12.4.1.4 Services*

The Service business of our SGRE segment is responsible for the management, monitoring and maintenance of wind power plants. As of June 30, 2020, SGRE reported a service Order Backlog of € 15 billion. The average duration of the order book is approximately nine years (as of June 30, 2020). Our SGRE segment had roughly 32,000 serviced turbines worldwide, with more than 72 GW under maintenance (including approximately 11 GW from the offshore fleet under maintenance and approximately 61 GW relating to the onshore fleet under maintenance, which includes the fleet acquired in connection with the Servion Acquisition) as of June 30, 2020. SGRE currently delivers high-quality O&M services with a global reach and has service operations in more than 60 countries around the world through its five regional and two global competence centers.

SGRE’s Service business unit supports its customers’ business models in multiple ways. These include maximizing SGRE’s customers’ wind power plant revenue through efficient maintenance and repair solutions, mitigating customers’ financial and business risk through SGRE’s performance and component warranties, or increasing the energy production and thus the return on investment of customers’ wind power plants through performance upgrades and lifetime extensions. In addition, by providing innovative offshore logistics for far-shore site access or combining its intelligent analytics with unique domain know-how into knowledge products, SGRE aims to deliver an optimized maintenance strategy for a wide range of customers.

Our SGRE segment’s services can be tailored, depending on the customer’s specific operational needs. These range from models under which experienced customers assume part of the risk, over comprehensive services that include service from upgrades and expert analysis, to asset management, where our SGRE segment manages a wind power plant for the customer.

Our SGRE segment capitalizes on its own extensive fleet of installed wind turbines (89 GW onshore and 16 GW offshore as of June 30, 2020), most of which, in particular in the years following installation and in many cases based on long-term agreements, is being serviced by SGRE based on long term agreements with contract durations up to 30 years. In addition, SGRE strives to increase its share of service of third-party turbine fleets, pursuing service contracts for other manufacturers' turbines, which was, for example, one of the rationales behind the Senvion Acquisition (for more information, see "12.9.3 Acquisition of Selected European Assets of Senvion").

Our SGRE segment offers a range of services that can be purchased through tailor-made long-term contracts or on a more transactional basis, aligned with individual customer needs. Our O&M contracts are designed in a flexible manner, with many different selectable modules based on core services (the modules are described in more detail in the following sections). A typical O&M contract includes fundamental maintenance services, including preventive (both pre-determined and condition-based) and corrective work scope. The scope typically covers works performed physically on-site, but also extensive remote maintenance activities performed by our SGRE segment's global network of monitoring & diagnostics centers. O&M contracts are usually backed by a performance warranty (described in more detail further below) which provides assurance to the customer that SGRE will maintain their asset with the required quality. Our SGRE segment refers to an extensive scope O&M contract with a term of ten or more years as a long-term program, and its Service business unit focuses on attracting customers to such deals, which provide long-term profitable revenue streams and a significant contribution to our SGRE segment's Order Backlog as a whole.

#### 12.4.1.4.1 Performance Guarantees

In our SGRE segment, O&M agreements are usually supported by an availability warranty as a mechanism to provide our customers with assurance that our products will perform well on their site. The warranties are typically either based on percentage uptime of the asset (time-based warranty) or percentage of theoretical maximum energy yield from the asset (yield-based warranty). Our SGRE segment offers competitive levels of warranted availability. In the event of performance below that level, the customer would be able to recover the missing revenue arising from such underperformance. These warranties are an important part of our SGRE segment's value proposition to its customers as they ensure that customers benefit from a clear allocation of risk as well as providing a cost-effective mechanism through which SGRE can assume those risks from the customer's project that our SGRE segment is well-positioned to manage and mitigate.

Our SGRE segment's most recent innovation track in this area is the development of a "revenue-based availability" tool, which measures and incentivizes performance on the basis not just of the customer's energy generation, but also on the basis of revenues obtained from the sale of that energy. This is an important move to ensure that incentives and operating model are properly aligned with the value drivers of the customer business case of our SGRE segment, since the industry now has an ever increasing number of wind turbines moving into low-subsidy or post-subsidy environments. This increases the importance of taking into consideration the market energy price when planning and conducting O&M.

The first pilot contract using this availability tool has already been signed, and development is well underway to formalize the product as a standard offering of our SGRE segment.

#### 12.4.1.4.2 Life Extension Services

As installed wind turbine technology ages and in order to address increasing customer interest to maximize the profitability of their installed assets for longer, SGRE offers a "Life Extension" service which allows for the extension of the useful lives of a customer's turbines from typically 20 to up to 30 years (counted as from the start of operation of the turbine). This is a full-scope maintenance program including a series of structural upgrades and monitoring features to ensure that customers' wind turbines are safe to operate while extending energy production

beyond the original design life. With this service, SGRE offers its customers a guarantee relating to the safety for the public, personnel and wind power plant assets, while keeping customers' maintenance costs under control during the extended life period.

Since 2014, SGRE has performed life extension services, with lifetime assessments being carried out across more than 2,800 wind turbine generators as of November 30, 2019. Through its internal lifetime modeling, SGRE's Life Extension program combines a number of parameters, such as turbine failure rates, structural analysis or turbine field data, to offer a specific, tailor-made maintenance for each type of platform and for the full remaining lifetime of the wind turbine. This can be further enhanced by implementation of necessary upgrades to bring the turbine up to the latest state-of-the-art, including repairs, reinforcements and components substitutions to achieve enhanced performance of customer assets.

#### 12.4.1.4.3 Annual Energy Production Upgrades

Through its AEP upgrade solutions such as "Energy Thrust", "Power Boost", "Power Curve Upgrade" or "High Wind Ride Through", our SGRE segment updates older wind turbines with the latest performance enhancement technology. This results in improved wind turbine output, which can increase AEP by up to 5%, depending on the variant and without compromising the turbine's structural integrity. The additional energy is obtained through the adaptation of each turbine to the specific wind conditions of its location by software and firmware updates, resulting in improved performance in all ranges of the power curve. These products are validated by our SGRE segment and required assessments are obtained from an independent assurance provider, such as DNV GL SE (Germany).

Our SGRE segment is continuously innovating, and by combining its extensive turbine design, field performance data and advanced analytics modeling, it explores new ways for performance upgrades to allow for the best possible wind power plant asset management in line with its customers' business objectives.

#### 12.4.1.4.4 Offshore Logistics

The new generation of offshore wind power plants is often located far from shore, which generally means unstable weather conditions, significant wave heights and increased travel time for spare parts and technicians. In addition, both wind power plants and wind turbines continue to increase in size. Traditionally, the farther an offshore wind power plant was from shore, the more expensive its maintenance. To address this, our SGRE segment introduced service operation vessels that work as floating workshops, thereby significantly reducing costs. Our SGRE segment's integrated logistics are focused on achieving maximum yield and overcoming challenging conditions when servicing offshore wind power plants. Customers can choose from service operations vessels, helicopter services or crew transfer vessels for regular maintenance operations. When a heavy component exchange is needed, chartered jack-up vessels can be deployed quickly. Our SGRE segment's service offering for offshore wind power plants improves offshore wind power plant availability through greater efficiency, less weather downtime due to safe operation at high waves and fast response to service needs by operation within the boundaries of its customers' wind power plants. In the fiscal year 2019, our SGRE segment introduced a "service train" concept by which it deploys one common vessel across multiple wind power plants with several customers to reduce the downtime associated with scheduled service. In addition, it also introduced a program aimed at securing a safe and reliable installation and start-up of each offshore wind turbine within 24 hours.

#### 12.4.1.4.5 Blade Services

Blades have a direct impact on the quantity as well as the cost of the energy that turbines produce. They are the most expensive components of a wind turbine. They are also vulnerable components, since they bear extreme loads and weather conditions, thus requiring professional care. If blades are not checked for damage and wear at suitable intervals, turbine yield can potentially decrease over time. Our SGRE segment offers different services for blades of onshore

and offshore wind turbines, including blade inspections (with reporting and assessment), repairs, upgrades and updates, blade integrity management and artificial intelligence solutions.

For example, our SGRE segment combines drone inspection data with an online platform called Hermes AI, which is presented through a graphic user interface called Vision Based Asset Integrity ("VBAI") that controls the process. VBAI's artificial intelligence ("AI") uses the power of cloud computing, AI, machine learning, big data and specialist interaction to enable predictive maintenance and statistics as well as to identify blade damage. Customers receive a thorough analysis of their turbine's blade conditions and sufficient data to make informed decisions about any necessary repair.

Furthermore, "PowerEdge" Care is a durable and cost-optimized protection solution that mitigates the impact of erosion to the leading edge of the blades. "PowerEdge" Care is designed as a lifetime solution to prevent reoccurring repairs, thus minimizing the turbine's downtime and providing an AEP improvement relative to eroded blades. The overall solution is validated by SGRE and has been certified by DNV GL SE.

#### 12.4.1.4.6 Diagnostics

Our SGRE segment's remote diagnostics approach encompasses a wide range of digital tools supporting the service of customer assets and is available for all onshore and offshore wind turbines and wind power plants. Diagnostics services include (i) 24/7 alarm notification and management (e.g., so that when an alarm is detected, knowledge-based alarm rules are applied to quickly and accurately reset and restart a turbine without a site visit), (ii) software version updates, (iii) diagnostic support (e.g., to remotely identify the cause for an alarm and try to fix it remotely, or suggest on-site actions), (iv) turbine set-up control (a detection service that recognizes any changes in a wind turbine generator from the parameters defined in its profile), (v) basic, advanced and model-based vibration, (vi) antivirus protecting solutions and (vii) oil particle counters. With respect to vibration diagnostics, by picking up vibrations on turbine components, sensors can lower the risk of slow- and fast-developing damages by early detection, and optimize maintenance strategies – such as automatic turbine shutdown or preventive repair. This helps to save service costs and reduce downtime. In addition, advanced vibration diagnostics tools that accurately pinpoint vibrations within the drivetrain (composed of the gearbox and the generator, which the wind turbine needs to produce electricity) allow to predict damage up to three years in advance, allowing for optimized risk and asset management, and minimizing downtime.

Through model-based diagnostics, our SGRE segment gathers data from around 6 million sensors from turbines worldwide and creates roughly 1.5 million individual digital models of the turbines' ancillary systems. The system flags around 250,000 deviations per year but not all of these positives correspond to real-life faults. Algorithms filter out the costly false-positives and insignificant deviations. This drops the count of significant deviations that need to be addressed to approximately 8,000 site visits a year. In addition, service technicians' reports and the analysis of damaged parts are fed into a knowledge base supporting several digital tools.

#### 12.4.1.4.7 Multi-brand Maintenance Services

In the rapidly changing market environment of the wind industry, wind turbine fleets of most wind turbine operators show an increased diversity of technologies. As owners grow their fleet sizes, most expand their fleets beyond a single turbine manufacturer, either due to economics, performance, or through the integration of fleets from M&A activities. The Service market segment is becoming increasingly complex for service providers and owners alike. From inefficient repair loops, over unexpected and unbudgeted failures well outside of the warranty period, to older equipment with limited attention or supply chain, or even to turbine manufacturers shifting focus and, in some cases, even leaving markets, the areas where owners require innovative engineering approaches are numerous.

SGRE possesses specialized know-how and valuable insights for multiple brands and maintains turbines of many serial OEMs. The fleet of third-party technologies under maintenance (including



Vestas, GE, Nordex, Suzlon, Senvion, legacy MADE, Bonus, Adwen and other technologies) had 1.7 GW installed capacity in total at the end of the fiscal year 2019. Multi-brand services can be attractive for onshore and offshore wind power plants with mixed brands, irrespective of the wind power plant's size, and wind power plant owners who are looking for alternative O&M providers, since such multi-brand services allow leveraging economies of scale. The Senvion Acquisition, including a large part of Senvion's European onshore service business and associated assets and operations to provide full service, positions our SGRE segment to service a broader range of wind turbine technologies. The transaction added around 9 GW of serviced fleet and operations in 13 countries, taking our SGRE segment's multi-brand footprint to more than 10 GW and its fleet under maintenance to approximately 72 GW (as of June 30, 2020). In addition, since the closing of the transaction, SGRE has secured several orders relating to the Senvion fleet, including onshore and offshore contracts. Thus, with the acquisition, our SGRE segment significantly increased its "Other OEM" fleet under maintenance.

Leveraging global reach, our SGRE segment offers a flexible service portfolio that can be tailored to its customers' diverse operating models and needs. Providing an integrated asset management, our SGRE segment's services range from corrective and preventive maintenance to upgrades and from balance of plant solutions to energy management services. It also provides advanced diagnostics and other data-driven capabilities, as well as customized offshore services.

#### 12.4.1.5 *New Adjacent Business Fields*

With the rapid development of renewable energies, our SGRE segment has begun to enter into new, adjacent business fields within the area of renewable electricity generation, such as solar, hybrid solutions, storage, floating or hydrogen. However, these activities represent only a small fraction of SGRE's current business.

- *Solar* – Our SGRE segment has recently offered solar downstream services, mainly in India, which are currently not considered part of SGRE's core business. In addition, SGRE manufactures solar inverters through its subsidiary Gamesa Electric. However, SGRE is continuously reviewing its business performance and market development to adjust its strategy accordingly, for example as part of the restructuring in India.
- *Hybrid* – As the market evolves, our SGRE segment is expanding into the growing hybrid power solutions market segment. These solutions combine multiple power generation sources, including wind. Hybrid power leverages the advantages of the complementary energy profiles of wind and solar power, for example by balancing the energy generated by solar power during the day with the wind, which is usually stronger at night. Depending on location and hourly profile, a hybrid system can optimize energy feed-in, grid stability and capacity factor. In addition, customers can save costs and achieve a higher energy production by sharing land, grid infrastructure and maintenance services for the different assets.
- *Storage* – As the energy sector increasingly shifts towards a growing share of renewables, it faces new challenges, including the fluctuation of energy generation as well as the issue of stranded costs for early phase-out of conventional power plants. Our SGRE segment is continuously monitoring storage related solutions and technologies. For example, our SGRE segment has recently invested in electric thermal energy storage ("ETES"). The first test site with 5 MWh capacity was implemented in 2014. For the proof of system, SGRE opened a new pilot plant in Hamburg-Altenwerder in June 2019. SGRE is exploring alternatives around the next steps in the development of its ETES technology.
- *Floating* – At present, the offshore market has certain limitations on expansion due to the technology used for offshore turbine foundations (called monopoles) which are embedded into the sea floor. The cost-effectiveness of the solution is challenged when water depth exceeds 40 meters. SGRE's Offshore business unit is actively exploring floating foundations that will allow the deployment of wind power plants in deeper waters near heavily-populated coastal areas with proper wind resources, such as the East Chinese sea, the U.S. Eastern coast, the gulf of Vizcaya or the Irish sea. Several prototypes are expected to be tested during the course of 2021 and 2022.

- *Hydrogen* – Green hydrogen production is projected to increase during the next years as the energy sector is expected to contribute significantly to the decarbonization of the economy. Industrial-scale production of green hydrogen will require a significant deployment of renewable energy technologies and we expect that wind turbine generators will play a key role. In addition to onshore opportunities, we expect that offshore wind turbine technology may provide a relevant share of generation capacity required for green hydrogen production, mostly due to comparably larger project size stemming from less limitations of offshore. In this field, our SGRE segment is currently exploring different technological alternatives varying from so-called “plug and play solutions” for existing wind power plants to integrated electrolyzers inside the wind turbine to produce hydrogen locally, instead of feeding electricity into the grid. As the hydrogen technology as well as the hydrogen market are in early phases, our SGRE segment is exploring several alternatives in parallel.

#### 12.4.2 Customers

Our SGRE segment’s customers are mainly companies that are active within the energy sector. The main categorization of customers per activity is the following:

- *Utilities* – companies that own projects to sell power to their distribution network to reach the final demand of energy.
- *Independent Power Producers* – companies that own projects in order to sell power to an off-taker (via a power purchasing agreement) with the aim to make a financial return in excess of their cost of capital.
- *Project Developers* – companies that develop a project to sell it to a future owner with the interest and financial capability to build and operate it.
- *Others* – financial investors, oil & gas players, companies that need to consume green energy in order to meet their environmental corporate targets, self-consumers, etc. With the energy transition trends, the profiles of customers have expanded, with other players beyond traditional players such as utilities or independent power producers gaining significant relevance.

The scope of services offered by our SGRE segment ranges from development to full turnkey, and there are modularized offerings for each customer segment in each business unit (Onshore, Offshore and Service). Service customers are not only those with installed SGRE wind turbines, but in some cases also with turbines from other brands (as part of the multi-brand service offering; see “12.4.1.4.7 Multi-brand Maintenance Services”).

Regarding strategic customers of a certain size, our SGRE segment supplies more than a dozen global accounts as a key supplier. Some examples of such accounts are Iberdrola, ENEL, Ørsted and Equinor.

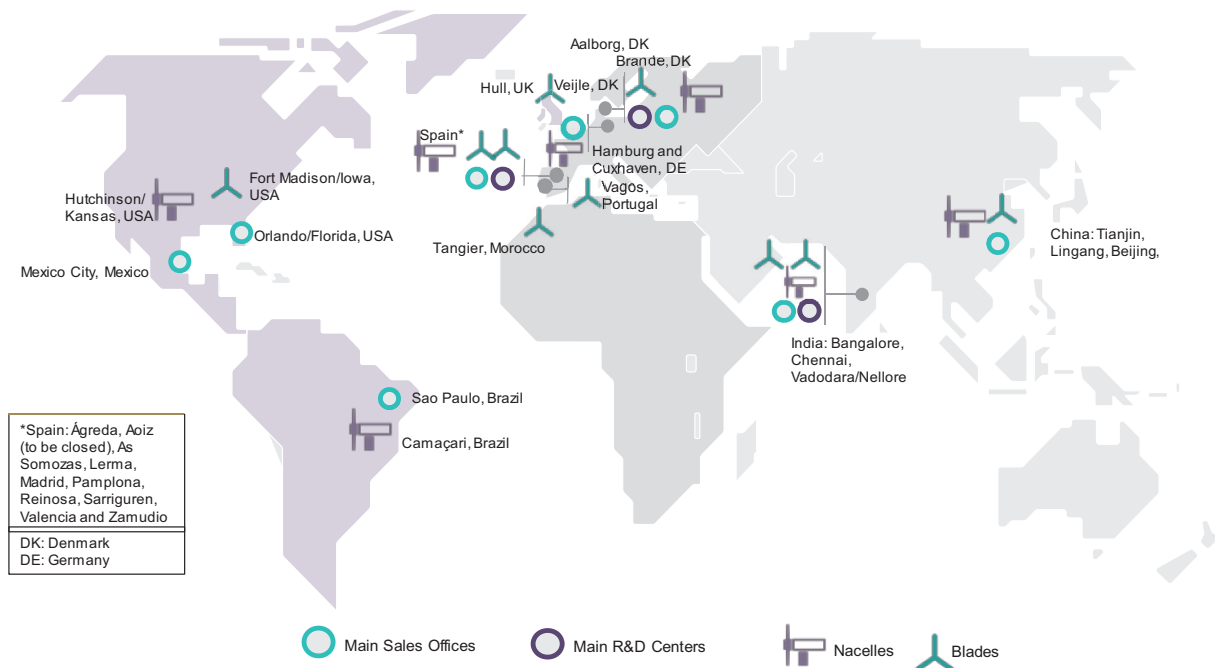
In line with widespread industry practice, SGRE typically grants warranties to its customers in connection with repair and replacement obligations in case of component defects or functional errors relating to SGRE’s products during the warranty period, which generally ranges between two and five years. Furthermore, SGRE’s wind turbine generators are supported by certain warranties with respect to specific performance criteria such as noise, the power curve, or – normally if accompanied by a service contract – the availability of the turbines throughout the year. Certain of SGRE’s service contracts include full-scope warranties for up to 30 years, which cover not only availability, but also components, including exchange costs (such as costs for cranes and vessels).

#### 12.4.3 Operations

##### 12.4.3.1 Overview

Our SGRE segment operates with a flexible business model through two principal business lines: Wind Turbines (with the business units Onshore and Offshore), which covers the design, development, manufacturing and installation of wind turbines, and Service. In a few regions, SGRE is also engaged in project development.

SGRE is present in more than 90 countries around the world, and its turbines are installed in more than 70 countries. It operates more than 15 manufacturing plants in over 10 countries and has approximately 40 sales offices (as of June 30, 2020). The following chart shows the location of the main production facilities for nacelles and blades of our SGRE segment as well as its main R&D centers and main sales offices:



Source: SGRE

In addition to the above-mentioned locations, our SGRE segment has further important locations in several countries in different regions:

- **Americas** – Boulder/Colorado (United States) (sales, service and R&D), Orlando/Florida (United States) (sales; service; R&D and training center for wind service), and sales and service locations in Oakville/ Ontario (Canada) and Santiago de Chile (Chile).
- **EMEA** – Bremen (service), Bremerhaven (service for legacy Adwen products) and Österrönfeld (services for Senvion products) (all in Germany); Aliaga (assembly of nacelles), Istanbul (sales, services and R&D) and Izmir (sales and services) (all in Turkey); Vagos (Portugal) (production site for onshore blades, acquired as part of the Senvion Acquisition), Esbjerg (Denmark) (assembly port for the offshore business as well as service), Frimley (United Kingdom) (sales and project management for the offshore business, as well as service), The Hague (The Netherlands) (R&D site for towers, sales and service), in addition to several sales and service or service-only sites in Athens (Greece), Budapest (Hungary), Cairo (Egypt), Casablanca (Morocco), Dublin (Ireland), Helsinki (Finland), Huizingen (Belgium), Johannesburg (South Africa), Lyon and Puteaux (France), Milan (Italy), Newcastle (United Kingdom), Oslo (Norway), Stockholm (Sweden), Tehran (Iran), Vienna (Austria), Warsaw (Poland) and Zagreb (Croatia).
- **Asia, Australia** – Further sales and service locations in Bangkok (Thailand), Ho Chi Minh City (Vietnam), Kurana (Sri Lanka), Makai City (Philippines), Seoul (South Korea), Singapore (Singapore), Sydney (Australia), Taipei (Taiwan) and Tokyo (Japan), with service-only sites in Auckland (New Zealand) and Melbourne (Australia).

#### 12.4.3.2 Manufacturing

Our SGRE segment manufactures wind turbines at its facilities in Europe, the United States, India, Brazil, China and Morocco. Our SGRE segment has established a technical presence close to its customers across the world. Its manufacturing base is designed to ensure an efficient production process from the design of the wind turbines to the manufacturing of all critical components.

Our SGRE segment operates blade factories, nacelle assembly factories and other factories (such as gearbox, converter and cabinet factories).

The decision as to whether a specific component of a wind turbine should be produced in-house or outsourced to third-party suppliers is determined by looking at three different dimensions: capacity, cost and local content or industrialization requirements. With information from a sales plan elaborated by the sales and marketing team for the upcoming years (split by products and geographies), our SGRE segment defines the amount of capacity required at each location. Then, based on the above criteria, a “make or buy” decision is made.

**Blade factories** produce the entire blade for a wind turbine. In recent years, our SGRE segment implemented structural shell production in all its models, which requires less infrastructure and can be implemented more rapidly. Our SGRE segment started to implement carbon fiber in longer blades to further reduce weight. Its industrial strategy also aims for a balance among several options for manufacturing blades, including “make”, “buy” and “build-to-print” (under which our SGRE segment designs the blade, while the manufacturing is outsourced). Our main blade factories are located in Fort Madison (United States), Aalborg (Denmark), Hull (United Kingdom), Tangier (Morocco), Nellore (India), Somozas (Spain), Lingang (China) and Vagos (Portugal; this plant was acquired in the context of the Senvion Acquisition). A new factory for wind turbine blades (as well as nacelles) is planned in Le Havre (France), with start of production expected for the beginning of 2022. At the end of 2019, SGRE stopped the manufacturing of onshore blades in its Aalborg factory (the location now manufactures blades for offshore turbines only). In addition, a decision to close the blade factory in Aoiz (Spain) due to competitiveness considerations was made in June 2020. This plant is specialized in small turbine models mainly for the Spanish market.

In addition to its own manufacturing, SGRE sources blades from third-party manufacturers located in Mexico, Brazil, Turkey, India, China and Poland, either providing its own blade designs or using the design from the third-party manufacturer.

**Nacelle assembly factories** assemble the nacelle for the wind turbine. The nacelle is the structure placed upon the tower, housing the gearbox (for onshore wind turbines), generator, transformer, electronics and other components. Attached to the nacelle is the rotor consisting of a hub and three blades. Our SGRE segment’s main nacelle assembly factories are located in Hutchinson/Kansas (United States), Camaçari (Brazil), Brande (Denmark), Cuxhaven (Germany), Ágreda (Spain), Aliaga (Turkey), Mamandur (India) and Tianjin (China). In addition, SGRE subcontracts the assembly of nacelles in Russia. New nacelle factories are under construction in Le Havre (France) and in Taichung (Taiwan) (as explained further below in more detail). SGRE intends to phase out onshore-related nacelle assembly in Brande during the second half of 2020.

**Tower factories** produce the tower for the wind turbine. SGRE is a minority shareholder in tower manufacturer Windar Renovables, S.L., which has factories in Spain, India, Mexico, Brazil and Russia.

**Generator factories** produce the generator transforming the rotation energy to electricity. Our SGRE segment’s generator factories are located in Reinosa (Spain), Camaçari (Brazil) and Tianjin (China). In addition, direct drive generators are assembled in Brande (Denmark) and Cuxhaven (Germany).

Our SGRE segment operates **gearbox plants** in Spain, with the main factories located in Lerma and Sigüeiro. A gearbox is typically used in a wind turbine to increase rotational speed from a low-speed rotor to a higher speed electrical generator.

Our SGRE segment’s **converter factories** are located in Madrid (Spain), Valencia (Spain) and Tianjin (China). Converters enable the management of the electrical output of the wind turbine to optimize it following grid requirements. Our SGRE segment produces converters for wind and solar applications.

In addition, our SGRE segment operates **cabinets factories** in Valencia (Spain) and Tianjin (China). A control cabinet monitors certain parameters of a wind turbine in order to operate the turbine

in the most efficient way. Depending on the direction and the speed of the wind, the position of the nacelle and the blades are modified to maximize production, as well as to control the loads transmitted by the wind through the rest of the wind turbine.

With respect to the newly-acquired onshore blade manufacturing plant in Vagos (Portugal), we expect that this plant will help to strengthen our SGRE segment's industrial value chain and reduce dependency on supplier sourcing from Asia. The plant can produce more than 1,300 blades per year. In addition, the facility is complementary to existing SGRE blade capacities and is expected to support international sales. Its location and logistics are suitable to source the European markets, allowing for significant cost optimization and mitigating supply chain risks.

In addition, our SGRE segment is currently building a new nacelle assembly facility for the offshore business in Taiwan, at a site located in the port of Taichung. It will be our SGRE segment's first offshore nacelle assembly plant outside of Europe. The plant allows SGRE to fulfill local content requirements. Moreover, in May 2020, SGRE started an expansion plan for its nacelle assembly facility in Taichung, to form a regional offshore wind nacelle industrial hub together with Taiwan-based suppliers. The expansion, which is subject to certain conditions, is planned to start after the nacelle assembly work is completed in 2022. The first project to be supported by the broader manufacturing plant will be the 300 MW Hai Long 2 project (with nacelle production for the project scheduled to begin in 2024 and turbine installation is expected to follow thereafter). SGRE is also building a new nacelle and blade manufacturing plant in Le Havre (France). Among others, blades and nacelles for the wind turbines to be supplied for two large French offshore projects totaling almost 1 GW are planned to be manufactured at this new plant. Furthermore, our SGRE segment is considering to use its existing Nellore facility in India also for the production of converters and cabinets in the near future.

Our SGRE segment has implemented innovative logistical set-ups, for example with its plant for offshore nacelles in Cuxhaven, Germany, which represented an investment of approximately € 200 million. This new set-up for offshore markets uses two purpose-built transport vessels. Large turbine components are rolled on and off these vessels (for example, to transport them to their offshore wind power plant location) rather than being loaded by crane. The Cuxhaven plant produces SGRE's SG 8.0-167 DD offshore wind turbine model.

In the first half of 2020, SGRE initiated a restructuring of Indian operations to take account of the slower-than-expected recovery of the Indian wind market and in order to adapt to new market prospects and dynamics. Our SGRE segment is continuously monitoring its footprint, including as related to its manufacturing plants, to adapt its presence and activities to changing market dynamics. This may lead to the announcement of the opening of selected new sites or further footprint adjustments of certain operations of SGRE in the near future.

#### *12.4.3.3 Procurement*

Our SGRE segment operates with a large supplier and contractor base, and had approximately 18,000 tier-1 suppliers with procurement volumes of approximately € 8 billion in the fiscal year 2019. The number of tier-1 suppliers was reduced during the fiscal year 2020.

Our SGRE segment is continuously working on diversifying the risk in the supply chain by working with multiple suppliers globally and striving to reduce the volume of sourcing from single suppliers. Our SGRE segment is leveraging partnerships with selected key suppliers in particular for gearboxes, bearings, transformers and blades, with the aim of further enhancing its technology and innovation capabilities and its technology position in the market. Other relevant materials include hydraulic systems, power controls, steel parts and fabrications, casting, composite materials, tower conversion, resins and structural adhesive.

SGRE has entered into supply agreements with Siemens Energy mainly relating to the procurement of electrical components as well as various procurement agreements with Siemens Group companies relating to (i) certain supplies used in SGRE's manufacturing process and other operations, and (ii) the provision by Siemens AG of certain procurement services for SGRE, enabling SGRE to benefit from a greater collective bargaining power. For more information, see



*"18.1.1.2 Relationships with and Services Provided by the Siemens Group to SGRE"* and *"18.1.2.4.6 Transactions between the Siemens Group and SGRE"*. The award system is designed to ensure that supplies are carried out under market conditions, as well as to enable the participation of other suppliers.

As part of the necessary increase in purchasing volume due to the growth and its need for global supplies, our SGRE segment is striving to strike a balance between local content requirements and the global supply chain.

Our SGRE segment has a specific supplier relationship policy in place, which provides a group-wide framework for management and control of procurement activities. The aim is to ensure the impartiality, transparency and objectivity of its supplier selection processes; the policy also establishes the channels and mechanisms needed to ensure that suppliers' conduct is ethical. One of these mechanisms is the P2P ("purchase to pay") process implemented in order to reduce risks in the purchasing process and to ensure a strict adherence and compliance throughout the process, avoiding misconduct and fraud along the whole supply chain.

Overall, the activities of the supply chain support are guided by principles such as the development of the local supply base while contributing to local wealth creation, working with suppliers to achieve high-quality component design in order to reduce costs and creating opportunities for qualified suppliers to export to other regions based on their competitiveness. These are contemplated in internal activities regarding, for example, commodity strategies and new product introduction, and by its supplier life cycle management team. For instance, sustainability self-assessments are applied to strategic suppliers or suppliers located in high-risk countries. Furthermore, an external sustainability audit is carried out by different third-party providers to detect any non-compliance.

Our SGRE segment's code of conduct for suppliers and third-party intermediaries, released in 2018, is included in the general purchasing conditions, framework contracts and purchase agreements with each supplier, and is also included in procurement tools to ensure compliance. In 2019, SGRE released a booklet with its code of conduct for suppliers and third-party intermediaries which documents in detail its expectations towards its suppliers. Furthermore, SGRE has a supplier quality manual in place which deals with health, safety and environmental guidelines, as well as quality requirements for the qualification of suppliers, components and services.

SGRE also monitors critical suppliers (defined according to parameters such as a purchasing volume over € 50,000 or operating or being based in a high-risk country from a corporate responsibility perspective) and keeps track of high sustainability risk suppliers which it identifies according to pre-defined criteria, e.g., relating to incidents of compliance misconduct.

#### *12.4.3.4 Product Design and Life Cycle*

The product life cycle process within our SGRE segment follows a detailed, multidisciplinary plan for the development of products, which is coordinated by the product portfolio management organization within SGRE, receiving input from cross-functional teams. The process includes an analysis of customer requirements, EHS regulations, industrialization requirements, supply chain restrictions and operations track record. After the conceptual design and the functional definition, the detailed product design is carried out, including prototype testing and verification of the identified requirements as well as product validation and risk analysis. Thereafter, the product moves to the industrialization phase. Once delivered and commissioned, the product is operated and maintained by the Services business unit, and is optimized through continuous product improvement. In addition, after-sales activities, such as field upgrades, refurbishments, retrofits and add-on features can be offered to customers.

#### *12.4.3.5 Sales and Marketing*

Our SGRE segment markets its products through a global sales force with local offices in almost 40 countries and in every region in order to ensure customer proximity. The main sales offices are

located in the United States, Mexico, Brazil, Spain, Denmark, Germany, India and China. Our SGRE segment's sales force is responsible for the identification of sales opportunities and their management, technical support, order processing and day-to-day contact with customers. In addition, our SGRE segment is introducing focused market strategies tailored to different types of customers.

Our SGRE segment's staff in sales and marketing functions comprised approximately 1,600 employees as of September 30, 2019 worldwide. The compensation of the sales force is partly performance-based. Marketing is organized to cover the three business units Onshore, Offshore and Service and their respective sales regions, with nearly 40 local sales offices and teams present around the globe. Certain functions, notably our SGRE segment's global brand strategy and marketing communications, are managed by the Corporate Affairs unit, which defines a uniform appearance and corporate design of all publications and advertising materials throughout its organization. To support a corporate identity at the level of our SGRE segment, this central unit also defines the brand strategy with respect to all brands used by our SGRE segment, develops marketing concepts and carries out part of their implementation alongside marketing teams with each of the business units. SGRE's sales model is generally based on direct sales, with the exception of the offshore business in China, where currently a license model through a cooperation with Shanghai Electric is used. For more information, see "12.4.5 IP Rights".

#### *12.4.3.6 Project Development and Execution*

Our SGRE segment executes projects worldwide and offers engineering, procurement, execution, project management, financing support and after-sales services, among others. Depending on market requirements as well as SGRE's regional or project-specific approach, the scope of SGRE's involvement may include undertaking a full EPC scope or wind power plant development activities in some cases.

By the end of the fiscal year 2019, SGRE had installed, in the aggregate, nearly 16 GW of onshore wind power plants with an EPC scope and had further projects with EPC scope under construction of more than 1.6 GW. For example, for the West Bakr wind project in Egypt, our SGRE segment will install 96 SG 2.6-114 onshore turbines through a turnkey EPC contract and will provide long-term maintenance for a 15-year service term. All civil and most electrical and logistical work will be handled by local subcontractors and all the turbine towers will be produced in Egypt. The project will increase the country's installed wind energy capacity by 18% up to 1,650 MW.

In offshore wind, SGRE is the industry leader (see "11.5.4.2 Competitive Environment in the Offshore New Unit Market Segment") and has successfully executed a project pipeline of nearly 16 GW (mostly without extended or EPC scope) by the end of June 2020. A recent example that highlights this excellence in project management and execution is in the successful delivery of the world's largest offshore wind power plant commissioned to date, Hornsea One (source: Ørsted's website for the project, [hornseaprojectone.co.uk](https://www.hornseaprojectone.co.uk), section "About the project"), off the coast of Yorkshire in the North Sea, which was completed on time, in budget and within quality targets in 2019. In the Hornsea ONE project, 174 SGRE SWT-7.0 MW turbines were installed, which represented a significant logistical and manufacturing undertaking. During the installation phase, SGRE was able to further demonstrate its innovation and market-leading experience with individual wind turbines being installed and commissioned in less than 24 hours each and over 98% availability from the first day of operation of the project (according to our monitoring data for the project). Project management excellence, highly skilled passionate employees, close collaboration with customers and over nearly 30 years of offshore experience enable SGRE to maintain its leadership in international offshore markets.

Together with its partners, our SGRE segment also supports customers to develop tailored financing solutions to address their specific requirements. For example, for the No. 5 Thanh Hai 1 nearshore wind power plant in Vietnam, SGRE coordinated the discussions with the financing parties, which includes the Danish Export Credit Agency, an international bank and one of Vietnam's largest banks, to offer its customer a highly bankable and competitive debt package. Furthermore, through the preferred financing agreement between SGRE S.A. and Siemens AG

(for more information, see “18.1.1.2.3(1) Preferred Financing Agreement SGRE”), SGRE can also provide solutions regarding equity financing as well as debt and commercial finance for projects via SFS.

In 2020, SGRE introduced a project management framework for the Onshore business unit. This framework – “PM@SGRE” – has the goal to improve project management efficiency and effectiveness. A dedicated project has been set up to accelerate the harmonization and consistent implementation of this framework into the operational business across the three business units Onshore, Offshore and Service.

In addition, in some countries SGRE also assumes exposure to development activities. Traditionally, this has been the case in India, where in most of the projects SGRE had exposure to development activities. Outside India, the exposure to development activities is more limited (in the fiscal year 2019, SGRE’s development activities based on installed capacity represented approximately 5% of the total volume installed outside India). With the implementation of the LEAP program, and the restructuring in India, our SGRE segment is planning to have a more selective approach to project development to reduce exposure to associated risks. For example, full own development is intended to be more limited, and development terms are being adjusted. Our SGRE segment will continuously review its development assets and different options regarding such assets.

#### *12.4.3.7 Information Technology*

The IT function at our SGRE segment provides cybersecurity, IT application and infrastructure services to run enterprise replenishment processes, innovate and design products while managing their life cycle, enable a holistic view of customers (including aspects such as marketing, sales, project execution and services), operate factories, sites and distribution centers, and manage the supply chain. Furthermore, the IT function provides IT application and infrastructure services to its corporate functions to support finance (including business planning, controlling, treasury and consolidation), human resources management, security and facility management, communications, audit and compliance operations, including allowing for uniform and timely reporting. IT infrastructure services have been operated by a neutral carrier vendor (Infosys) since 2019 and managed by a global service management function.

The IT organization has a clear focus on cybersecurity, digitalization, standardization and harmonization of processes and applications. Our SGRE segment sees information and the assets it supports as strategic assets for the business, for which reason it has control systems in place to ensure the protection thereof in terms of availability, confidentiality, integrity, authentication and traceability. Our SGRE segment’s IT processes include, among others, (i) back-ups, by way of duplication of critical infrastructures and regular production of back-up copies of information in separate physical locations, and a policy for review and control of the integrity of the copies made; (ii) security of physical access to the data processing center and of software access (including access restrictions, encryption of sensitive information and analysis of identified security incidents, among others); (iii) controls relating to the maintenance and implementation of computer applications, implementation and migrations plans, risk management via separate environments for operation and tests and simulation and other measures. SGRE has an operational cybersecurity application in place.

Since the foundation of SGRE in its current set-up, back in 2017, SGRE is driving a transformation based on stand-alone company IT applications, tools and infrastructure. In parallel, a clear focus has been set on the gradual reduction of transitional service agreements agreed between SGRE and Siemens at the time of the merger (with a maximum term of four years), with the aim of supporting both governance and operational independence from Siemens. In this connection, among other initiatives, SGRE has developed internal capacities or outsourced certain functions to specialized third-party providers in several key functional areas. In 2019, our SGRE segment expanded its digital team working on the digital transformation of wind energy. This team has over 150 people in a Digital Ventures Lab set up to search for new developments as well as global remote diagnostic centers that convert big data into value for customers.

#### 12.4.4 R&D

Wind turbines developed and manufactured by our SGRE segment are in permanent evolution, incorporating the latest technological advances with the aim of increasing both power and performance. Overall, our SGRE segment employs approximately 2,000 dedicated R&D staff around the world (as of September 30, 2019). In the fiscal years 2017 through 2019, R&D activities were focused, in particular, on the development of new wind turbine models, software and the optimization of the components' performance. The SGRE segment's research and development expenses amounted to € 208 million, € 166 million and € 189 million in the fiscal years 2019, 2018 and 2017, respectively. Furthermore, the SGRE segment showed additions to other intangible assets of € 160 million, € 129 million and € 76 million in the fiscal years 2019, 2018 and 2017, respectively, which largely relate to capitalized research and development expenses. The periods presented did not include any amortization of intangible assets acquired in business combinations and goodwill impairments for SGRE. In the fiscal year 2019, SGRE invested broadly the same amount as capitalized development costs, which are shown as additions to other intangible assets.

Our SGRE segment's R&D activities are carried out mainly through seven technology centers located in Bangalore (India), Boulder (United States), Brande (Denmark), Hamburg (Germany), Zamudio, Madrid and Pamplona (all in Spain). The R&D activities Brande, Bilbao and Pamplona are focused on the nacelle and its components. The facilities in Madrid and Brande are equipped with test benches for testing and validating software systems for wind power, PV, energy storage and hybrid power systems. The Bangalore center serves global engineering and technology demands pertaining to software and design engineering for onshore and offshore wind turbines, with a focus on new technologies such as machine learning and artificial intelligence, required for building "smart" wind turbines of the next generation.

Technological development at our SGRE segment is established within a multi-year framework that is rolled out in the annual technological development plan, where activities and deliverables are established for each year and to which a budget is assigned.

SGRE also cooperates with renowned specialized institutions in the field of wind energy and fosters research partnerships across countries, organizations and disciplines. In addition, SGRE's partnership with Ørsted and the three U.K. universities of Hull, Sheffield and Durham is also looking at how renewable energy research can lower the costs of offshore wind power. This five-year partnership funded by the U.K. government under its Engineering and Physical Science Research Council enables SGRE and its partner to develop new solutions relating to structural health monitoring and generator topologies. SGRE is also collaborating with Siemens in the development of thermal energy storage in a project called "ETES" that is co-funded by the German Federal Ministry of Economic Affairs of Energy. Within the digitalization field, our SGRE segment is cooperating with the University of Carlos III in Madrid in a three-year project, funded by the Spanish institution "*Centro para el Desarrollo Tecnológico Industrial*" (CDTI). The project comprises research on edge computing technologies, probabilistic design and power plant control technologies, while looking for synergetic solutions with other sectors' needs and solutions. Furthermore, our SGRE segment regularly showcases some of its innovations at exhibitions and trade fairs in the wind energy industry.

#### 12.4.5 IP Rights

Our SGRE segment's IP strategy aims to protect and enhance its competitive position in the various geographic locations in which it operates. This is achieved by effective management of its IP rights, including patents, utility models, trademarks and know-how. IP rights are mainly managed and coordinated by IP teams based in Denmark, Germany and Spain, which have access to the relevant information within the SGRE group companies. IP rights are held centrally by two SGRE group companies in Denmark and Spain.

On March 31, 2017, SGRE S.A. and Siemens AG entered into a licensing agreement pursuant to which SGRE S.A. was entitled to use the "Siemens" brand subject to certain conditions, including a change-of-control provision. This licensing agreement shall be replaced upon the loss of control

of Siemens AG in SGRE S.A. (which will be the case upon Spin-Off Completion) by another licensing agreement signed between SGRE S.A. and Siemens AG on May 20, 2020. In addition, on January 1, 2019, SGRE and Siemens entered into a service agreement by which Siemens provides support regarding the administration of IP rights. For more information on these agreements, see *"18.1.1.2 Relationships with and Services Provided by the Siemens Group to SGRE"*.

SGRE has also entered into licensing agreements with its partner Shanghai Electric that cover SGRE's 4.0 MW, 6.0 MW, 7.0 MW and 8.0 MW offshore wind turbine technology. Under such agreements, Shanghai Electric manufactures, sells and installs the offshore turbines for the offshore wind power projects in mainland China's territorial waters against payment of a license fee. The strategic cooperation between SGRE and Shanghai Electric started in 2013 when they joined efforts to drive the development of the Chinese offshore wind power market.

SGRE also owns several trademarks, in particular world trademarks and product trademarks, for example DinoTails®, HWRT (High Wind Ride Through) and IntegralBlade®.

As part of the Servion acquisition, SGRE acquired all of Servion's IP rights, including patents, trademarks, software and know-how related to the acquired business, with the exception of IP rights registered in India (see also *"12.9.3 Acquisition of Selected European Assets of Servion"*).

In addition, it is particularly important to our SGRE segment to protect the results of its innovation activities with regard to new product developments and business fields against unauthorized use. Throughout its history, SGRE has patented a large number of innovations, including products, methods and processes. Our SGRE segment's patent portfolio includes an extensive number of patents that are necessary for its business activities, which it obtains by exercising its rights regarding employee inventions and submitting them for registration. SGRE held over 5,800 active patents as of June 30, 2020 (this figure contemplates, among others, over 2,200 active patents acquired from Servion under the Servion Acquisition). Patents include utility models in Denmark, Spain, Germany and other jurisdictions as well, among them a few patents and utility models registered for foreign SGRE companies in foreign jurisdictions only. However, with respect to trade secrets and specific secret process technologies, our SGRE segment sometimes elects not to pursue protection through patent registration, as this would require the disclosure of secret know-how. For a description of certain SGRE disputes relating to IP rights, see *"12.8.2.4 Disputes or Disagreements Regarding IP Rights"*.

#### **12.4.6 Sustainability, Environmental, Social Responsibility and Governance**

SGRE voluntarily adheres to various codes of ethics or codes of practice, including (i) "United Nations Global Compact", which is promoted by the United Nations ("UN") with the goal of promoting commitment and support of the ten principles related to human and labor rights, environmental protection and the fight against corruption, (ii) the Global Reporting Initiative, an independent international organization that has pioneered sustainability reporting, relating to the exchange of transparent and reliable information on sustainability, (iii) the Science Based Targets, a joint international initiative of the Carbon Disclosure Project, the UN Global Compact, the World Resources Institute, the World Wide Fund for Nature and the We Mean Business coalition with the aim of reducing carbon emissions in a measurable manner and to a sufficient level to meet the objective of not exceeding 2°C of global warming established in the Paris Agreement, and many other initiatives relating to diversity, sustainability, climate change and similar topics. In December 2019, SGRE signed the "Business Ambition for 1.5C – Our Only Future" pledge during the climate change talks held in Madrid, committing to meet objectives relating to its emissions evaluated through the UN's SBTi, or by setting a public goal to reach net-zero emissions by no later than 2050 (source: SGRE website, Journal section, "Siemens Gamesa reaffirms pledge to meet UN's climate targets for Industry", published on December 11, 2019). As of August 24, 2020, there were 274 companies that had committed to this initiative (source: UN Global Compact website, "Take action" section, "Business Ambition for 1.5 C – Join the visionary corporate leaders"). SGRE is a member of various international sustainability indexes, such as Dow Jones Sustainability Indices of the S&P Dow Jones Indices, which are float-adjusted market capitalization weighted indices that measure the performance of selected



companies with respect to economic, environmental and social criteria using a best-in-class approach; the FTSE4Good Index series of the Financial Times Stock Exchange Index, the Ethibel Sustainability Index, the STOXX® Euro Sustainability and the Global Challenges Index. In 2020, SGRE received an A rating (on a scale of AAA-CCC), an upgrade from its former BB rating, in the MSCI ESG ratings assessment, enabling SGRE's inclusion in the MSCI indices and with an investment grade rating. The MSCI ESG ratings measure companies, according to exposure to industry-specific ESG risks and the ability to manage those risks.

In addition, SGRE has identified several strategic lines and actions to work on regarding corporate social responsibility ("CSR"), which are set forth in its 2018-2020 CSR strategy, including pillars such as integrity and transparency, green development and a responsible supply chain, among others, as well as specific targets, actions and compliance control frameworks for each of the pillars.

An example of SGRE's commitment to sustainable development is the amount of guarantees that qualify as "green" which added up to € 1.77 billion by the end of 2019. Guarantee lines are considered "green" when they are linked to transactions that contribute to the UN's SDGs, *i.e.*, transactions focused on environmentally friendly, social or sustainable deals. For more information, see "12.9.2 Certain SGRE Financing Agreements".

With nearly 100 GW of installed wind capacity as of September 30, 2019, SGRE contributes to cutting emissions of CO<sub>2</sub> by 259 million tons per year (data for the fiscal year 2019; based on the calculation of total CO<sub>2</sub> emissions that would be generated annually with conventional fossil fuels to produce the equivalent amount of electricity, in kWh, produced by SGRE turbines on an annual basis), roughly equivalent to planting 4 billion trees or removing the emissions of 170 million diesel cars (as per its own internal assessment based on the 2006 IPCC National Greenhouse Gas Inventories). SGRE had undertaken to be carbon-neutral by 2025, by using offsetting measures while working consistently to reduce all carbon emissions across its operations, replacing conventional emission-intensive power sources with renewable energies. In the second quarter of the fiscal year 2020, SGRE communicated that it had achieved carbon neutrality (including through offsetting) ahead of its 2025 target timeframe. SGRE will continue to transition its electricity supply from renewable sources. A significant share of SGRE locations in Denmark, Germany and Spain are already supplied with renewable energy. Currently, this is achieved through the purchase of green renewable certificates that guarantee that the electricity has been generated by a renewable energy source. SGRE has stated that it will also investigate the feasibility of implementing renewable energy generating technologies at facility or project sites in the future. In addition, SGRE has defined a sustainable mobility plan (the "Global Mobility & Transportation Policy Framework") which includes a decreasing set of limits regarding CO<sub>2</sub> for management fleet with different milestones to be achieved as from October 1, 2019, 2020 and 2021, respectively. SGRE is currently implementing this framework, which will contribute to SGRE's objectives regarding its (indirect) GHG emissions. In addition, SGRE is looking into the cost and feasibility of replacing part of the existing company vehicle fleet with, for example, plug-in hybrids, electric vehicles, which will support SGRE in its reduction of (direct) GHG emissions. Furthermore, SGRE has one wind power project registered as a Clean Development Mechanism ("CDM") under the United Nations standards (UN Framework Convention on Climate Change). This project generates Certified Emission Reductions ("CER") that are used to offset GHG emissions. The project is in the state of Oaxaca in Mexico and is currently in operation. A decision has yet to be taken on the different deadlines and scenarios to exchange the CERs available for use and subsequently deleted from the CDM register to offset SGRE's GHG emissions in keeping with its climate neutral strategy.

SGRE also uses several regulatory and voluntary instruments to achieve a positive net balance in relation to biodiversity and the environment. These include company policies and procedure, full compliance with permits granted by environmental and conservation authorities in each region (which set out requirements to ensure the local environment's protection), setting environmental and control plans and implementing management systems (the majority of which have been certified according to the ISO 14001 standard to prevent and control environmental risks), and complying with regulations on conducting environmental impact studies (which include analysis

and prevention mechanisms with different alternatives and lay down corrective measures to avoid, mitigate or offset any possible damage to biodiversity and the environment).

SGRE pursues a life cycle approach so that its wind turbines not only provide clean energy during operation but are also resource-efficient and recyclable. SGRE's most significant efforts in this area include, among others, reducing materials, waste, energy and water, optimizing packaging and logistics, improving the turbines' capacity factor for higher AEP, reducing time between service visits for less fuel consumption, applying remote diagnostics to increase availability, protecting wildlife by using SCADA control, a modular design to optimize dismantling and waste treatment, reusing and recycling components and materials and seeking alternative materials for high recyclability.

In addition, SGRE has undertaken in its code of conduct (the "Business Conduct Guidelines" issued in 2018) to defend human rights. SGRE is committed to observing international standards on the protection of fundamental rights and freedoms of the people affected by its operations, guided by the UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with regard to human rights, the guidelines of the OECD, the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy of the International Labor Organization and the Women's Empowerment Principles of the UN Development Fund for Women (UNIFEM). In 2020, SGRE was included in Bloomberg's Gender-Equality Index.

Moreover, in early April 2020, SGRE joined the IRENA Coalition for Action alongside over 100 leading renewable energy players calling for the sector to be at the core in leading a sustainable recovery from the coronavirus crisis. In May 2020, SGRE joined an expanded group of 270 executives from major European companies and banks, EU politicians and industry bodies to have signed up to the EU's Green Recovery Alliance that aims to drive a sustainable recovery path in the wake of the coronavirus crisis. The Alliance has committed among its signatories to work together, share knowledge, and create synergies needed to deliver the investment decisions required for a green recovery.

#### **12.4.7 Compliance**

SGRE's compliance system is based on three pillars, namely (i) prevention (including effective preventive measures such as risk management, policies and procedures, training and communication to enable systematic misconduct to be avoided), (ii) detection (including complete clarification through initiatives such as whistle-blowing channels as well as professional and fair investigations) and (iii) response (including explicit consequences and clear reactions to support the prevention of misconduct and eliminate deficiencies).

SGRE's compliance organization comprises different levels, headed by the Chief Compliance Officer, an internal independent and permanent figure who reports to the Audit, Compliance and Related Party Transactions Committee of the board of directors as well as to the Executive Committee. The internal audit department is responsible for adapting internal control systems and examines the compliance organization. When requested by the Chief Compliance Officer, the internal audit department also conducts reviews on certain compliance regulations and processes up to a complete check of the compliance system. The compliance department oversees the prevention supervision of the ethics culture and the creation thereof. Overall responsibility for compliance lies with the management of SGRE and the managing directors/heads of the individual SGRE units. The board of directors is ultimately responsible for compliance within SGRE. Its Audit, Compliance and Related Party Transactions Committee supervises the reviewing of the compliance system's efficiency, including proposing the compliance organization's budget. The compliance organization is supported by several compliance officers who are responsible for implementing the compliance systems in the regions and countries in which SGRE operates.

SGRE's Business Conduct Guidelines lay the foundation for its internal regulations and express SGRE's values, compliance-related responsibilities and behavioral framework for all managers, employees and managing board members worldwide. SGRE has developed and implemented a compliance system as the basis for all its decisions and activities, focused on strictly complying

with all laws and internal regulations as well as principles of ethical business conduct. Training, in particular of employees who, by their functions, are exposed to specific compliance risks, is an important element of SGRE's compliance system. In addition, a compliance risk assessment evaluates these risks and defines mitigation measures. It also creates an awareness of compliance risks, strengthens cooperation between the compliance organization and the operational units and emphasizes the responsibility of the managing directors and management in general for compliance-related topics. Moreover, a Clearing Committee has been set up to assess the risks resulting from disclosure of information and documents by SGRE to law enforcement or other governmental agencies.

For risks related to the failing of our compliance system, see *"3.4.4 Our risk management and internal controls may not prevent or detect compliance risks, which could result in investigations by authorities, fines, damage claims, payment claims, the termination of relationships with customers or suppliers and even governmental exclusion from businesses (blacklisting) as well as reputational damage. Further, our internal controls could fail to detect business risks in time or at all."*

#### 12.4.8 Insurance

SGRE's insurance policies are aimed at adequately covering its property, plant and equipment. SGRE has also entered into insurance policies to cover the wind turbines generators while they are being assembled. Effective as of October 1, 2019, SGRE adhered to a global stand-alone insurance program, which includes all-risk property damage insurance policies, civil liability insurance policies, transport, chartering of ships and all-risk construction insurance policies. Marsh and McLennan acts as insurance broker and service provider for the global insurance program. In addition, SGRE S.A. has entered into D&O insurance policies as well as death and disability insurance, among others, for executives, directors and other employees. As of the date of this Prospectus, SGRE has no material insurance claim.

#### 12.4.9 Ratings

SGRE has received ratings from several rating agencies. The following provides an overview of the current ratings as of the date of the Prospectus and of the definitions used by the respective rating agencies:

Rating Agency	Long-Term Rating	Outlook	Date of Assessment
S&P Global Ratings Europe Limited (" <b>S&amp;P Global</b> ") .....	BBB-	Positive	July 2, 2020
Moody's Investors Service España S.A. (" <b>Moody's</b> ") .....	Baa3	Under review for downgrade	June 23, 2020
Fitch Ratings España S.A.U (" <b>Fitch</b> ") .....	BBB	Negative	May 12, 2020

Based on the latest S&P Global publication of July 2, 2020, the SGRE rating is foreseen to be upgraded to BBB once the Spin-Off is completed. S&P Global has indicated in such publication that it will equalize the issuer credit rating on SGRE with that on Siemens Energy once Siemens Energy's ratings are final.

According to Moody's methodology, a decision relating to the review for a potential downgrade shall be made within the three months following the publication of the review notice on June 23, 2020. The process is ongoing and Moody's shall publish the result on or before September 23, 2020.

The rating agencies define the ratings as follows:

S&P Global: According to the definition used by Standard & Poor's, an obligor rated "BBB" has adequate capacity to meet its financial commitments. However, adverse economic

conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments. Ratings can be modified by the addition of a plus (+) or minus (-) sign to show relative standing position within the rating categories. A positive outlook means that a rating may be raised over the intermediate term.

**Moody's:** According to the definition used by Moody's, obligations rated "Baa" are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

A review indicates that a rating is under consideration for a change in the near term. A rating can be placed on review for upgrade, downgrade, or more rarely with direction uncertain. A review may end with a rating being upgraded, downgraded, or confirmed without a change to the rating. Ratings are placed on review when a rating action may be warranted in the near term but further information or analysis is needed to reach a decision on the need for a rating change or the magnitude of the potential change. The time between the origination of a rating review and its conclusion varies widely depending on the reason for the review and the amount of time needed to obtain and analyze the information relevant to make a rating determination. In some cases, the ability to conclude a review is dependent on whether a specific event occurs, such as the completion of a corporate merger or the execution of an amendment to a structured finance security. For the majority of reviews, however, where the conclusion of the review is not dependent on an event whose timing Moody's cannot control, reviews are typically concluded within 30 to 90 days. Ratings on review for possible downgrade (upgrade) have historically concluded with a downgrade (upgrade) over half of the time.

**Fitch:** According to Fitch, a "BBB" rating indicates a good credit quality, *i.e.*, that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity. The outlook indicates the direction a rating is possible to move over a one to two-year period.

Each of S&P Global, Moody's and Fitch are registered with ESMA in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended from time to time, and are included in the list of registered credit rating agencies published on the website of the European Securities and Markets Authority (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>).

Each rating reflects the opinion of the particular rating agency at the given reported point in time. Investors should consider each rating individually and obtain additional information and a more detailed understanding of the significance of the credit rating provided by the relevant rating agency. Rating agencies may change their ratings at any time if they are of the opinion that specific circumstances require such a change. Investors should not regard the long-term ratings as a recommendation to buy, hold or sell securities.

## **12.5 Sustainability**

In line with Siemens AG's sustainability performance, Siemens Energy aims to take on a leading role in the sustainability area within the energy industry. As a sign of commitment to sustainability, the Chief Executive Officer, Dr.-Ing. Christian Bruch, will also be the Chief Sustainability Officer of Siemens Energy.

In close alignment with SGRE's efforts to further sustainability (see "*12.4.6 Sustainability, Environmental, Social Responsibility and Governance*") and drawing on its comprehensive portfolio, Siemens Energy plans to address the challenges of climate change while simultaneously

helping societies all over the world to meet their growing energy needs in a reliable and affordable manner. As a global energy company, Siemens Energy has the capabilities, and the responsibility, to support the transformation of the energy industry towards a more sustainable future. Siemens Energy aims to work with its customers and partners from all around the world to leverage various business opportunities that arise from private and public investments to fulfill its responsibility.

Siemens Energy supports the Paris Agreement and voluntarily adheres to various codes of ethics or codes of practice, including the “United Nations Global Compact”, which is promoted by the UN with the goal of furthering commitment and support of the ten principles of human and labor rights, environmental protection and the fight against corruption.

Siemens Energy is committed to the United Nations Sustainable Development Agenda and aims to support all the relevant SDGs. Amongst the various SDGs, there are five SDGs, that believe to have the highest impact on. These are: SDG 7 (affordable and clean energy), SDG 8 (decent work and sustainable economic growth), SDG 9 (industry, innovation and infrastructure) and SDG 13 (climate protection). These SDGs are quite directly connected to our business models, products, services and solutions, as well as SDG 5 (gender equality) to which we commit ourselves. Siemens Energy has a positive effect on most SDGs due to our products and solutions, responsible business activity, know-how and thought leadership, and commitment to society (Corporate Social Responsibility).

Our mission is to support our customers in transitioning to a more sustainable world, based on our innovative technologies and our ability to turn ideas into reality. Accordingly, we act in the interest of societal development and prosperity – true to the company purpose “We energize society”. Siemens Energy is convinced that the SDGs offer new business opportunities, in particular by opening doors to work with national and local governments that want to reshape their own development agenda.

To support this ambition, our Sustainability program is structured along the following topics:

- *Enabling Energy Transition & Decarbonization* – Energy transition and decarbonization are key factors of the Siemens Energy strategy. We foster decarbonization along the complete value chain with specific initiatives around carbon neutrality in our own operations or resource conservation programs and the development of products that are further decarbonizing our portfolio. As an example we already had a decarbonized portfolio share of more than 50% as per fiscal year 2019. Furthermore, we aim to be climate neutral in our own operations until 2030 and with a 100% green electricity consumption until 2023.
- *Empowering People and Society* – We want to shape a new company culture and empower our people as well as societies around the globe. Access to affordable energy, diversity and inclusion as well as occupational health & safety are key aspects of our program. We target a 25% share of females in the top two organizational levels below the Executive Board until 2025 and 30% until 2030.
- *Acting Responsibly* – We act responsibly, inside the organization and together with partners, suppliers and customers. We enable our colleagues to act responsibly, supported by respective processes such as a “zero harm culture” or business conduct guidelines. We are committed to our goal as a safety leader in the industry of zero fatalities. The reporting segments, local legal entities and functions contribute to the implementation of this program and help to establish and maintain responsible business practices within the company.

Siemens Energy plans to establish a clear governance and incentive framework to support the implementation sustainability into all areas of business. We are signatories of the UN Global Compact and align our yearly sustainability reporting with the standards of the Global Reporting Initiative, an independent international organization that has pioneered sustainability reporting, relating to the exchange of transparent and reliable information on sustainability. Other commitments are currently under review.



## 12.6 Ratings

As of the date of this Prospectus, Siemens Energy AG and SE Global GmbH & Co. KG are rated by S&P Global as follows:

Rated Entity	Preliminary Long-Term Rating	Outlook	Date of Assessment
Siemens Energy AG . . . . .	BBB	Stable	July 2, 2020
SE Global GmbH & Co. KG . . . . .	BBB	Stable	August 6, 2020

It is expected that, after Spin-Off Completion, the preliminary long-term ratings will become the long-term issuer credit ratings of Siemens Energy AG and SE Global GmbH & Co. KG. S&P Global defines the rating as follows: An obligor rated "BBB" has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments. Ratings can be modified by the addition of a plus (+) or minus (-) sign to show relative standing position within the rating categories. A stable outlook means that a rating is not likely to change over the intermediate term.

A rating reflects the opinion of the particular rating agency at the given reported point in time. Investors should obtain additional information and a more detailed understanding of the significance of the credit rating provided by the particular rating agency. Rating agencies may change their ratings at any time if they are of the opinion that specific circumstances require such a change. Investors should not regard long-term ratings as a recommendation to buy, hold or sell securities.

## 12.7 Risk Management and Compliance

We continuously seek to reduce various risks to which we are exposed, including the risk that employees as well as representatives, consultants and business partners of Siemens Energy may engage in illegal business practices. The aim of our risk management is to ensure the risks associated with our business activities are in reasonable relation to the opportunities pursued, while the aim of our compliance system is to prevent, detect and respond to potential violations of applicable rules and regulations. As part of the Siemens Group, our Gas and Power segment was integrated into the Siemens Group's risk management and compliance systems. In preparation for our separation from Siemens, we have established our own risk management and compliance organizations, functions, tools and processes, the key features of which are based on the systems developed by Siemens.

For risks related to the failing of our risk management and compliance system, see *"3.4.4 Our risk management and internal controls may not prevent or detect compliance risks, which could result in investigations by authorities, fines, damage claims, payment claims, the termination of relationships with customers or suppliers and even governmental exclusion from businesses (blacklisting) as well as reputational damage. Further, our internal controls could fail to detect business risks in time or at all."*

### 12.7.1 Risk Management

Our risk management policy stems from a philosophy of creating economic value while managing appropriate risks and opportunities and avoiding inappropriate risks. As risk management is an integral part of how we plan and execute our business strategies, our group-wide risk management policy is set by the Executive Board. Our organizational and accountability structure requires each of the respective managements of our organizational units to implement risk management programs that are tailored to their specific industries and responsibilities, while being consistent with group-wide policies of the Executive Board.

Risk management at Siemens Energy builds on a comprehensive, interactive and management-oriented Enterprise Risk Management ("ERM") approach that is integrated into the organization

and that addresses both risks and opportunities. Our ERM process aims for early identification, evaluation and response to risks and opportunities that could materially affect the achievement of our strategic, operational, financial and compliance objectives. The time horizon is typically three years, and we take a net risk approach, addressing risks and opportunities remaining after the execution of existing control measures. Our internal auditors regularly review the adequacy and effectiveness of our risk management. The processes and procedures implemented are intended to help ensure that the Executive Board and the Supervisory Board are fully informed about significant risks in a timely manner.

If risks have already been considered in plans, budgets, forecasts or the consolidated financial statements (e.g., as a provision or risk contingency), they are supposed to be incorporated with their financial impact in the entity's business objectives. As a consequence, only additional risks arising from the same subject (e.g., deviations from business objectives, different impact perspectives) should be considered. In order to provide a comprehensive view of our business activities, risks and opportunities are identified in a structured way combining elements of both top down and bottom-up approaches.

Reporting generally follows periodic cycles but we complement this periodic reporting with an ad-hoc reporting process that aims to escalate critical issues in a timely manner. Relevant risks and opportunities are prioritized in terms of impact and likelihood, considering different perspectives, including business objectives, reputation and regulatory requirements. If new risks are identified the respective managements of our organizational units will become involved to decide whether such risks shall be tracked in future risk reporting. Responsibilities are assigned for all relevant risks and opportunities, with the hierarchical level of responsibility depending on the significance of the respective risk or opportunity. Our general response strategies with respect to risks are avoidance, transfer, reduction or acceptance of the relevant risk.

To oversee the ERM process and further drive integration and harmonization of existing control activities to align with legal and operational requirements, the Executive Board established a Risk Management and Internal Control Organization, headed by the Chief Risk and Internal Control Officer. In order to allow for a meaningful discussion of risk at the group level, this organization aggregates individual risks and opportunities of similar cause-and-effect nature into broader risk and opportunity themes. The Chief Risk and Internal Control Officer reports periodically to the Executive Board on matters relating to the implementation, operation and oversight of the risk and internal control system and assists the Executive Board, for example, in reporting to the Audit Committee of the Supervisory Board.

### **12.7.2 Compliance**

At Siemens Energy we pursue a zero tolerance approach to corruption and other violations of applicable law and our business conduct guidelines ("BCGs"). Our compliance system is designed to anchor integrity and compliance in the minds and actions of all Siemens Energy employees and external stakeholders. For this purpose, we conduct integrity dialogues and compliance training worldwide. Our BCGs form the basis for detailed internal regulations. The BCGs are binding for all Siemens Energy employees worldwide.

Our compliance system is designed to ensure that our business practices worldwide comply with these guidelines and with applicable laws. To this end and to protect against compliance risks, our compliance system is based on the three pillars of prevention, detection and response, and covers in particular the areas of anti-corruption, anti-money laundering, antitrust, data privacy, export control and human rights. We also require our suppliers and business partners to comply with our standards of business conduct, including those relating to anti-corruption and fair competition.

The global compliance structure combines strong governance at group level with the use of qualified compliance officers who ensure that the compliance system is implemented worldwide. Since the corruption scandal at Siemens AG in 2007/2008, a clear and unambiguous message has been constantly conveyed that every single employee and especially management must comply

with the compliance rules. This message applies equally to the employees and management of Siemens Energy.

At Siemens Energy, a reliable compliance risk analysis is key to the success of the corporate strategy and planned business objectives. Therefore, our compliance risk management is an essential element of the group wide ERM program. For example, we have mandatory processes and related tools for compliance due diligence of business partners, which are continuously adapted to cover emerging risks. They support the Siemens Energy units in risk-based integrity checks of business partners. At Siemens Energy we offer all employees and external third parties protected reporting channels to report violations of external and internal rules. We follow up on any indication of a violation. We monitor, evaluate and improve the Siemens Energy compliance system on a continuous basis.

## 12.8 Legal and Administrative Proceedings

In the ordinary course of business, we are involved in out-of-court disputes, litigation and arbitration proceedings as well as administrative proceedings. Frequently encountered situations include claims based on alleged breach of contract (in particular claims from or against project partners and customers in connection with delays, poor or non-performance), labor disputes, antitrust issues, product liability and warranty claims as well as infringement or the validity of IP rights. For more information on the related risks, see *"3.4.1 We are subject to risks from disputes and administrative, legal and arbitration proceedings which could result in penalties, damages and loss of reputation."* and *"3.4.4 Our risk management and internal controls may not prevent or detect compliance risks, which could result in investigations by authorities, fines, damage claims, payment claims, the termination of relationships with customers or suppliers and even governmental exclusion from businesses (blacklisting) as well as reputational damage. Further, our internal controls could fail to detect business risks in time or at all."*. Except for the proceedings described below, neither the Company nor any companies of the Siemens Energy Group are currently involved or have during the period of the past twelve months been involved, respectively, in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware), which may have or have had in the recent past significant effects on the financial position or profitability of the Company and/or the Siemens Energy Group. For certain cases we have set up provisions in an amount we consider appropriate. In addition, in some instances regarding product liability claims we are covered by insurance, subject to deductibles.

### 12.8.1 Gas and Power Legal and Administrative Proceedings

#### 12.8.1.1 *Damage Claims Relating to an Alleged Late Completion of a Power Plant in Brazil*

In March 2019, a Brazilian company asserted claims to pay an amount in a higher three-digit million euro amount in local currency against a consortium of contractors and each member of the consortium, including our subsidiary Siemens Ltda., Brazil ("**Siemens Ltda.**") in a lawsuit relating to the construction of a power plant in Brazil that was completed in 2016. The members of the consortium are jointly and severally liable, Siemens Ltda.'s share in the consortium is below 3%. The consortium and its members defend themselves against the claim and for their part claim payment in a lower three-digit million euro amount in local currency.

#### 12.8.1.2 *Damage Claims Relating to Alleged Overpricing in Relation to High-voltage Substations in Brazil*

In February 1996, the Public Attorney's Office of Rio Grande do Sul filed lawsuit against Siemens Ltda., as well as other companies and several individuals, for alleged overpricing in relation to the erection and sale of five high-voltage substations and requested, inter alia, damages in a one-digit million euro amount in local currency from the consortium that Siemens Ltda. participated in, as well as blacklisting of the defendants. The claim amount is increased by monetary adjustments for inflation and interest in a low to mid three-digit million euro amount in local currency. Siemens is defending itself against the action.

#### 12.8.1.3 Legal Proceedings of Siemens Group Companies Relating to the Siemens Energy Business

Pursuant to contractual arrangements with Siemens AG, we bear the economic consequences of certain legal disputes and proceedings related to our business to which companies within Siemens Group that are not part of Siemens Energy are a party.

##### 12.8.1.3.1 Anti-Competitive Arrangement in the Field of Gas-Insulated Switchgear in Israel

This includes claims brought against Siemens in connection with an alleged anti-competitive arrangement between April 1988 and April 2004 in the field of gas-insulated switchgear in Israel. In September 2013, the Israeli Antitrust Authority concluded that Siemens AG was a party to an illegal restrictive arrangement regarding the Israeli gas-insulated switchgear market between 1988 and 2004, with an interruption from October 1999 to February 2002. Siemens AG appealed against this decision in May 2014.

Based on the above mentioned conclusion of the Israeli Antitrust Authority, two electricity consumer groups filed motions to certify a class action for cartel damages against a number of companies including Siemens AG with an Israeli State Court in September 2013. One of the class actions was dismissed by the court in the fiscal year 2015. The remaining class action seeks compensation for alleged damages amounting to ILS 2.8 billion (as of September 30, 2019 equivalent to € 739 million). In addition, the Israel Electric Corporation filed at the end of December 2013 with an Israeli State Court a separate ILS 3.8 billion (as of September 30, 2019 equivalent to € 997 million) claim for damages against Siemens AG and other companies that allegedly formed a cartel in the Israeli gas-insulated switchgear market. A settlement agreement concluded in December 2018 has been approved by the Israeli Court. Following payment of a mid double-digit million euro figure as settlement amount in July 2020, the matter was finally settled.

##### 12.8.1.3.2 Litigations with TenneT Entities Relating to the Connection of Offshore Wind Power Plants in Germany

In December 2016, the BorWin Offshore Consortium ("**BorWin**") established between Siemens AG and another company filed a lawsuit against TenneT Offshore 1. Beteiligungsgesellschaft mbH with the district court of Frankfurt am Main, Germany, asserting contractual claims of now approximately € 88 million. The lawsuit relates to the connection of the offshore wind power plants in the cluster 'Borwin' to the grid. TenneT Offshore 1. Beteiligungsgesellschaft mbH set off with counterclaims in the amount of approximately € 67 million. In January 2020, TenneT Offshore 1. Beteiligungsgesellschaft mbH filed further counterclaims against BorWin asserting, inter alia, the correction of defects with an alleged value of approximately € 60 million. BorWin disputes the set-off and is defending itself against all counterclaims.

In December 2016, the Helwin Offshore Consortium ("**Helwin**") established between Siemens AG and another company filed a lawsuit against TenneT Offshore GmbH with the district court of Frankfurt am Main, Germany, asserting contractual claims of now approximately € 91 million. The lawsuit relates to the connection of the offshore wind power plants in the cluster 'HelWin' to the grid. TenneT Offshore GmbH set off with counterclaims in the amount of approximately € 55 million. In January 2020, TenneT Offshore GmbH filed further counterclaims against Helwin asserting, among others, the correction of defects with an alleged value of approximately € 77 million. Helwin disputes the set-off and is defending itself against all counterclaims.

In December 2016, the Sylwin Offshore Consortium ("**Sylwin**") established between Siemens AG and another company filed a lawsuit against TenneT Offshore 7. Beteiligungsgesellschaft mbH with the district court of Frankfurt am Main, Germany, asserting contractual claims of approximately € 90 million. The lawsuit relates to the connection of the offshore wind power plants in the cluster Sylwin to the grid. TenneT Offshore 7. Beteiligungsgesellschaft mbH set off with counterclaims in the amount of approximately € 72 million. In April 2020, TenneT Offshore 7. Beteiligungsgesellschaft mbH filed further counterclaims against the Consortium asserting, inter alia, the correction of defects with an alleged value of approximately € 75 million. Sylwin disputes the set-off and is defending itself against all counterclaims.

#### 12.8.1.4 *Legal Proceedings of Siemens Energy Group Companies Relating to the Siemens Business*

In some countries, the separation of Siemens Energy from Siemens Group was executed by way of a reverse carve-out, *i.e.*, the businesses within a regional company that remains with Siemens Group were transferred out of such regional company into a newly established Siemens Group legal entity.

As a result, legal proceedings against such regional company arising in connection with business activities that were previously conducted by such regional company and that do not pertain to the Siemens Energy business will remain with such regional company, which is now part of Siemens Energy. Siemens Energy and Siemens Group have reached agreements to allocate the resulting financial risks in accordance with the separation of the business activities. However, it cannot be excluded at this stage that, as a result of those legal proceedings, such regional company might also be (temporarily or permanently) barred from conducting certain or any business in the respective region, or even be dissolved.

These statements also apply to legal proceedings in Brazil to which Siemens Ltda. is a party and which result out, among others, Siemens' businesses transferred into newly established Siemens Group legal entities (such as Siemens Infraestrutura e Indústria Ltda., Siemens Mobility Ltda., Siemens Healthcare Diagnósticos S.A.). These legal proceedings remain with Siemens Energy's subsidiary in Brazil. For more information, see Note 27 to the Audited Combined Financial Statements, which are included in "*21 Financial Information*" of this Prospectus on page F-1 et seq.

### 12.8.2 **SGRE Legal and Administrative Proceedings**

#### 12.8.2.1 *Settlement Agreement with Areva*

In March 2020, Adwen Offshore, S.L.U. and Siemens Gamesa Renewable Energy Wind Farms, S.A. (two SGRE subsidiaries), together with SGRE S.A., reached a final settlement agreement with Areva Energies Renouvelables SAS and Areva S.A. (France) (hereinafter together, "**Areva**") settling certain disputes between the parties relating to a joint venture between SGRE and Areva (the Adwen joint venture) and to an indemnification regime agreed thereupon regarding the potential claims that could arise under the projects brought by Areva to the joint venture. Areva will pay Adwen Offshore, S.L.U. a settlement payment amounting to € 72.4 million, which will be paid out in two tranches of € 36.2 million each, on or before January 31, 2021 and on or before December 31, 2021, respectively. In addition, a further amount of € 26.4 million will be offset against a shareholder loan.

#### 12.8.2.2 *Claims Based on a Wind Power Plant Project in Germany*

Adwen GmbH (a subsidiary of SGRE) was party to a proceeding pending before the Dispute Adjudication Board based in Hamburg ("**DAB**"), which concerns claims and counterclaims of Adwen GmbH (including Adwen's former shareholder Areva, S.A.) and one of its customers relating to a wind power plant project in Germany. In June 2019, the DAB resolved that Adwen GmbH is responsible for the remediation of certain defects, providing different deadlines (until March 2020) for the remediation. At the same time, the DAB awarded certain monetary payments to Adwen GmbH for unpaid invoices and as compensation for delays and project disruptions. Before the resolutions became legally binding, both parties agreed to start a negotiation period (for mediation). With effect as of August 15, 2020, the parties entered into a final settlement agreement. In such settlement agreement, the parties have agreed that the DAB decisions shall be final and binding and have specified how such decisions shall be implemented. In addition, the agreement includes certain rules regarding the commercial relationship among the parties going forward as well as the settlement of their claims regarding alleged defects of the supplied wind energy converters and alleged project delays.



#### 12.8.2.3 *Customer Claim Regarding a Commercial Dispute Relating to Project Delays*

Furthermore, contract delays and adjustments to the scope of work occur from time to time for a number of reasons, including factors outside of SGRE's control. If disputes with customers arise due to problems with the execution of contracts, SGRE may negotiate variations to the contract with its customers to reach a mutually acceptable solution. For example, SGRE is involved in a customer claim regarding a commercial dispute relating to execution delays in a project. Towards the end of 2019, the customer alleged that SGRE has delayed the project and is claiming liquidated damages for the delays up to the contractual capped amount. In early 2020, SGRE successfully objected to (and was thus granted a court injunction against) the drawdown of bank guarantees by the customer. With respect to the relevant customer contract, SGRE rejects the claim. Currently, SGRE intends – and continues to make reasonable efforts – to reach an amicable solution with the customer during the course of 2020.

#### 12.8.2.4 *Disputes or Disagreements Regarding IP Rights*

In addition, in the normal course of business, seldom disputes arise with competitors or other third parties concerning the validity of IP rights or infringements of IP. SGRE is party to a number of license agreements which afford SGRE IP rights (in particular, patents, trademarks and design rights) that are necessary or useful for its business. In a few individual cases, there have been disputes or disagreements resulting from the interpretation regarding the execution of the existing agreements or from the interpretation of the scope of use rights granted by third parties (including competitors) to SGRE regarding their respective IP rights, or with respect to alleged IP infringements. While some of those disputes in the past years have been finally solved by court in favor of SGRE, others are still awaiting a final resolution, or have not reached a court stage and still remain to be solved between the respective parties.

On July 31, 2020, General Electric Company ("GE") filed intellectual property related lawsuits against SGRE entities with the District Court (*Landgericht*) in Düsseldorf, Germany, and before the U.S. International Trade Commission ("ITC") asserting a violation of two patents with regard to certain variable speed wind turbine generators and components. The German lawsuit seeks an injunction against SGRE, mainly in relation to the manufacturing, offering and marketing of the relevant wind turbine generators and components in Germany, and financial compensation for any (alleged) infringing action performed after July 15, 2020. The U.S. ITC complaint seeks an exclusion order against SGRE's importation of certain wind turbine equipment into the United States.

Should the complainant be successful, the financial burden to SGRE could be significant. There is the risk that SGRE will not be able to complete projects or to win new projects for which the affected wind turbine generators or components are required in Germany and/or the United States, or will only be able to do so at a higher cost (e.g., if it had to resort to alternative generators or components). Furthermore, if GE's patents were found to be valid and infringed upon by SGRE, SGRE could be forced to obtain a license from GE. SGRE will be defending against GE's claims. In addition, SGRE has launched an opposition appeal before the European Patent Office in Munich, Germany, against the European patent which is the basis of the German lawsuit; a resolution on the appeal is still pending.

It cannot be excluded that SGRE will be involved in further disputes of such kind in individual cases in the future.

## 12.9 **Material Contracts**

### 12.9.1 **Siemens Energy Facility Agreement**

On July 7, 2020, a syndicate consisting of 7 banks as coordinating mandated lead arrangers (Merrill Lynch International Designated Activity Company, BNP Paribas S.A. Niederlassung Deutschland, COMMERZBANK Aktiengesellschaft, Credit Suisse International, Deutsche Bank AG, Goldman Sachs Bank USA and J.P. Morgan Securities plc), 9 banks as mandated lead arrangers (Bank of China Limited Zweigniederlassung Frankfurt am Main Frankfurt Branch, Citigroup

Global Markets Limited, Crédit Agricole Corporate and Investment Bank, HSCB Trinkaus & Burkardt AG, ING Bank, a Branch of ING-DiBa AG, Banco Santander, S.A., Société Générale S.A. Frankfurt Branch, Standard Chartered Bank and Unicredit Bank AG), with initially 18 lenders (Bank of America, National Association Frankfurt Branch / Filiale Frankfurt am Main, BNP Paribas S.A. Niederlassung Deutschland, COMMERZBANK Aktiengesellschaft, Filiale Luxemburg, Credit Suisse International, Deutsche Bank Luxembourg S.A., Goldman Sachs Bank USA, J.P. Morgan Chase Bank, N.A., London Branch, Bank of China Limited Zweigniederlassung Frankfurt am Main / Frankfurt Branch, Citibank Europe plc, Germany branch, Crédit Agricole Corporate and Investment Bank Deutschland, Niederlassung einer französischen Société Anonyme, HSBC France, HSBC Trinkaus & Burkardt AG, ING Bank, a branch of ING-DiBa AG, Banco Santander S.A., Frankfurt Branch, Société Générale, Société Générale S.A. Frankfurt Branch, Standard Chartered Bank and UniCredit Bank AG), SE Global GmbH & Co. KG and Siemens Energy Finance B.V. concluded a facility agreement regarding a multicurrency revolving credit facility with a maximum total volume of € 3 billion (the "**Facility Agreement**"). On August 14, 2020, further twelve banks (Bayerische Landesbank, DZ BANK AG, First Abu Dhabi Bank PJSC, Landesbank Baden-Württemberg, Mizuho Bank Ltd., The Toronto-Dominion Bank, Landesbank Hessen-Thüringen Girozentrale, MUFG Bank (Europe) N.V., Skandinaviska Enskilda Banken AB, The Standard Bank of South Africa Ltd, Sumitomo Mitsui Banking Corporation, Banco Bilbao Vizcaya Argentaria S.A.) acceded to the Facility Agreement.

The revolving credit facility may be drawn in euro, Pound Sterling or U.S. dollar and, subject to the consent of the banks, in other currencies. The loans will each be used to finance general corporate purposes. A sublimit of € 1 billion may also be used as a swingline facility with a shortened drawing notice period in order to refinance any note or other instrument maturing under a euro commercial paper program. The initial borrowers will be SE Global GmbH & Co. KG and Siemens Energy Finance B.V. There is a requirement for Siemens Energy AG to accede to the Facility Agreement as a guarantor shortly after Spin-Off Completion (the "**SE Accession**"). SE Global GmbH & Co. KG and, following the SE Accession, Siemens Energy AG will guarantee for all payment obligations of the borrowers under the Facility Agreement.

The Facility Agreement has an initial term of three years, with two extension options for one year each, which are however at the discretion of the lenders.

The loans will bear interest at a variable currency-related reference rate plus a margin. The margin will depend on the rating of Siemens Energy AG by Moody's Deutschland GmbH, S&P Global Ratings Europe Limited and/or Fitch Deutschland GmbH. Furthermore, the Facility Agreement provides for upward or downward adjustments of the margin that will depend on the level of achievement of certain ESG targets. In each case, the reference rate will have a floor of zero so that the full margin will remain payable in the case of a negative reference rate. In addition, the Facility Agreement provides for fees and indemnifications in favor of the banks.

In addition, the Facility Agreement contains certain covenants, obligations and termination rights. In particular, certain material subsidiaries of Siemens Energy AG (but excluding SGRE) are subject to restrictions regarding the entering into financial indebtedness. Such material subsidiaries, as well as the borrowers and guarantors are further subject to restrictions on the provision of collateral for financial indebtedness and certain disposals of assets. The Facility Agreement does not include financial covenants.

The lenders are entitled, subject to certain exemptions and cure periods, to accelerate and terminate the Facility Agreement in a number of circumstances, including, but not limited to, (i) if the borrowers or the guarantors are in breach of their duties (including payment obligations, breaches of covenants, material misrepresentations) under the Facility Agreement, (ii) if grounds for the commencement of insolvency proceedings against a borrower or guarantor or certain material subsidiaries arise or such proceedings are initiated, (iii) if Siemens Energy AG or certain other entities default on payments under certain other financial indebtedness or if such indebtedness is accelerated, which in aggregate exceed a certain threshold, (iv) if SE Global GmbH & Co. KG ceases to be a subsidiary of Siemens Energy or other obligors cease to be a subsidiary of SE Global GmbH & Co. KG, (v) if Siemens Energy Group ceases, or threatens to cease,

to carry on all or substantially all of its business as it was conducted by Siemens AG and its subsidiaries as of the date of the Facility Agreement and which is being carved out into a newly formed subgroup to be operated by Siemens Energy Group following completion of the Spin-Off, or (vi) if the SE Accession does not occur within 10 business days following Spin-Off Completion (subject to a 30 day remedy period).

Following the SE Accession, if Siemens Energy AG becomes a subsidiary of any other company, or any person or a group of persons acting together acquires control over Siemens Energy AG, each lender may request, within ten business days beginning with the date of the receipt of the change of control event notice by the facility agent, that its participation in the outstanding loans and all other amounts accrued under the Facility Agreement and related agreements are declared due and payable.

#### **12.9.2 Certain SGRE Financing Agreements**

On May 30, 2018, SGRE S.A. signed a syndicated multi-currency term and revolving credit facilities agreement amounting to a total of € 2.5 billion (taken together), originally with COMMERZBANK Aktiengesellschaft, Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") and BNP PARIBAS S.A. Surcursal en España acting as coordinating bookrunners and mandated lead arrangers. This agreement replaced a former € 750 million multi-currency syndicated credit facility agreement entered into in the fiscal year 2017 by Gamesa, which had remained unused, and several stand-alone financing arrangements on the SGRE subsidiary and project level. The 2017 facility was deemed insufficient for the need of the much larger merged company SGRE S.A.

The 2018 credit facilities agreement included a fully-drawn term loan tranche of € 500 million, which was initially set to mature on May 30, 2021, and a multi-currency, revolving credit line tranche of € 2.0 billion initially maturing on May 30, 2023, with two one-year extension options. As of September 30, 2019, and September 30, 2018, € 500 million and € 700 million, respectively, had been drawn under these facilities (on aggregate). The revolving credit facility could be used for general corporate purposes and the term facility could be used to refinance outstanding debt. The facilities agreement was based on the Loan Market Association investment grade template facility with a 0% floor, a margin grid linked to the ratio of net financial debt and EBITDA, and with no financial covenants. In the event that any person or group of persons acting in concert (a) owns, directly or indirectly, more than 50% of the equity share capital or voting rights of SGRE S.A.; or (b) has the right to appoint the majority of the members of SGRE S.A.'s board of directors, and therefore acquires control over SGRE S.A., each of the participating financial institutions may negotiate with SGRE S.A. in good faith for a period of 30 days regarding the maintenance of the financial institution's commitments under the facilities agreement. In the event that an agreement is not reached, the financial institution(s) in question may cancel all or part of its/their commitments and require full or partial prepayment of their participation in the financing.

On December 19, 2019, SGRE amended and extended this € 2.5 billion syndicated loan by an amendment and restatement agreement, extending the maturity dates of the € 500 million loan and the € 2 billion revolving tranche to December 19, 2022 and December 19, 2024, respectively. The maturity of the € 2 billion revolving tranche may be extended by one further year on the first and second anniversary of the signature of the agreement if SGRE solicits the extension, subject to a favorable decision of the banks. Besides the original banks mentioned above, Citigroup Global Markets Limited and Banco Santander, S.A. ("Santander") act under the amended and restated facility agreement as coordinators. SGRE announced that it would use the funds to finance recurring activity. As part of the refinancing, SGRE was able to secure more flexible conditions due to its investment grade credit rating, reducing restrictions on loans out, third-party guarantees and others. In addition, the pricing of this syndicated loan is tied to sustainability (i.e., environmental social and corporate governance) criteria, in line with SGRE's new "green" financing strategy. Thus, this transaction constitutes SGRE's first "green" financing facility. In addition, the amended and restated agreement also clarified that the transfer of Siemens AG's interest in SGRE S.A. to Siemens Energy AG in connection with the Spin-Off will not constitute a change of control for purposes of the agreement, provided that no third party (i.e., a

party other than Siemens AG or Siemens Energy AG) holds direct or indirect control over SGRE S.A. Similar language has been included in all financing facilities (bilateral agreements, including those mentioned below) wherever change-of-control language is contemplated.

In March and May 2019, SGRE S.A. signed new bilateral credit lines at a variable rate with BBVA, Santander, Société Générale, BNP PARIBAS and CaixaBank amounting to € 512 million in total, of which € 412 million matured in 2020 and were extended until 2021. As of June 30, 2020, SGRE had not drawn any amount related to these credit lines. These credit lines are senior unsecured lines, with *pari passu*, cross-default and no covenants attached. In May 2020, additional bilateral credit lines with same-tenor terms and structure were signed with COMMERZBANK Aktiengesellschaft and Kutxabank, adding up to € 125 million. In July 2020, SGRE S.A. increased the bilateral credit line with Santander included in the € 512 million from € 100 million to € 150 million.

In addition, SGRE has entered into agreements with several financial institutions regarding so-called “green” guarantee lines. In a deal arranged with BNP PARIBAS, the company converted a € 240 million guarantee line into a “green” line and signed an additional line for € 110 million in September 2019. That € 350 million is in addition to € 900 million in guarantees arranged with Banco Bilbao Vizcaya Argentaria in January 2019. SGRE has stated that it will use this line to issue guarantees for its business of manufacturing and selling onshore and offshore wind turbines worldwide, with a positive impact on the SDG relating to “affordable and clean energy” and “climate action”. Furthermore, in December 2019 SGRE completed a deal with Société Générale to convert a € 230 million guarantee line to “green”. SGRE will use this line for its worldwide business of manufacturing onshore and offshore wind turbine generators. In addition, in early January 2020 SGRE extended a guarantee line from Danske Bank to € 150 million (from an initial € 100 million) and included SDG criteria. Likewise, SGRE signed and included similar conditions for a new € 140 million guarantee from Mizuho Bank Europe N.V. in January 2020. Moreover, at the end of October 2019, SGRE arranged sustainable foreign exchange hedging contracts in a landmark transaction coordinated with BNP PARIBAS. On SGRE’s account, the transaction represents another significant step in its commitment to sustainable development across all its activities, with which SGRE has converted a notional total of € 174 million in foreign currency exchange hedging deals to “green” transactions. The derivatives are used not only to hedge the foreign exchange exposure of selling offshore wind turbines in Taiwan (a renewable energy project), but also have an impact on the SDG targets related to “climate action”, and “affordable and clean energy”. In addition, BNP PARIBAS is committing to reinvest any premium in a reforestation project in Spain.

On May 18, 2019, SGRE signed a sustainability-linked syndicated bank guarantee line for up to € 600 million to cover the construction of wind turbines for Hornsea Two, the largest offshore wind power plant to be announced to date. Located in the North Sea and owned by Danish utility company Ørsted, the power plant will consist of 165 SGRE wind turbines (with a total of 1.4 GW). BNP PARIBAS lead managed the deal, in which BBVA, Mizuho and Santander also participated. Under this agreement, the company will pay a premium in the event that it fails to achieve the defined ESG targets; otherwise, the premium will be paid by BNP PARIBAS, together with BBVA and Santander. In either case, the established premium on the deal will be used to finance a cancer research project in Spain.

### **12.9.3 Acquisition of Selected European Assets of Senvion**

On October 20, 2019, Siemens Gamesa Renewable Energy Eólica, S.L. Unipersonal entered into binding agreements with Senvion GmbH i.L. and Senvion Indústria, S.A. regarding the acquisition of

- (i) all the shares of Senvion Deutschland GmbH, including (a) the carved-out European onshore service business of Senvion, with a fleet under maintenance at the time of the agreements of 8.9 GW (representing approximately € 1.6 billion Order Backlog at that time), and certain additional assets associated to the aforementioned business; and (b) all the IP of Senvion, except IP rights registered in India;

- (ii) all the shares in Ria Blades, S.A., which owns and operates the business of the wind turbine blades production facility in Vagos, Portugal, and certain additional assets associated to the business.

The shares were transferred free of any security, encumbrances or charges. The overall price in cash for the shares of Senvion Deutschland GmbH and Ria Blades, S.A. amounts to € 200 million, subject to closing accounts confirmation adjustments. For more information, see *"9.4.8.4 Acquisition of Senvion Group Assets"*. In addition, SGRE estimates that business provisions and one-off costs associated to the carve-out and integration as well as restructuring-related costs amounted to approximately € 150 million.

As part of the Senvion Acquisition, nearly 2,000 employees from Senvion joined SGRE between January and April 2020.

The consummation of the Senvion Acquisition was subject to the fulfillment of certain closing conditions, such as consent of competent authorities, completion of the carve-out measures and security release as well as the operational readiness of the relevant target company. The acquisition of the Senvion Deutschland GmbH and its European subsidiaries was completed in January 2020, while the acquisition of Ria Blades, S.A. closed in April 2020.

In February 2020, SGRE entered into a loan agreement with the Spanish Bankia S.A. in the amount of € 175 million to finance the Senvion Acquisition. The loan adheres to ESG criteria and is therefore counted as a sustainable loan. The loan agreement includes a premium that SGRE would have to pay to Bankia S.A. if SGRE's ranking in sustainability indices changes. In such case, Bankia S.A. would use the proceeds from the premium to finance sustainable projects. In addition, SGRE signed a second loan agreement with Bankinter in the amount of € 65 million to finance the Senvion acquisition, which is substantially subject to the same terms as the one signed with Bankia S.A.

#### **12.9.4 Agreements with Siemens**

Until Spin-Off Completion, we had various relationships with Siemens in the past and will continue to have, modified and reduced, relationships with Siemens in the future. In particular, we received certain services relating to human resources, real estate, IT, IP, legal, compliance, procurement, export control and customs, treasury and other areas and were part of the cash management system and global insurance coverage of Siemens. A limited number of services in some areas will partially continue for a transition period after the Spin-Off Completion, in other areas we have already built up our own resources. For further details see *"18.1 Transactions and Relationships with the Siemens Group"*.



## 13 REGULATORY ENVIRONMENT

At our main production sites in Europe (Germany, UK, Spain, Sweden, Hungary and the Czech Republic), USA, Canada, China, Brazil and Mexico, we develop and manufacture products, components, systems and solutions for customers who are active across the entire energy value chain from generation, to transmission and distribution. Our product portfolio includes switchgear, transformers and high-voltage components (see “12.3.1 Transmission Division”), compressors, aero-derivative and small industrial gas turbines as well as subsea products (see “12.3.3 Industrial Applications Division”), gas and steam turbines (see “12.3.2 Generation Division”) as well as renewable energies such as wind turbines for onshore and offshore wind power plants (see “12.4 SGRE Segment”). We sell these products and provide our solutions and services in nearly every country on the globe.

Our business and operations are affected by various national and international rules, regulations and standards. At the outset, this concerns requirements related to the production of our products at our global sites. Production regulation includes not only permit requirements for our production facilities, specific equipment or production methods, but also environmental as well as health and safety standards. In addition to our production process also our products as such are subject to regulation, for example technical design specifications. Some rules are directly applicable to our production and products, others are rather customer- or market-related, such as where customers as operators of our products have to comply with environmental standards or where climate protection policies aim at the decarbonization of energy markets. This regulation indirectly also affects our production processes and/or our products. In addition, the sale of our products to customers, particularly customers abroad, is subject to certain market access regulations, like export control laws. Finally, we must abide by laws applicable to all types of entities regardless of their specific business, e.g., data privacy and competition law. All of these rules, regulations and standards are subject to frequent, sometimes unpredictable, changes and are supervised by the relevant authorities in each of the jurisdictions in which we conduct our business.

We have implemented management systems that are designed to ensure compliance with all these requirements and we have in most cases obtained certifications of these systems regarding quality (ISO 9001), environmental protection (ISO 14001), occupational health and safety (OHSAS 18001/ISO 45001) as well as in some cases certifications of specific aspects of our production or location of work, such as energy management (ISO 50001), welding workshops (ISO 3834), laboratories (ISO 17025) or safety certificates for conducting our activities on our clients’ premises. On the one hand, these efforts contribute to our overall quality and compliance goals and, on the other hand, they also fulfill our clients’ basic conditions for cooperation and business.

### 13.1 Production Regulations

#### 13.1.1 General Permit and Statutory Requirements for Industrial Installations

The manufacturing of our products depends on permits, approvals and other governmental authorizations and must comply with statutory requirements. On a regular basis, the construction, operation and/or material alteration of industrial installations requires a comprehensive permit (integrated permit) or a set of different permits which take into account building and planning law, operational safety as well as environmental impacts such as pollutant and noise emissions, vibrations and comparable harmful effects.

Additional regulations often apply to the operation and production processes in such installations regarding the materials used for the production processes (for instance, chemicals) as well as water discharge, waste disposal and air emissions. Although the standards of production regulations, requirements and restrictions differ in detail to a certain extent in the countries in which we manufacture our products, the basic principles are generally comparable. However, we do not produce all of our products at all of our main production sites. Therefore, some specific aspects of production regulation are only relevant for our production processes in specific jurisdictions.

### 13.1.2 Emission Control Regulations

Our production processes generate different types of emissions including pollutants, noise emissions, vibrations, odors and polluted waters. Statutory requirements limit the extent of permitted emissions and require us to take technical precautions to avoid harmful effects of our installations on the environment and not endanger or cause significant disadvantages or nuisances to the general public or neighborhood.

#### 13.1.2.1 Surface Treatments, Coating of Objects and Impregnation

The treatment of surfaces of objects with synthetic resin is one particular method used during our production processes, among other things to connect and seal parts (rotor bodies and copper inserts) of generators that we produce at several global sites. Synthetic resin is generally a source of strong odors. For that reason, these types of treatment plants often require a permit under local emission control regulations, for example, under the German Federal Emission Control Act (*Bundes-Immissionsschutzgesetz, "BImSchG"*) in connection with the Fourth Ordinance for the Implementation of the Federal Emission Control Act (*Verordnung über genehmigungsbedürftige Anlagen, "4. BImSchV"*) at our German sites, in particular, in Erfurt and Muelheim an der Ruhr, or under the Clean Air Act ("*CAA*") for our U.S. sites in Charlotte and Fort Payne. In other jurisdictions, a separate permit is not required but the synthetic resin emissions from our production process must comply with specific thresholds, for instance in China under the Integrated Emission Standard for Air Pollutants (GB16297:1996). In Brazil, environmental permits also include limits for odor emissions that extend beyond the respective industrial property. Similarly, the coating of objects with metallic protective layers or plasma at our German sites in Berlin and Duisburg and our U.S. site in Charlotte also require a permit under the 4. BImSchV or the CAA, respectively. Equivalent permit requirements or regulations often also apply under local law for the coating of gas-powered engines as well as for impregnation of some transformer components produced at our sites globally.

The manufacturing of rotor blades by SGRE at several production locations including Spain, the UK, USA, China, Denmark and India involves the saturation of fiberglass components of the blades with liquid epoxy resins, which causes different air emissions, in particular, volatile organic compounds. Such environmental impacts are either subject to permit requirements or statutory provisions under local emission control regulations, such as the Environmental Permitting Regulations 2018 (England and Wales), the CAA and related state regulations in the USA or the respective Environmental Protection and Air Prevention and Control of Pollution Acts in China, Denmark and India. Further permit requirements apply to the use of epoxy adhesive during assembly of the blade shells because of the use of organic solvents in these adhesives.

#### 13.1.2.2 Operation of Cooling Systems

Waste heat generated during our production processes is removed by cooling systems. These cooling systems are prone to contamination (legionella bacteria), which could generally be distributed in the environment in the course of evaporation. In order to ensure that technical and organizational measures are implemented to avoid the emission of legionella bacteria, the Forty-Second Ordinance Implementing the Federal Emission Control Act on Evaporative Cooling Systems, Cooling Towers and Wet Separators (*Verordnung über Verdunstungskühlanlagen, Kühltürme und Nassabscheider, 42. BImSchV*) requires us to permanently monitor and report the legionella concentrations of the cooling systems that we operate. If we exceed the statutory thresholds, we have to take remedial measures and inform the authority accordingly. In Brazil, the National Health Surveillance Agency Ordinance 3523/1998 and Resolution 09/2003 set similar control and monitoring requirements. In China the Standard HG/T 4323-2012 applies to the detection and enumeration of legionella in circulating cooling water with reference to the requirements under ISO11731:1998 and ISO11731-2:2004.

#### 13.1.2.3 Operation of Power Plants

We also operate power plants (cogeneration units) at some of our sites, for instance in Muelheim an der Ruhr, Germany, to produce part of the electricity required for our manufacturing process.

In Germany, the construction, operation and material alteration of such power plants requires a permit under BImSchG in connection with 4. BImSchV and the Forty-Fourth Ordinance Implementing the Federal Emission Control Act on Medium-Sized Combustion Plants (*Verordnung über mittelgroße Feuerungsanlagen*, "44. BImSchV"), which implements the requirements of Directive (EU) 2015/2193 on the limitation of emissions of certain pollutants into the air from medium combustion plants. Equivalent permit requirements, statutory emission limitations or air quality standards apply to several of our other production sites, such as under the CAA and related legislation in the USA or the Environmental Protection Act in Canada. In China, the Environmental Protection Law sets general standards of environmental protection, the Prevention and Control of Atmospheric Pollution Law prevents and controls air pollution to ensure public health and a pollution discharge permit is required for power plants under the Regulation on Pollution Discharge Permitting. In Brazil, prevention and control of air pollution and permit procedures are governed by the National Air Pollution Control Program and resolutions of the National Environment Council ("**CONAMA**"), for example for our operations in the north region.

#### 13.1.2.4 Testing Facilities

We operate testing facilities (*Prüfstände*) for our products in different jurisdictions. Such testing covers different stages of a product from development up to acceptance testing. Depending on the properties of our testing facilities we may have to obtain specific permits or comply with certain statutory obligations. For example, our testing facilities at some of our sites, e.g., in Germany (like in Berlin and Ludwigsfelde), UK, Sweden, and the Czech Republic require a permit under local emission control law because of the high rated thermal output (*Feuerungswärmeleistung*) of the tested components. Another permit may be required for storage facilities for fuels that we use during turbine testing. Where our storage capacity exceeds certain thresholds, we must fulfil increased operator obligations in accordance with Directive 2012/18/EU on the control of major-accident hazards (Seveso III), which includes implementation of a major-accident prevention policy for things like the liquid gas storage tank at our Swedish site in Finspång.

Regarding GHG emissions produced in particular during testing activities, the European Emission Trading System ("**EU ETS**"), established by Directive (EC) 2003/87 as last revised by Directive (EU) 2018/410, requires us to provide emission certificates ("**EUAs**") to the competent authority, in particular for our cogeneration units, but also for the combustion process during the testing of our gas turbines. In the energy sector allowances have already been auctioned since 2013. In Germany, these requirements are transposed into the GHG Emissions Trading Act (*Treibhausgas-Emissionshandelsgesetz*). In China, the Environmental Protection Tax Law aims at a reduction of pollutants by imposing taxes on the discharge of specified pollutants.

In addition, our test devices can be connected to water breaks, which cause significant noise emissions. Such noise emissions are subject to prevention and control laws applicable to all of our production sites. Under Directive (EC) 2002/49 on environmental noise ("**END**") each EU member state must identify noise pollution levels (noise mapping). Determining limits and target values as well as appropriate noise protection measures, however, remains at the discretion of the competent member state authorities. Our industrial installations are also recorded in such noise maps. Where our industrial installations jointly with others cause harmful noise emissions, we may be required to implement corrective measures, such as noise protection or reduction of noise emissions during the night. In Germany, the END was implemented by an amendment to the BImSchG. Further noise prevention and control laws that either set permit requirements or statutory thresholds include the U.S. Noise Control Act, the Chinese Noise Pollution Prevention Law, and Brazilian CONAMA Resolution 1, of March 8, 1990, on emissions of noise from industrial activity.

SGRE does not require separate permits for component testing during product development or manufacturing and assembly, but only for full turbine (prototype) testing, which is typically

conducted in Denmark (Høvsøre and Østerild) or in Spain (Alaiz). For both countries, a local building permit is required and in Denmark SGRE also has to obtain a prototype certificate under the Danish Executive Order no. 73 of January 25, 2013.

### **13.1.3 Environmental Responsibilities Related to our Production Process**

#### **13.1.3.1 Use of Waters and Discharge of Process and Waste Water**

The resources and products we require to manufacture our own products as well as the devices we operate to test our products are in part also subject to regulation. For example, for the water offtake from rivers and wells to use as process waters in our cooling systems, as at our German site in Nuremberg, requires a permit under the German Federal Water Act (*Wasserhaushaltsgesetz*, "**WHG**"). The same applies to the discharge of wastewater into sewerage facilities, for example under the Environmental Permitting (England and Wales) Regulations 2016 for our UK sites. Wastewater standards for our U.S. production sites have been set by the Environmental Protection Agency ("**EPA**") under the Clean Water Act, which also regulates the discharge of pollutants into water and water quality standards. Our Chinese sites require a wastewater discharge permit under the Prevention and Control of Water Pollution Law. In Brazil, the National Water Resources Policy (Federal Law 9433/1997) sets general standards for water use and CONAMA Resolutions 357/2005 and 430/2011 regulate the discharge of pollutants into water. Additional water law permits are required for the operation of wastewater systems such as our oil separators. Since some of the substances we work with are hazardous to waters, water laws also set prevention, control and monitoring obligations. Also SGRE's production sites depend on water usage and/or wastewater discharge permits in addition to the aforementioned legislation, for instance in Spain under the Royal Legislative Decree No. 1/2001 or in India under the Water Prevention and Control of Pollution Act.

#### **13.1.3.2 Use of Hazardous Substances**

Another aspect of protection against adverse health and safety effects concerns chemicals and hazardous substances. Numerous restrictions and requirements apply with respect to the access to and the use of chemicals and hazardous substances required for our manufacturing or commissioning processes. For example, as a global process we successfully manage the production, dispatch, use and disposal of a special pickling chemical required during the commissioning of heat recovery boilers. In the EU these issues are covered by Regulation (EC) 1907/2006 ("**REACH**"). Under Regulation (EC) 1272/2008 ("**CLP Regulation**") we also have to ensure that substances are classified, labeled and packaged in accordance with the hazard degree of their properties. This particularly concerns lacquers, resins and oils that we use for coating or as lubricant for product components. For the enforcement of REACH and the CLP Regulation, supplementary provisions have been enacted, such as in the German Chemicals Act (*Chemikaliengesetz*). The use of some chemicals has generally been prohibited altogether, for instance under the German Chemicals Prohibition Ordinance (*Chemikalien-Verbotsverordnung*). Similarly in the USA, the Toxic Substances Control Act ("**TSCA**") addresses, *inter alia*, the importation, use and disposal of specific chemicals. In China, the Dangerous Chemicals Management Law addresses risks in connection with production, use, operation and transportation of hazardous chemicals. In Mexico, the General Law of Ecological Balance and Environmental Protection (*Ley General del Equilibrio Ecológico y la Protección al Ambiente*, "**LGEEPA**") concerns the handling of substances with flammable, explosive, toxic, reactive, radioactive, corrosive or biological properties in amounts endangering the environment or general population.

#### **13.1.3.3 Use of Radiation Devices, Laser and Other Testing Equipment**

We have obtained further permits related to the development, manufacture, testing and inspection of our products, including permits under the German Radiation Protection Ordinance (*Strahlenschutzverordnung*) or the Swedish Radiation Protection Act (SFS 1988:220) concerning the operation of portable and stationary non-medical X-ray units (*Röntgeneinrichtungen*) for the

non-destructive testing of pipes and flanges, among other things. Comparable permit requirements for our U.S. sites have been set by the Nuclear Regulatory Commission, which ensures the safe use of radioactive materials for beneficial civilian purposes. Under the Ionizing Radiation Regulations 2017 in the UK we have to register radiation devices used mainly for testing of welding of pipes with the competent authority along with certificates of testing. SGRE also uses radiation and laser equipment for testing at blade production facilities in Spain, UK, Denmark, China and the USA, in particular for detection of defects. This equipment also requires a permit and/or a notification to the competent authority under local law.

Requirements for pressure equipment that we use for leakage tests of vessels must comply with Directive (EU) 2014/68 on Pressure Equipment and the German Pressure Equipment Ordinance. A permit under the German Explosives Act ( *Sprengstoffgesetz*) allows us to use explosive substances as propellant in isolating switches of switchgears during research activities in Berlin and Nuremberg in case a short circuit is produced. We also operate sources of non-ionizing radiation, i.e., laser for powder welding during our additive manufacturing processes or for the curing of edges and surfaces as well as precise metering of lengths. In some jurisdiction like in the UK we require a permit for some of these activities, but even where these installations do not require a permit (like under the German BImSchG) we are nonetheless obligated to operate any such installation in a manner avoiding harmful effects on the environment. For our non-destructive testing using gammagraphy at our Brazilian sites in Jundiaí and Santa Bárbara D'Oeste we must comply with the standards set by the National Nuclear Energy Commission on general radiological protection as well as safety requirements and radiological protection for industrial radiography services.

#### 13.1.3.4 Waste Production and Management

During our manufacturing process we also produce different kinds of waste including packaging and industrial waste. Waste laws in all the countries in which we operate generally require us to reduce waste and to dispose of the different types of waste in a manner consistent with its properties so that it does not endanger human health or harm the environment. In Europe, Directive (EC) 2008/98 as last amended by Directive (EU) 2018/851 ("**Waste Framework Directive**") requires EU member states to take appropriate measures in this regard. In addition to the Waste Framework Directive, Directive (EC) 94/62 as last amended by Directive (EU) 2018/852 (Packaging Waste Directive) contains supplementary producer responsibility regimes applicable to our business activities. Different member states' laws transpose these EU requirements, such as the Waste Management Act (*Kreislaufwirtschaftsgesetz*) and the Packaging Act (*Verpackungsgesetz* 2019) in Germany or the Environmental Code (SFS 1998:808) in Sweden. Under the EU Circular Economy Package 2018, the European Union also adopted Directive (EU) 2019/904 on the reduction of the impact of certain plastic products on the environment. This directive, which has to be implemented in the member states by July 3, 2021, aims to prevent and reduce the impact on the environment of certain plastic products that are usually used only once or for a short period of time, and to promote a transition to a circular economy by introducing a mix of measures tailored to the products covered by the directive, including an EU-wide ban on single-use plastic products whenever alternatives are available. Proper management of hazardous and non-hazardous solid waste for our production sites in the USA is regulated in the Resource Conservation Control Act. In Brazil, there are a number of specific laws and regulations regarding each type of waste and activity that, *inter alia*, standardize classification, storage, labeling, transport and disposal of waste, in particular, Federal Law No. 12305 regarding the prevention and reduction of waste generation, increase of recycling, reuse and environmentally appropriate disposal. Transport and disposal of hazardous waste also require a special permit of the local environmental authority. For our Chinese sites, the Prevention and Control of Solid Waste Pollution Law sets standards for prevention and control of pollution by solid waste.

#### 13.1.3.5 Liability for Environmental Impacts

Due to the historical and current industrial use of some of the production sites that we own and occupy, it cannot be excluded that we may be held liable to investigate and remediate present



environmental impacts. There are, however, no globally applicable principles or even a European harmonized framework on environmental liability. Under the German Federal Soil Protection Act (*Bundes-Bodenschutzgesetz*), for example, we may be held liable irrespective of whether we have caused the contamination. Where an environmental damage occurs that was caused by our business activities that are potentially dangerous to the environment we may be held liable under the German Federal Environmental Damage Act (*Umweltschadensgesetz*). In the USA, the Comprehensive Environmental Response, Compensation and Liability Act (Superfund Law) and similar state statutes impose retroactive, strict, and joint and several liability on current and prior owners or operators of contaminated sites, and on parties that disposed of or transported hazardous substances to contaminated sites. In Brazil, Federal Law 6938/1981 requires polluters to remedy environmental damages caused and CONAMA Resolution 420 establishes directives for the environmental management of contaminated areas. In Mexico, LGEEPA holds persons or entities liable for actions or omissions that cause damage to the environment and requires them to take out insurance to remediate environmental damage.

#### 13.1.3.6 Transportation of Dangerous Goods

Some of our products also contain or require hazardous substances with toxic or other defined properties, such as oils, nitrogen or battery acid. We transport such dangerous goods to our customers either as an integral part of our products or separately for later use in our products. Any transport of dangerous goods is subject to special regulations, such as segregation requirements. These special regulations can be found for instance in the European Agreement concerning the International Carriage of Dangerous Goods by Road, the International Maritime Dangerous Goods Code, the IATA Dangerous Goods Regulations for air freight, and furthermore under the Dangerous Goods Transportation Act (*Gefahrgutbeförderungsgesetz*) in Germany, the Hazardous Material Transportation Act in the USA or National Land Transport Agency Resolutions 5848/2019 and 5232/2017 on transport of dangerous products in Brazil. We ensure fulfillment of specific safety requirements set out by these regulations, among other things regarding labelling and protection measures by a specific system.

#### 13.1.4 Health and Safety Regulations

We are subject to health and safety laws, rules and regulations not only regarding the sites we operate but also at a given customer location, such as when we construct complete and functional power plants in any given country around the globe. Compliance with the applicable requirements is paramount in order to be able to fulfill our contractual obligations vis-à-vis the customer.

On the international level, the United Nations SDGs, *inter alia*, provide a blueprint to achieve better health and well-being standards. The Occupational Safety and Health Act ("OSH Act") in the USA, the Federal Regulation on Safety and Health in the Work in Mexico (STPS) and Directive (EEC) 89/391 on the safety and health of workers at work in the European Union each promote the improvement of the working environment to protect workers' health and safety. Over the years, various standards have been adopted for a number of different areas of occupational health and safety in the workplace (such as work equipment, personal protective equipment, display screen equipment, the manual handling of loads and the handling of hazardous substances). In some countries standards are directly implemented by law or decrees of the competent ministries, such as in Mexico where 41 official standards on occupational safety and health apply. Other countries have empowered trade associations to set specific standards which are sometimes legally binding, in particular in Germany, or non-binding but still preserved as industry standards, in particular in the USA.

In Germany, general health and safety requirements for employees are laid down by the Working Conditions Act (*Arbeitsschutzgesetz*), the Occupational Safety Act (*Arbeitssicherheitsgesetz*) and the Ordinance on Industrial Safety (*Betriebssicherheitsverordnung*). For the provision and use of working equipment, the Product Safety Act (*Produktsicherheitsgesetz*) applies, along with the Ordinance on Health and Safety at Work (*Arbeitsstättenverordnung*) and the Ordinance on

Construction Sites (*Baustellenverordnung*). As regards exposure to hazardous substances, the Ordinance on Hazardous Substances (*Gefahrstoffverordnung*) and the Technical Rules for Hazardous Substances (*Technische Regel für Gefahrstoffe 900*) set out limits for workplaces. We have also obtained a permit under the Radiation Protection Act (*Strahlenschutzgesetz*) in order to be able to send our employees into nuclear facilities operated by third parties where they may be exposed to radiation of more than 1 millisievert per calendar year. All of these requirements are further specified by German trade associations (*Berufsgenossenschaften*) in their accident prevention regulations (*Unfallverhütungsvorschriften*), which also address specific health and safety risks of certain businesses such as inspection of wind power systems by SGRE.

In China, a set of health and safety regulations also applies to ensure work safety, including the China Safety Production Law and more specific laws covering aspects of disease prevention, use of chemicals, fire prevention and special equipment safety.

We review our work safety requirements on a regular basis and aim at improving the relevant workplace conditions and operations to reduce the risks of injuries to a minimum. We are aware of the impact that work has on health, safety and the environment. We are committed to control and mitigate this impact, for instance, by reducing the water, energy consumption and CO<sub>2</sub> emissions in our manufacturing processes and by offering various health and safety initiatives at our sites.

In addition to statutory regulations, all our main production facilities also comply with different non-binding but internationally recognized standards. This includes international occupational safety management standards. It is anticipated that current audits will be completed in line with the requirements of ISO 45001. These standards confirm that we anticipate and avoid risks for consumers, make employees aware of dangers in order to reduce accidents, and educate them in environmentally-friendly practices (for example, reducing waste and hazardous substances).

### 13.1.5 Cyber Security Regulation

Most of our products, in particular grid and generation related products, form part of a greater infrastructure that supplies the general public with electricity. In most countries this is critical infrastructure and therefore has to be protected against cyberattacks. Therefore, operators of this infrastructure are regularly obligated to take adequate organizational and technical measures to avoid disruptions of their IT systems, components or processes that are essential for the critical infrastructure's operation. They also must ensure the availability of these systems and data, the integrity as well as the confidentiality of processed information.

In the EU, Directive (EU) 2016/1148 on cyber security of network and information systems ("**NIS Directive**") proposes a wide-ranging set of measures to boost the level of security of network and information systems to secure services vital to the EU economy and society, including providers of essential services in critical sectors such as energy. It aims to ensure that EU countries are well-prepared and ready to handle cyberattacks in particular by the adoption of national cyber security strategies and obligations of essential services providers and digital service providers, to ensure that they take appropriate security measures and notify the relevant national authorities about serious incidents. Regulation (EU) 2019/881 on the European Union Agency for Cybersecurity ("**ENISA**") mandates ENISA to support EU member states regarding cyber security risks and aims at the certification of several critical infrastructure sectors. A framework for EU cyber security certification for products, processes and services is currently being developed.

In Germany, the relevant framework comprises the Act on the Federal Office for Information Security (*Gesetz über das Bundesamt für Sicherheit in der Informationstechnik*), with specific obligations for operators of energy supply networks and energy systems set out in the Energy Industry Act (*Energiewirtschaftsgesetz*) and minimum standards for cyber security contained in a safety catalogue published by the Federal Network Agency (*Bundesnetzagentur*, "**BNetzA**") including the implementation and certification of an information security management system according to ISO/IEC 27001. Similar systems are required by the NIS Guidance Collection in the UK

and the standards regarding Critical Infrastructure Protection set by the North American Electric Reliability Corporation (“NERC”) for Canada and the USA. China is in the process of establishing similar provisions based on a Draft Regulation on the Protection of Critical Infrastructure. However, the Cybersecurity Law of the People’s Republic of China already requires operators of critical information infrastructure who purchase network products or services to sign a security and confidentiality agreement with the respective provider clarifying duties and responsibilities for security and confidentiality. Thresholds or criteria determining whether a certain installation counts as critical infrastructure, however, vary between countries. For example, NERC’s standard for the USA and Canada defines 75 MW as threshold for generating plants to count as critical infrastructure whereas the German Ordinance for the Determination of Critical Infrastructures according to the Act on the Federal Office for Information Security (*BSI-Kritisverordnung*) sets a threshold of 420 MW.

Since we regularly only manufacture products that are built into critical infrastructure or only operate plants on behalf of our business partners, we are in most cases not directly responsible under the respective regulations. Indirectly, however, we must comply with cyber security regulations to be able to develop and produce components that can safely be used in these systems. Accordingly some of our systems are also included under a DIN ISO/IEC 27001 certification stipulating that we develop our products in a responsible manner consistent with best practice. This aspect is also a topic in the current discussions regarding a bill on an IT Security Act 2.0 (*IT-Sicherheitsgesetz 2.0*) of May 7, 2020, which is supposed to establish declarations of trustworthiness regarding the supplier industry of operators of critical infrastructure in Germany. Other countries have already adopted specific regulations regarding the supply chain of a critical infrastructure. In the USA, Presidential Order No. 829 and the NERC Standard CIP-013-1 require operators of bulk electric systems to extend cyber security obligations to their suppliers by way of contract.

For the industrial control systems (“ICS”) that we produce, like SPPA-T3000, the German Federal Office for Information Security published (legally non-binding) recommendations for ICS manufacturers and integrators. The German Federal Office for Information Security recommends the implementation of an information security management system and fulfilment of further requirements that should be met during the process of planning and development of industrial control systems. Similarly, in the UK operators of critical infrastructure are required to specify cyber security requirements for their suppliers.

## **13.2 Product Regulations**

### **13.2.1 Design/Construction Requirements (Product Safety, Emissions, Eco-Design)**

Our products are subject to requirements relating to their technical design. In particular, our products must comply with safety requirements which are laid down in numerous acts and which contain both general safety requirements and requirements specific to certain products or technologies, hazards or impacts. This legislation also provides certain requirements relating to conformity assessment procedures and labelling of our products.

#### **13.2.1.1 General Product Safety**

Product safety encompasses the safety of all products and services that we develop, manufacture and/or sell. They must meet applicable statutory requirements and offer state-of-the-art safety so that they do not represent a hazard to life, health or property. In addition to our products being technically safe in terms of their design, it is also essential that a preventive product safety system is in place that governs the organization, communication, responsibilities and reporting channels established to ensure product safety and a rapid, professional response in the event of safety-related problems.

In the European Union, products placed on the market must comply with all applicable legislation (Decision (EC) 768/2008 on a common framework for the marketing of products), which is laid down in numerous acts relating to specific products. These acts mostly require the

manufacturer to carry out conformity assessment procedures as well. Depending on the product, the manufacturer can choose among several conformity assessment procedures. Mostly, the manufacturer can carry out such assessment himself. However, in certain cases (for instance with regard to our pressure assembly system in power plants), the manufacturer has to involve notified bodies. Notified bodies must be established in a member state of the European Union. As a result of the UK leaving the European Union on January 31, 2020 ("**Brexit**"), notified bodies which are established in the UK may no longer act as notified bodies and certificates issued by them cease to be valid for products which we have put on the market after January 31, 2020. For these products we must revert to another notified body established in the European Union. As a result of Brexit there is a transitional period until December 31, 2020 in which the current product-related rules continue to apply. This means that we may export our products to the UK if they comply with the applicable European requirements, notwithstanding the fact that these products may need a certification by a notified body located in a member state of the European Union.

In China, our products must comply, in particular, with the China Product Quality Law, according to which industrial products that may be hazardous to health and safety shall conform to certain standards or, in the absence of such standards, to minimum requirements for ensuring health of the human body and safety of lives and property. A variety of actors has adopted standards (national, regional, local standards; industry, enterprise, association standards). In general, national standards take precedence over all other standards. Voluntary standards become binding by reference in specific laws or regulations.

#### **13.2.1.2 Machinery**

Many of our products, such as gas and steam turbines, wind turbines, drilling rigs and hydrogen solutions, are subject to machinery related safety legislation. In Europe this legislation is laid down in Directive (EC) 2006/42 (the "**Machinery Directive**"). Accordingly, we must design and construct machinery so that it is fitted for its function and can be operated, adjusted and maintained without putting persons at risk when these operations are carried out under the conditions foreseen, taking into account reasonably foreseeable misuse. When choosing technical solutions to fulfil these requirements, the Machinery Directive applies a three-step approach. According to this concept, the manufacturer must first eliminate or reduce risks as far as possible by applying safe design and construction methods, second take necessary protective measures in relation to risks that cannot be eliminated and third inform users of residual risks. In addition, the Machinery Directive requires us to design our products in such a way that risks resulting from the emission of airborne noise are reduced to the lowest level taking technical progress and the availability of noise reducing methods into account.

In the U.S., the Occupational Health and Safety Administration ("**OSHA**") has adopted regulations on machine safety. In particular, we are required to provide one or more methods of machine guarding (e.g., barrier guards, electronic safety devices) in order to protect the operator and other employees in the machine area from hazards. In Canada, as a general rule, machinery must be free from hazards that pose a danger to a person or property. Beyond such general requirements most provinces and territories have issued comprehensive safety codes applying to specific products such as electrical components and pressure equipment (see "**13.2.1.3 Electric devices**" and "**13.2.1.4 Pressure equipment**" below). In Brazil, the Regulatory Standards (*Norma Regulamentadora*, "**NR**") set minimum requirements regarding the safety of specific products. The general standard NR 12 on machinery and work equipment safety requires that industrial machinery be free from recognized hazards likely to endanger health and physical integrity of employees and designed to prevent accidents despite potential defects (fail safe principle).

#### **13.2.1.3 Electric devices**

Some parts of power transformers and other electronic devices we manufacture are subject to requirements of Directive (EU) 2014/35 on electrical equipment designed for use within certain voltage limits (Low Voltage Directive). This directive requires manufacturers to avoid

endangering health and safety of persons, domestic animals and property when electrical equipment is installed, maintained and used. Thus we must employ technical measures to protect persons and domestic animals (i) from hazards resulting from the electrical equipment (e.g., arising through contact with the equipment or from certain temperatures, arcs or radiation) and (ii) against hazards which may be caused by external influences on the electrical equipment.

In the U.S., the electrical components we produce require approval by recognized testing laboratories (29 CFR Part 1910). Electric equipment must generally be free from recognized hazards that are likely to cause death or serious physical harm to employees, taking into account, among others, the mechanical strength and heating effects under all conditions of use. In addition, state governments and local authorities have adopted as law the National Electrical Code ("NEC"). The NEC covers the installation of electrical products for public or private use and requires that certain electrical products (e.g., wires, cabinets and switches) meet the requirements of specific standards. In particular, according to the NEC all electrical components must be listed, labelled or approved for installation.

In Canada, electrical components have to be compliant with the Electrical Code of the Canadian Standards Association ("CSA") (CSA C22.1-18) as implemented and amended by respective provincial or territorial legislation. In particular any deviation from the standards laid down requires governmental authorization.

In Brazil, electrical components have to comply with the specific national standard NR 10. Notably, they shall be designed to have overvoltage protection and discharging mechanisms. Some components, especially those used in fire sensitive surroundings and explosive atmospheres, require certification by nationally recognized testing laboratories. Such approval involves determining whether the product meets the requirements of applicable safety standards imposed by the National Institute of Metrology, Standardization and Industrial Quality (*Instituto Nacional de Metrologia, Qualidade e Tecnologia*).

#### 13.2.1.4 Pressure equipment

Our business also involves the delivery of assemblies which are covered, in Europe, by Directive (EU) 2014/68 relating to pressure equipment ("PED"). Typical assemblies we deliver to our customers include, depending on design and application, steam generators (unfired, fired), power piping, heat exchangers, pressure vessels, condensers, tanks, unpressurized vessels and air receivers. As manufacturer of these products we are obliged to fulfil the requirements of the PED. The PED stipulates essential safety requirements relating to the design, manufacturing and materials used for the manufacture of pressure equipment in the PED's scope. For some products that we manufacture, like steam generators, the PED stipulates additional requirements and requires us to calculate, design and construct such products to avoid or minimize risks of a significant loss of containment from overheating. Moreover, the PED stipulates specific certification requirements which may require us to involve notified bodies.

In the U.S., the OSHA has defined a number of regulations which apply, among other things to certain hydrogen containers and air receivers. The OSHA regulations refer to standards adopted by the American Society of Mechanical Engineers covering the construction of pressure vessels. In addition the OSH Act requires employers to provide a place of employment free from recognized hazards that are likely to cause death or serious physical harm to their employees. According to an interpretation letter from the OSHA this obligation may also apply to pressure vessels used for oil and gas extraction.

In Canada, pressure vessels are subject to prior registration or authorization pursuant to local legislation. The process includes disclosure of information on design, calculations and other details. The authorities determine whether the product meets the requirements of applicable safety standards imposed by the CSA and the American Standards Institute. In particular, the pressure equipment must be constructed to prevent unintentional release of contained fluid and so that integrity assessments to determine its condition may be carried out. In China, the Law on the Safety of Special Equipment requires that certain of our boilers, pressure vessels and pressure



pipework elements be certified under a product certification scheme administered by the Special Equipment Licensing Office of the State Administration for Market Regulation. In Brazil, boilers and pressure vessels have to meet the additional standards described in NR 13. In particular, a hydrostatic test has to be conducted.

#### *13.2.1.5 Electromagnetic compatibility*

Our power transformers, wind turbines and other electric gear are also subject to requirements relating to electromagnetic compatibility. In Europe, these are laid down in Directive (EU) 2014/30, according to which manufacturers must design and manufacture equipment to ensure (i) that electromagnetic disturbance generated by equipment does not exceed the level above which other equipment cannot operate as intended and (ii) that equipment is sufficiently immune to electromagnetic disturbance created by other equipment. Thereby the manufacturer must respect the state of the art. Fixed installations are subject to an additional requirement that they be installed applying good engineering practices. The Federal Communications Commission regulates the electromagnetic compatibility of products in the U.S. and has, to that end, published a number of regulations (47 CFR Part 15). Our products must, in particular, be authorized prior to initiation of marketing and must comply with specific limits for the emission of electromagnetic radiation.

#### *13.2.1.6 Explosive atmospheres*

Some of our products constitute or are used in potentially explosive atmospheres, such as hydrogen-based cooling systems, compressors and compressor strings, and industrial steam turbines. In Europe, Directive (EU) 2014/34 relating to equipment and protective systems intended for use in potentially explosive atmospheres stipulates specific safety requirements for these products. In particular we must, (i) if possible, prevent the formation of explosive atmospheres which may be produced or released by equipment and by protective systems themselves, (ii) prevent the ignition of explosive atmospheres and (iii) take measures to halt immediately or to limit the effects of explosions which may occur despite the steps taken under (i) and (ii). In the U.S., the NEC also contains rules relating to equipment for use in explosive atmospheres while in Canada such rules are found in the Canadian Electrical Code (see "13.2.1.3 Electric devices" above).

#### *13.2.1.7 Eco-design requirements*

Some of our products are also subject to eco-design requirements and legislation which generally aims at reducing the ecological footprint of products. One aspect of this is to improve energy efficiency of energy-using appliances, thereby contributing to lower CO<sub>2</sub> emissions. In Europe, Directive (EC) 2009/125 and other legislation oblige manufacturers to consider eco-design requirements at every stage of a product's life cycle (raw materials, manufacturing, packaging, distribution, installation, maintenance, use and end-of life). For certain power transformers we produce, Regulation (EU) 548/2014 stipulates specific requirements relating to minimum energy performance and energy efficiency requirements (namely maximum load losses and maximum no-load losses). In China, the Energy Conservation Law promotes the improvement of energy efficiency of all aspects of society to reduce electricity consumption. In Brazil, Decree No. 9.864 of June 27, 2019 implements the National Policy for the Conservation and Rational Use of Energy established in Law No. 10.295 of October 17, 2001. It sets maximum levels of energy consumption and minimum energy efficiency requirements for machines.

#### *13.2.1.8 Construction products*

Regulation (EU) 302/2011 on construction products applies to certain products which will be incorporated in a permanent manner in construction works. These must fulfil essential characteristics laid down in harmonized technical rules. In addition, we must declare that our products conform to this regulation and the relevant technical rules, and also that our products have certain constancy of conformance with these requirements. Depending on the product, we may give such declarations ourselves or we must revert to notified bodies. This applies to certain

cables that we produce which are subject to technical requirements relating to their behavior during fire. In addition, there are technical requirements which are relevant for chimneys that we build when we deliver power plants as turnkey projects.

### 13.2.2 Regulation of Product Content and Components

Certain chemicals and other contents of our products are subject to laws and regulations governing their use, packaging, transport and disposal. In addition we are under certain obligations to notify our customers of such contents in our products.

In the European Union, the REACH Regulation provides a comprehensive legislative framework for the manufacture and use of chemicals. It requires registration with the European Chemicals Agency of all chemical substances manufactured in or imported into the European Union in quantities of more than one ton per annum. If there is no (pre) registration of the substance it is impermissible to produce this chemical in the European Union, to import or to use it (*i.e.*, “no data no market” principle). For substances that have been added to Annex XIV of the REACH Regulation, an authorization is required to continuously use them after the so-called “sunset date” and it is uncertain whether the authorities will provide such authorization. In addition, the use of substances listed in Annex XIV of the REACH Regulation may be restricted in the future by inclusion of these substances in Annex XVII of the REACH Regulation. Also, substances of very high concern (“SVHC”) may be listed on a so-called “candidate list” (“SVHC list”). The SVHC list contains substances for potential inclusion into the list of Annex XIV of the REACH Regulation. We use anhydrides as a hardening agent in the production of many of our components for electric systems which we produce from cast resin (e.g., generator components, cast resin transformers, isolators and bushings). Anhydrides have recently been included in the SVHC list. We must inform recipients pro-actively if our products contain SVHC with a concentration of  $\geq 0.1\%$  weight by weight. Under certain circumstances a notification to the European Chemicals Agency is also required. Further restrictions are found in national rules like in the German Chemicals Prohibition Ordinance (*Chemikalien-Verbotsverordnung*).

Our product line also includes air and gas-insulated switchgear which is often built into substations or wind turbines. The insulation gas used is SF<sub>6</sub>, which is a GHG. As of the date of this Prospectus, no legal restrictions apply for the use of SF<sub>6</sub> in our switchgear. Public debate on this matter includes a potential ban of the use of SF<sub>6</sub>, which would prohibit us from using it in our products in some countries or in general in the future. In light of this public debate, we have pro-actively developed a product line which does not require the use of SF<sub>6</sub> (Blue Portfolio). This portfolio allows us to modernize and expand existing power grids in line with increased levels of safety. Many of our products, such as gear units, contain oil as cooling and lubricating agent. In addition, certain of the fire extinguishing systems we produce use CO<sub>2</sub> as fire extinguishing agent. These and other substances are considered dangerous under the CLP Regulation and we are therefore subject to certain obligations with regard to their classification, labelling and packaging. In addition, we must provide to our customers adequate safety data sheets.

In the U.S., the TSCA is the primary chemicals management law. It requires EPA to undertake risk evaluations for chemicals made or used within the U.S. which are new or already listed in the chemical substances inventory. For new chemicals, the TSCA requires manufacturers and processors to notify EPA 90 days before beginning to manufacture or process such chemical substance. The purpose of EPA’s review is to determine whether a chemical substance presents an unreasonable risk to health or the environment. If, in EPA’s view, a chemical substance presents an unreasonable risk, EPA must propose rules to manage the risk, such as limiting or prohibiting the manufacture or distribution of the chemical substance. In addition, we must immediately inform EPA, if we obtain information that the substance or mixture may present a substantial risk of injury to health or the environment.

### 13.2.3 Circular Economy

Our products are subject to general considerations of circular economy. In addition, our wind turbines and transformers may in the future be subject to additional (specific) design requirements with a view to ensuring efficient use of resources and avoidance of waste.

In the European Union, the EU Commission published in 2015 its Circular Economy Action plan which aims at facilitating a transition towards a more sustainable model for economic development. The action plan concerns circular economy over the entire life cycle of a product, including the production phase, by proposing several initiatives and regulatory actions as well as by identifying certain priority sectors. In 2019, the EU Commission published its Final Circular Economy Package summarizing the actions taken or envisaged in implementing the 2015 action plan. In 2020, the EU Commission published its New Circular Economy Action Plan which puts emphasis on the roll out of a product policy framework to reduce waste and to ensure that the European Union has a well-functioning internal market for high quality secondary raw materials. In particular the EU Commission is planning to examine whether the European Union should develop specific eco-design requirements for wind turbines. With such requirements, the EU Commission aims at ensuring a circular economy of neodymium and other materials which the European Union considers as critical raw materials and which the EU Commission expects will be used in larger wind turbines in the future.

In addition, the European Union updated its Waste Framework Directive (Directive (EC) 2008/98) in 2018 and obliged member states to manage waste containing significant amounts of critical raw materials to the best extent possible (see “13.1.3.4 Waste Production and Management” above). This includes preventing that products which are the main sources of critical raw materials become waste. Member states must implement the updated Directive into their national laws by July 5, 2020. In Germany, the Federal Government has published a draft law to transpose the updated Waste Management Directive into national law. As of the date of this Prospectus, the legislative procedure is ongoing. The draft envisages obligations for producers of certain products to pay for the products’ recycling and further obligations to strengthen producer responsibility. The German government can issue regulations to define the types of products to which these obligations apply. Our wind turbines consist of rotor blades made of carbon-reinforced material which must be recycled in specific facilities after use. Although there has been a political debate in Germany to oblige manufacturers of wind turbines or rotor blades used therein to pay for the recycling of the blades, as of the date of this Prospectus the German government has not yet made a specific legislative proposal on this. France recently enacted a rule (*arrêté du 22 juin 2020 portant modification des prescriptions relatives aux installations de production d’électricité utilisant l’énergie mécanique du vent au sein d’une installation soumise à autorisation au titre de la rubrique 2980 de la législation des installations classées pour la protection de l’environnement*) stipulating stringent requirements for the recycling of existing and the recyclability of new wind turbines, which are phased-in from July 1, 2020. In general, rules on the recycling of wind turbines affect our products and design processes because we must design our products in a way that allows our customers to fulfil their recycling obligations.

In China, the Circular Economy Promotion Law stipulates general requirements for reduction, reuse and recycling. In particular when we design products, we are obliged to make prior use of materials and designing schemes which allow the products to be recycled. With respect to certain electric and electronic products we may not use certain toxic and harmful substances as prohibited by the State.

In Brazil, Federal Law 12305/2010 establishes the National Solid Waste Policy which aims to provide integrated and environmentally sound management of solid waste. This policy stipulates the principle of joint responsibility of all agents involved in the life cycle of a product (e.g., manufacturers, importers, retailers, public authorities). Therefore, they must minimize the volume of solid waste and adopt practices to ensure that products are reintegrated into the production cycle.

### **13.3 Regulations Applicable to Our Customers’ Operations**

When using the products we produce, our customers are subject to a number of obligations resulting from laws, regulations and technical specifications, which relate to things like pollutant or noise emissions, protection of soil and water, and dismantling/decommissioning. Such requirements influence the way we design our products because our customers expect us to deliver products fit to fulfil their obligations.

### 13.3.1 Technical Requirements

Our customers use the HVDC systems we produce to connect energy generating facilities to the electricity grid. In addition they connect the gas/steam/wind turbines we produce to the electricity grid. Typically grid codes or similar regulations around the globe set technical parameters that any facility connected to an electricity grid must fulfill in order to ensure safe and reliable operation of the electricity grid. In particular, grid codes define parameters relating to a facility's active and reactive power supply and its characteristics during grid failures. These requirements must usually be fulfilled at the grid connection point. In Europe, grid operators and the EU Commission defined such rules for generators (Regulation (EU) 2016/631) as well as for HVDC systems and DC-connected power park modules (Regulation (EU) 2016/1447). Similarly in Mexico high-voltage products including power generation equipment have to fulfil specifications issued by public companies (CFE and PEMEX) but we expect that these will be regulated by the government in the future.

### 13.3.2 Air Emission Legislation

Although legal requirements vary from country to country, all of the power plants that we build for our customers using fossil fuel, gas and steam turbines have to comply with certain quality requirements or technical specifications to be eligible for operation under applicable local laws. This particularly concerns emission limits for all relevant airborne pollutants resulting from the combustion process. In addition, certain installations like power plants are subjects to environmental impact assessments in order to identify their impact for the surroundings. This may result in emission protection requirements which may include fitting of catalysts for CO, NO<sub>x</sub> and NH<sub>3</sub> emissions or other measures.

In the European Union, Directive (EU) 2010/75 on industrial emissions ("**IED**") aims at reducing pollution from industrial activities, including energy generation. The IED contains emission limits for certain combustion plants. In addition, the IED requires operators of power plants to be in possession of a valid permit for their operation and prevent and reduce pollution by applying the best available techniques ("**BATs**"). The EU Commission develops reference documents on best available techniques ("**BREFs**") and adopts key elements of the BREFs as "**BAT conclusions**". The BAT conclusions contain emission limits associated with the best available techniques. For large combustion plants, the EU Commission adopted BAT conclusions in 2017 which were published on August 17, 2017. These BAT conclusions stipulate emission requirements for among other things dust, Sulphur dioxide, nitrogen oxides and mercury which are mostly stricter than current emission limits. This may require operators to adjust their facilities which in turn require us to update our product portfolio so that we can supply service products.

Germany has transposed the IED Directive in the BImSchG and implementing ordinances as well as administrative guidelines. The implementing ordinances provide emission thresholds, authorization requirements and supervisory obligations for new and existing facilities. Since this obligation is dynamic in nature even already licensed installations may require retrofitting measures or other measures in order to comply with new standards. A draft bill to transpose the latest BAT conclusions relating to large combustion plants in the legal framework (13. *BImSchV*) was published on June 25, 2020. In addition, in 2019, Germany adopted registration requirements and emission standards (e.g., relating to dust and Sulphur dioxide) for medium sized combustion plants (44. *BImSchV*).

In the USA, most of the air emission requirements at the federal level are implemented through programs under the CAA. The CAA programs that are most relevant to our business and operations are the National Emission Standards for Hazardous Air Pollutants ("**NESHAP**") and the National Air Quality Standards ("**NAAQS**"). The NESHAP regulates the emissions by stationary sources, including power plants, of 187 hazardous air pollutants ("**HAP**"). Under the CAA, EPA has set NAAQS for the following six "criteria" pollutants considered harmful to public health and the environment: carbon monoxide, nitrogen oxides, Sulphur dioxide, ground-level ozone, particulate matter and lead. The CAA identifies two types of national ambient air quality standards for each of these criteria pollutants. Primary standards provide public health

protection, including protecting the health of “sensitive” populations such as asthmatics, children and the elderly. Secondary standards provide public welfare protection, including protection against decreased visibility and damage to animals, crops, vegetation, and buildings. A geographic area that meets or does better than the NAAQS is called an attainment area, while an area that does not meet this standard is called a nonattainment area. Once these designations take effect, state governments must develop state implementation plans outlining how the state will attain and maintain the standards by reducing air pollutant emissions. A nonattainment area designation results in the application of more stringent requirements applicable to current and new industrial operations, such as requirements to install pollution control equipment.

In China, the Law on Prevention and Control of Atmospheric Pollution (“**Air Quality Act**”) is the primary law dealing with air pollution, providing comprehensive measures of air pollution prevention and control. The Air Quality Act sets a specific goal of improving air quality and emphasizes the control of air pollution caused, among others, by industrial production. The Chinese authorities have issued the Integrated Emission Standards of Air Pollutants in order to implement the general provisions of the Air Quality Act. These standards specify emission limits of 33 air pollutants and define specific emission standards for, among others, boilers and thermal-power stations. In addition, the Regulation on Pollution Discharge Permitting requires certain companies to obtain and comply with a pollution discharge permit for air emissions. Local authorities are encouraged to establish more stringent emission standards. Furthermore, industrial facilities must obtain a pollutant discharge permit for the emission of specified hazardous and toxic atmospheric pollutants.

In Brazil, our customers must comply with the standards adopted by CONAMA as well as the emission limits adopted by the federal states. In particular, Resolution 8/90 of December 6, 1990, establishes maximum levels for air pollutants originating from external combustion processes on stationary sites. Resolution 382/06 of December 26, 2006 sets maximum levels of air pollution emissions from point sources.

In Mexico, LGEEPA also includes regulations on air-borne pollutants. At the federal level, these regulations are complemented by Official Mexican Standards (*Norma Oficial Mexicana*, “**NOM**”). Regarding the fossil fuel power plants as well as the gas and steam turbines that we build, our customers must, in particular, comply with the NOM-085-SEMARNAT-2011 for combustion plants. This standard will, however, be replaced by the new NOM-168-SEMARNAT-ASEA-2016 that will, among others, establish maximum emission levels for gas turbines.

### **13.3.3 Noise Emission Legislation**

Wind turbines, DC transformers, power plants based on fossil fuels and further products we produce are subject to noise emission limits during their operation. In addition, authorities may impose certain noise reduction obligations which take local surroundings into consideration.

Noise emission levels relating to the operation of sites in which our customers use our products (for noise requirements relating to product design, see “13.2.1 Design/Construction Requirements (Product Safety, Emissions, Eco-Design)” above), are mainly determined at local level. In Germany, the Technical Guidelines Noise (“**TA Lärm**”) set maximum noise emission limits for installations depending on the area and time in which they are operated. In the future authorities may stipulate stricter noise emission limits even for facilities already in operation. This may require retrofitting measures, *i.e.*, delivering components or carrying out construction or other works. In China, noise emissions are governed by the Law on the Prevention and Control of Environmental Noise Pollution (“**Environmental Noise Act**”) and implementing noise emission standards. Under the Environmental Noise Act, facilities causing noise emissions must take measures for eliminating and controlling such emissions. In Brazil, CONAMA Resolution 1/90 of March 8, 1990 comprehensively regulates noise emission in industrial and private context.

### **13.3.4 Further Environmental Law (Water Law, Dismantling Obligations)**

In the course of their operations our customers are subject to additional requirements under environmental law, pertaining to things like the use and the protection of water as well



decommissioning/dismantling of their installations after cessation of use. Our customers expect us to supply components and installations with which they can fulfil their obligations.

Our customers use water, which they extract from and feed-in to rivers, canals and other sources, to cool the power plants we produce. Permit requirements, emission limits and further obligations apply to such activities. On EU level, the IED and BAT conclusions (e.g., relating to large combustion plants) stipulate certain maximum levels for pollutants in water. In Germany, the abstraction of water and the feed-in of used water into water bodies are subject to a permit under the WHG. According to the WHG, the feed-in of water is only permissible if the amount and harmfulness of the water is as low as possible according to current state of the art. Regulations adopted under the WHG define state of the art for wastewater of a number of industry areas. In Brazil, the National Policy on Water Resources as well as certain resolutions by the CONAMA require our customers to respect certain standards and be in possession of a permit for the discharge of effluents and for water collection from rivers or wells. In China, the Law on the Prevention and Control of Water Pollution and the Regulation on Pollution Discharge Permitting requires our customers to obtain a wastewater discharge permit for the discharge of industrial water. In addition, these rules establish national standards for the discharge of water pollutants. Local authorities are invited to adopt more stringent standards than the national standards.

In addition, almost all turbines we produce contain oil or other substances which are hazardous to water. Although there are differences in national legislation, our customers are generally obliged to adopt precautionary measures to avoid contamination of water and to remedy contaminations if they do occur nevertheless. If our customers are obliged to carry out remediation work, they may seek compensation from us if a defect in the products we deliver caused the contamination. Similar principles apply if our customers cause soil pollution.

Our customers are also subject to decommissioning and dismantling obligations, for instance relating to their wind turbines and fossil or nuclear power plants. These obligations vary according to the product concerned and the country in which it is located. In Germany, the Atomic Energy Act (*Atomgesetz*) requires operators of nuclear power plants to decommission their plants after they cease their operations. Also operators of other power plants, such as wind turbines, can be obligated to carry out decommissioning through ancillary conditions in permits, like under the BImSchG. Such conditions are regularly included, in particular, if the plant was constructed in certain protected areas. Operators must decommission offshore wind turbines when they ceased their operations for more than three years or if their planning permission expires. Regarding decommissioning of nuclear power plants, obligations similar to German law also apply in Sweden and France (*démantèlement*). In the U.S., operators of nuclear power plants have to provide sufficient funding for decommissioning and offer different ways on how to decommission a nuclear power plant within 60 years. Apart from this, decommissioning requirements regarding wind power plants and other energy related installations vary from state to state. While some states in the U.S. impose strict requirements and/or request financial sureties for decommissioning, others leave decommissioning to be regulated on a municipal level or in private (lease) contracts.

## **13.4 Market-related Energy and Climate Policies and Regulations**

Our production process and our products are particularly influenced by trends and developments in energy and climate policies and regulations, particularly because such policies can create or narrow markets or shape customer demands for particular technologies, products and services provided by us across the entire energy value chain. Although this applies to each and every country around the globe, the EU, North American and Chinese markets are the most important markets not only in terms of volume but also as examples for different policies.

### **13.4.1 European Union and UK**

In European markets, we observe three closely interlinked regulation trends. Driven by political policies, regulation to achieve climate neutrality has recently increased, with a particular focus on

a decline of fossil-based electricity generation such as in our coal or gas-fired power plants. In turn, renewable energy sources (“RES”) expand, combined with technical progress and technology-specific as well as technology-neutral competition in the RES sector. This particularly affects SGRE’s onshore and offshore wind power generation activities. Finally, the overall RES trend requires the grid infrastructure to adapt to the increased feed-in from RES on both the transmission and distribution level as well as to long-distance transmission between generation and load centers.

#### *13.4.1.1 Climate Neutrality and Decarbonization*

Our fossil-fired energy generation as well as oil and gas infrastructure business are particularly affected by policies and regulations aiming at climate neutrality, *i.e.*, by way of decarbonization.

#### ***European Green Deal***

Based on a communication from the EU Commission (COM(2019) 640 final), the “**European Green Deal**”, the EU shall achieve climate neutrality by 2050 in line with the Paris Agreement. The European Green Deal sets out a net-zero GHG emission economy by 2050, defines targets for phasing out coal and decarbonizing gas, envisages a clean and circular economy and increased energy performance of buildings, and includes a shift to sustainable and smart mobility. At the end of 2019 and the beginning of 2020, the European Council and all EU member states, except Poland, as well as the European Parliament endorsed this concept. In January 2020, the EU Commission presented an Investment Plan for a Sustainable Europe (COM(2020) 21 final) to mobilize at least € 1 trillion of sustainable investments over the next decade. On March 4, 2020, the EU Commission proposed a regulation establishing the framework for achieving climate neutrality (COM/2020/80 final) to implement this concept, the “**European Climate Law**”. This shall empower the EU Commission to adopt a 2030-2050 EU-wide trajectory for GHG emission reductions by delegated acts and to assess the consistency of EU and national measures with the EU’s climate neutrality objective every five years. This EU strategy will likely lead to a phase-out of fossil-based energy generation, especially coal-fired power plants. Furthermore, on May 27, 2020, the EU Commission presented a proposal for a new European major recovery package, which also commits to rolling out renewable energy projects, especially wind, solar and clean hydrogen. Another component of the European Green Deal is the hydrogen strategy for a climate-neutral Europe, which the EU Commission presented on July 8, 2020 (COM(2020) 301 final). This EU strategy shall contribute to the decarbonization of industrial processes and economic sectors where reducing carbon emissions is difficult to achieve by utilizing carbon capture technologies as an interim solution for the production of hydrogen (blue hydrogen) until sufficient renewable energy sources are available to produce clean hydrogen (green hydrogen). Similar strategies are in parallel being established at member state level, like the German national hydrogen strategy of June 2020.

#### ***2030 Climate and Energy Framework***

For the period from 2021 to 2030, the 2030 Climate and Energy Framework (“**2030 Framework**”) applies. This policy is based on a communication from the EU Commission (COM(2014) 15 final) that was adopted by the European Council in October 2014 (EUCO 169/14). It aims at a reduction of GHG emissions in the EU by at least 40% compared to 1990, an increase of energy efficiency by at least 32.5% as well as an increase of RES in final energy consumption to at least 32% (“**EU 2030 Targets**”). The initial 27% RES and energy efficiency targets were revised upwards in the course of the recast of the Renewable Energy Directive (EU) 2018/2001 (“**RED II**”). To meet these targets, the EU, *inter alia*, revised the EU ETS and adopted Regulation (EU) 2018/842 on binding annual GHG emission reductions by member states for 2021 to 2030 (“**European Climate Protection Regulation**”). The latter requires minimum contributions of the member states during that period, although the specific GHG emission reduction targets vary between 0% and 40% compared to 2005 levels. Member states exceeding their emission targets may purchase emission allowances from other member states to offset their deficit. Germany, for example, shall achieve a GHG reduction of 38% by 2030

compared to 2005. As part of the European Green Deal, the EU Commission aims to propose raising the EU 2030 targets to at least 50% and even 55% in a responsible way.

### ***Clean Energy Package***

In 2019, the EU completed a comprehensive update of its energy policy framework on climate neutrality and decarbonization objectives. The so-called “Clean Energy for all Europeans Package” is based on proposals of the EU Commission published in November 2016 and consists of a total of eight legislative acts, including, in particular, the RED II and the Second Regulation (EU) 2019/943 on the internal market for electricity (“**EMR II**”).

RED II raises the overall EU binding target for RES final consumption by 2030 to at least 32%. The national contributions set by member states in integrated national energy and climate plans for a period of ten years must meet this target collectively. The gross final consumption of energy from RES in each member state will be calculated as the sum of the gross final consumption from RES in the energy and the heating and cooling sector as well as the final consumption of RES in the transport sector. In order to promote the use of renewable energy in the transport sector, each member state shall set an obligation on fuel suppliers to ensure that the share of renewable energy within the final consumption of energy in the transport sector is at least 14% by 2030. Member states must also adopt national policies that aim to develop the market for alternative transport fuels and infrastructure, including recharging stations. The requirements of RED II have to be transposed into national law until June 30, 2021,

The EMR II focusses on requirements for capacity markets where power plant operators are not only paid for the production of electricity but also for the potential production of electricity (reserve power). It sets out conditions and limits particularly regarding the future use of fossil technology. Capacity mechanisms should be temporary and designed to address and identify problems of resource adequacy. Under EMR II, energy generation facilities emitting more than 550 g of fossil CO<sub>2</sub> per kWh and an average of 350 kg of CO<sub>2</sub> per year per kW installed will not be able to participate in capacity mechanisms after June 2025. Thus, power plants that have participated in the capacity reserve may no longer participate in capacity market mechanisms. EMR II further requires member states to review and, if necessary, adjust their bidding zones to ensure market liquidity, efficient congestion management and overall market efficiency. Any adjustments to the bidding zones might also affect existing capacity mechanisms by reducing demand for capacity.

### ***EU Taxonomy***

Financing mechanisms set out further incentives for the phase-out of fossil-fuel power generation. Based on a proposal from the EU Commission (COM(2018) 353 final), in December 2019 the European Council and the European Parliament reached a political agreement on a proposed Regulation on the Establishment of a Framework to Facilitate Sustainable Investment (Council Doc. 14970/19), the so-called “**EU Taxonomy**”, which in turn was adopted by the European Council (Council Doc. 5639/20) on April 15, 2020 and by the European Parliament on June 18, 2020. From December 2021 onwards, the EU Taxonomy shall implement a classification system at EU level to define environmentally sustainable economic activities. One objective is to redirect capital flows towards sustainable investment by setting out requirements for financial market participants in relation to the disclosure of sustainability risks and impacts of financial products. An overarching, technology-neutral emission threshold of 100 g CO<sub>2</sub> emissions per kWh is proposed for electricity generation. This threshold will be reduced every five years in line with a trajectory to net-zero CO<sub>2</sub> emissions in 2050. We expect that the EU Taxonomy will make the financing of new fossil fuel energy projects, even high-efficient gas fired power plants, more difficult. Already by now, the EIB’s lending policy stipulates that from 2021 onwards no new financing will be granted to fossil fuel projects, including gas-fired power plants, and that the EIB will increasingly promote low or zero emission technologies and decentralized energy production, aiming to meet the EU’s 32% RES target. In addition, EU Taxonomy will require us to

provide additional information on how and to what extent our activities are associated with economic activities that qualify as environmentally sustainable under EU Taxonomy in our annual report.

### ***Climate Protection Laws***

There are additional laws and regulations at EU member state level which also aim at climate neutrality and decarbonization. For example, the German Climate Protection Law (*Bundes-Klimaschutzgesetz*), adopted in November 2019, stipulates legally binding GHG emission targets for various sectors. In the energy sector, GHG emissions must decrease from 280 million tons CO<sub>2</sub> in 2020 to 175 million tons CO<sub>2</sub> in 2030; in the industrial production sector from 186 million tons in 2020 to 140 million tons CO<sub>2</sub> in 2030. However, the precise implementation of these targets is still subject to further legislation.

In November 2019, the French Parliament adopted the Energy and Climate Law (*Loi n° 2019-1147 du 8 novembre 2019 relative à l'énergie et au climat*). In addition to its national reduction target in non-EU ETS sectors set by EU law, this law requires a further reduction of fossil fuel consumption by 40% by 2030 compared to 2012 and achievement of the long-term target of carbon neutrality by 2050.

Furthermore, the British Climate Change Act of 2008, as amended in June 2019, sets a net-zero GHG emission reduction target by 2050 compared to 1990 levels as well as legally binding carbon budgets. This act requires the UK government to set legally binding carbon budgets, as of the date of this Prospectus providing for a GHG emission reduction of 51% in 2025 and of 57% in 2030.

### ***Phase-out of Coal-fired Power Generation***

Further laws at EU member state level provide for a definite phase-out of coal-fired power generation, however, with varying time schedules. In Germany, the Coal Exit Law (*Kohleverstromungsbeendigungsgesetz, "KVBG"*) of August 8, 2020, sets a shutdown schedule for lignite power, including a total of € 4.35 billion of compensation. For hard coal the bill foresees a tender procedure for compensation payments to incentivize operators to take capacity off the grid until 2026. The first auction will still take place in 2020 and take 4 GW of hard coal-fired power generation off the grid at a maximum remuneration of € 165,000 per MW. Subsequent auctions will follow until 2026 at degressive remuneration rates. From 2027 onwards, the hard coal phase-out shall be subject to forced shutdowns. By 2022, the share of coal-fired power generation from hard coal and lignite-fired power plants shall be reduced to around 15 GW each. By 2030, further reductions to around eight GW are planned for hard coal-fired power plants and nine GW for lignite-fired power plants. The overall phase-out of coal-fired power generation shall be completed by 2038 at the latest. Other member states have scheduled an even faster phase-out. For example, the French coal-fired power generation phase-out plan (*Stratégie Nationale Bas-Carbone*) as adopted by French Parliament in 2015 will lead to a shutdown of the remaining four coal-fired power plants in France by 2022.

Under an Implementation Plan on the End of Unabated Coal by 2025 of January 2018, the UK government plans to set an emission limit of 450g of carbon per kWh on coal-fired power generators from October 1, 2025 resulting in a *de facto* phase-out.

### ***Emission Thresholds and Trading***

In addition to laws and regulations that directly lead to a phase-out of fossil-based power generation, further policies incentivize the decrease and shut-down of carbon generation. For example, the IED aims to reduce harmful industrial emissions by requiring industrial installations to meet emission values for certain pollutants based on BAT as published by the EU Commission in the BREFs. We expect these standards will become more stringent and comprehensive over time and therefore we must adapt our products as well as our production sites accordingly.

Another important instrument is the EU ETS, which implemented a market to trade a capped number of EUAs for companies operating within the European Economic Area ("**EEA**").

Operators of energy-intensive installations (power generation facilities and industrial plants) must buy and sell those allowances in order to cover their emissions. The European Union annually reduces the available allowances, in order to increase their prices and create incentives to reduce CO<sub>2</sub> emission. The overall number of EUAs shall further decline at an annual rate of 2.2% (linear reduction factor) from 2021 onwards, compared to 1.74% currently. The economic viability and competitiveness of our power generation products depend, *inter alia*, on the price of the EUAs, which is volatile and therefore not predictable due to its dependence on the cap-and-trade scheme. To counteract the volatility of the EU ETS and to improve its stability, the European Union established a market stability reserve in 2019 (Decision (EU) 2015/1814), providing an automatic adjustment of the supply of auctioned allowances by reducing the surplus or counteracting a shortage. It therefore improves the EU ETS' resilience to market shocks and enhances market stability.

### **Carbon Tax**

In addition to the EU ETS, some member states imposed further national regulations to promote the reduction of GHG emissions by increasing their costs through taxes and charges in order to reach the targets defined by the European Climate Protection Regulation.

For example, the German Fuel Trading Act (*Brennstoffemissionshandelsgesetz*, "**BEHG**") of 2019 implemented a national emission trading system. From 2021 onwards, companies placing fossil fuels on the market are obliged to acquire emission allowances for the GHG emissions caused by their products. The BEHG is supposed to increase the prices for petrol and heating oil, but will also increase the market prices for all products that depend on the use of fossil fuels. Exemptions, however, apply for industrial sectors covered by the EU ETS in order to avoid double taxation. Under a bill amending the BEHG, the price per ton CO<sub>2</sub> shall increase to initially € 25 and then gradually rise to € 55 in 2025. For the year 2026, a price corridor of at least € 55 and at most € 65 shall apply.

In France, the climate energy contribution (*contribution climat énergie*, "**CCE**"), introduced by the French Finance Law (*Loi n° 2013-1278 de finances*) in 2014, sets an annually increasing indirect CO<sub>2</sub> price component by adding a surcharge to existing taxes on fossil fuels, initially at € 7 per ton of CO<sub>2</sub>. The surcharge is paid when purchasing fossil fuels. In 2018, the CO<sub>2</sub> surcharge in France was around € 45 and by January 2019 it should have risen to € 55. However, due to continued protests, France paused the increase in 2019. Sectors covered by the EU ETS are exempted from the surcharge.

The UK implemented an additional Climate Change Levy ("**CCL**"), which taxes the use of coal and other solid fossil fuels for energy generation via carbon price support rates set out in the Carbon Price Floor ("**CPF**"), introduced in 2013. The CPF supplements the EU ETS by topping up the EUA's price (*Carbon Support Price*, "**CPS**"). Until 2021, the CPS component of the floor price is capped at a maximum of around € 22 per ton of CO<sub>2</sub>. Industrial energy consumers, however, must pay the CCL main rates on electricity, gas or solid fuels.

### **CHP Technology and Nuclear Power Plants**

Regarding CHP plants, the market development is highly dependent on different national support schemes. The German Heat and Power Cogeneration Act (*Kraft-Wärme-Kopplungsgesetz*, "**KWK 2019**") provides for financial incentives for operators of new, modernized or retrofitted CHP, except coal and lignite-fired CHP. It also supports the construction and expansion of energy-efficient district heating/cooling networks as well as the construction and retrofitting of heating/cooling storage facilities. An amendment to the KWK 2019 passed alongside the KVBG shall create incentives to replace coal-fired CHP with modern CHP systems.

Our products such as steam turbines and power plant control technologies can partially be used in nuclear power plants and we observe that EU member states handle the phase out from nuclear energy differently since the EU Green Deal does not exclude the use of nuclear power to



achieve the set targets. In 2011, Germany revised its Atomic Energy Act (*Atomgesetz*) to ultimately phase out all nuclear power generation by 2022. In August 2015, France adopted a law to reduce its share of nuclear energy from 75% to 50% by 2025 (*Loi n° 2015-992 relative à la transition énergétique pour la croissance verte*) but later amended the schedule to achieve this target by 2035.

### **Capacity Mechanisms**

Although we observe that conventional energy production is declining due to changes in the regulatory framework described above, we believe that fossil technologies are still required in the transitional phase to compensate the high volatility of RES power supply and ensure grid stability. To this end, several EU member states have established capacity market mechanisms (e.g., France, Poland, Italy, (UK) and Germany) that the EU Commission approved under EU State Aid law (see, e.g., 2017/C068/01).

In Germany, the Energy Industry Act (*Energiewirtschaftsgesetz*, “**EnWG**”) provides for an energy-only electricity market with three capacity reserve mechanisms (*Kapazitätsreserve*, *Netzreserve* and *Sicherheitsbereitschaft*). These mechanisms compensate regionally different load distribution in the grid to avoid congestion (network reserve (*Netzreserve*)), prevent a shortage of electricity by providing an electricity production reserve (capacity reserve (*Kapazitätsreserve*)) and allow for security readiness of lignite-fired power plants (*Sicherheitsbereitschaft*) up to 2023 followed by a permanent decommissioning. In addition, network stability can also be ensured by prohibiting the decommissioning of system relevant power plants. Furthermore, TSOs may keep specific network facilities (*netztechnische Betriebsmittel*), in particular even conventional energy generation facilities, available in order to restore security of energy supply in the event of local equipment failure.

France implemented a national market-wide capacity mechanism for providers offering capacity when there is a risk of a network bottleneck (*Loi n°2010-1488 sur la nouvelle organisation du marché de l’électricité dite*). In return, the providers receive certificates that suppliers need to purchase in order to cover the peak demand of their customers. In Poland, where coal-fired power plants can participate in capacity auctions, successful bidders receive a steady payment during the duration of the capacity agreement. Italy, on the other hand, already restricted the participation of power plants that do not comply with the CO<sub>2</sub> emission limits set under the changed requirements for capacity mechanisms under EMR II.

Under the UK Energy Act 2013 and implementing regulations, capacity reserves in the UK are established by TSOs who organize centrally-managed technology-neutral auctions to procure the level of capacity required to ensure electricity supply at times of stress events on the electricity system. In previous auctions, bids of operators of gas and coal-fired power plants were also accepted.

#### **13.4.1.2 Renewable Energy Expansion and Financial Funding**

As major consequences of the promotion of climate neutrality and decarbonization, we observe frequent changes and considerable effort in renewable energy expansion regulations and policies that affect our business. EU member states have to provide National Energy and Climate Plans (“**NECP**”) to the EU Commission which provide an overview of their contribution to reaching overall EU climate and RES plans. However, the countries still decide themselves on their national energy mixes. We are therefore required to simultaneously project the demand for our products on independently developing rather than on national markets. The nationally preferred RES technologies may vary, not only for geographical reasons such as RES resources but also for diversification purposes.

### **General RES Expansion Targets**

European states have enacted partially ambitious national RES expansion targets in the past. The German Renewable Energy Act 2017 (*Erneuerbare Energien Gesetz 2017*, “**EEG 2017**”) aims for at least 40% renewable electricity generation by 2025, 55% by 2035 and at least 80% by 2050.

The 2035 aim was increased to 65% by an amendment of the EEG 2017 passed alongside the KVBG. The current Spanish Draft Bill on Climate Change and Energy Transition (*La Ley de Cambio Climático y Transición Energética*) aims at a share of 74% RES in electricity generation by 2030. The Danish NECP of December 2019 aims at 55% RES in energy consumption and 100% renewable electricity by 2030. Finland's NECP of December 20, 2019, sets a target of 51% of final energy consumption by 2030 and Sweden's NECP of January 16, 2020, aims at 50% of final energy consumption already for 2020. Transitioning the electricity generation sector remains at the core of all approaches and even strategies for continued use of centralized power generation blend with the promotion of RES. Increased RES generation affects our traditional fossil-based business but may also promote our offshore portfolio ranging from across the entire value chain, including HVDC offshore grid connections, SGRE's offshore wind turbines and offshore wind power plant substations as well as the respective service.

Following Brexit, the UK did not file a final NECP with the EU Commission. Under the latest UK draft NECP of January 2019, the Scottish Climate Change Plan of February 2018 and Scottish Energy Strategy of December 2017 set a target of 50% of all of Scotland's heat, transport and electricity consumption to be supplied from RES by 2030. The Welsh Government set targets for generating 70% of its electricity consumption from renewable energy by 2030.

### ***Wind Expansion Targets***

In Germany, pursuant to the EEG 2017, installation of new onshore wind capacity is to expand by 2,900 MW annually as of 2020, whereas solar capacity shall expand annually by 2,500 MW. In part, joint auctions with solar PV are held to assign and determine the financial funding. The tender volumes increase by the volumes that were not assigned in the previous year. For 2020 seven wind onshore auctions with a total volume of 4.100 MW are planned. Under the EEG 2017, offshore wind expansion target is set to 6,500 MW by 2020. A total of 15,000 MW shall be installed until 2030. On May 12, 2020, however, the Federal Government, coastal federal states and TSOs responsible for offshore wind power plant connections reached a political agreement to increase the 2030 target to 20,000 MW. This aim shall be implemented in the course of the revision of the Offshore Wind Act (*Windenergie-auf-See-Gesetz*), which is still ongoing as of the date of this Prospectus.

The recently updated French Energy and Climate Act sets a target of 3.5 GW of offshore wind capacity in 2024 and starting from 2024, implements auction procedures of 1 GW per year offshore capacity and 1.8 GW onshore capacity (repowering not included). Auctions for onshore wind start in the second half of 2020 until 2024 with 2 auctions per year of 925 MW per auction. In April 2020, the latest draft of France's multi-year energy plan (*Programmations pluriannuelles de l'énergie*) was approved with an onshore wind target of 24.1 GW by 2023 and between 33.2 and 34.7 GW by 2028 as well as an offshore wind target of 2.4 GW by 2023 and between 5.2 and 6.2 by 2028.

Spain, pursuant to its NECP of January 20, 2020, targets 120 GW of total RES capacity by 2030, aiming for a 90% increase in installed wind capacity (onshore and offshore) to 50 GW by 2030. Under Denmark's latest NECP of December 2019, no individual targets for specific technologies have yet been set but the plan estimates wind (onshore and offshore) generation to reach a combined share of nearly 20% in the overall energy consumption. Sweden's NECP expects wind power to increase by 5 GW between 2017 and 2030 and Finland's NECP projects 5.5 GW of installed wind power capacity by 2030.

Regarding the UK, the Offshore Wind Sector Deal of March 2019 sees offshore wind contributing up to 30 GW of generating capacity by 2030, subject to further cost decreases. In her speech on the UK Government's program of December 19, 2019, the Queen outlined that the UK government intends to increase the target for installed offshore wind energy to 40 GW by 2030.

### ***Challenges for Wind Expansion***

Despite the expansion targets, the actual increase of onshore and offshore wind remains challenging. Main hurdles mostly for onshore wind expansion in every jurisdiction include

turbines' effects on people (noise in particular), wildlife (flight of birds) and natural scenery (aesthetic pollution), permit requirements and procedures, energetic and, thus, economically viable location selection, transmission of produced electricity as well as legal action against wind energy projects. Acceptance is a challenge particularly for onshore wind in Germany and projects are often delayed because of environmental court claims. In addition, an amendment of the German Building Code (*Baugesetzbuch*) of August 8, 2020, enables the German Federal States to apply a distance rule in residential areas of up to 1,000 meters without prejudice to existing rules. Other jurisdictions have already enacted even lower distance rules, such as in France where 500 meters apply under the Energy Law Code (*Code de l'énergie*).

On October 7, 2019, the Federal Ministry for the Economy and Energy (*Bundesministerium für Wirtschaft und Energie*) published a list of action points to be implemented in 2020 aiming to accelerate approval procedures for onshore wind power plants, *inter alia*, by centralizing approval authorities, amending species protection legislation and limiting the effects of legal procedures against approval decisions. On August 12, 2020, the Federal Government adopted a bill on an Investment Acceleration Act, which shall *inter alia* shorten administrative proceedings for large onshore wind turbines and exclude suspensory effects of law suits against such projects. Comparable approval effects could be observed in France after the highest French Administrative Court, the *Conseil d'Etat*, in December 2017 had annulled a decree designating the prefect of a region as the authority for issuing the required environmental permits, causing legal uncertainty for projects that were approved under this decree.

Another challenge for onshore and offshore wind expansion concerns the congestion of the grid. In the past, Germany had created massive investment incentives for offshore wind generation. As of 2009, the TSOs had to connect offshore wind power plants to the transmission grid free of charge under the EnWG, unlike onshore grid-connections and unlike in many other jurisdictions, such as the UK. Since 2012, the EnWG also enables offshore wind power plant operators to claim compensation in the amount of 90% of their hypothetical remuneration from the TSOs in case of delays, malfunctions or maintenance works. The TSO may be able to revert to its general contractor under the respective contract. In any case, these incentives have resulted in a congestion of the grid. The commissioning of further connection and feed-in capacity would, thus, either increase feed-in management by the respective TSOs or require the expansion of transmission capacities. Under the current German framework of the EnWG and the EEG 2017, bids for financial funding of onshore wind projects may be rejected, even during tender proceedings, if they relate to grid-expansion areas. Grid congestion regulation may, thus, impact our on and offshore wind business, including our HVDC business, where sales opportunities are closely linked to the offshore wind expansion targets.

To solve grid congestion, in particular low-loss HVDC links are to be established to transport electricity to southern consumption centers of Germany, thereby reducing regional grid load in the northern areas of generation. The German Grid Expansion Acceleration Act (*Netzausbaubeschleunigungsgesetz*, "**NABEG**") contains a special procedure to accelerate approval proceedings for infrastructure projects. It applies to urgently required extra-high-voltage lines crossing inner-German or international borders and connections between offshore wind power plant substations and the onshore grid.

### **RES Promotion Schemes**

In addition to state-set expansion targets, the demand for our products is also driven by different financial promotion schemes leveraging our clients' investments. These promotion schemes have been subject to amendments and policy changes in the past that not only affect the profitability of our clients' investments, but also the demand for our onshore and offshore wind products. As a general trend we have observed a decline in the amount of financial promotion in many jurisdictions in recent years, sometimes gradual and sometimes more drastically. In addition, we noticed a shift from fixed feed-in tariffs to market-based tendering procedures. Under many prior frameworks, fixed feed-in tariffs were designed to guarantee investors an initial and fixed phase of constant return, whereas market-based tender proceedings aim at competition and cost-effectiveness in RES expansion.

For example in Germany, different statutory RES support mechanisms have been in place since 1991. Since April 1, 2000, the applicable regulations are set out in the EEG, which underwent several major amendments in 2004, 2009, 2012, 2014 and 2017. Generally, financial funding has been reduced over time, depending on the point in time the installation first commenced operation. In part, financial funding is also subject to options, which provide additional incentives, such as increased initial tariffs for offshore wind power plants (*Stauchungsmodell*) that commenced operation prior to January 1, 2020. Despite repeated changes to the funding schemes, the financial funding for a particular project has generally been fixed for a period of 20 years following its start of operations. However, new investments are generally only eligible for financial funding if awarded in a market-based tender procedure, as ultimately established under the EEG 2017 and the Offshore Wind Act (*Windenergie-auf-See-Gesetz*). Comparably, the Netherlands, France in 2017 and Spain in 2016 implemented auction-based remuneration schemes. Also Poland changed its system in 2016. The UK initiated its transition to auction-based support schemes in 2014. However, differences exist with regard to the auction design, *i.e.*, concerning the existence and amount of auctions, the volumes auctioned (installed capacity or energy), the technologies auctioned (*e.g.*, jointly or separately), whether schemes relate to the purchase of power or are paid as additional premium to market sales and, especially, regarding the duration and re-assessment of schemes.

Under RED II member states shall generally prefer market-based schemes, *i.e.*, tender proceedings, in order to determine the amount of financial funding. In accordance with the EMR II, financial funding shall only be paid in addition to earnings resulting from direct marketing of the energy produced on the electricity markets.

In addition, promotion schemes are regularly subject to EU State Aid law in connection with the EU Commission's "Guidelines on State aid for environmental protection and energy 2014-2020", which will be prolonged until 2022 according to a draft communication of the EU Commission.

#### **13.4.1.3 Grid Expansion and Investment Regulation**

The expansion of renewable electricity sources coincides with a need for grid expansion in the transmission and distribution systems. We observe a general transition of the electricity supply systems which were originally designed for the feed-in of centralized power generation. As the share of volatile renewable electricity generation grows, grid requirements change and more decentralized as well as interconnection and flexible solutions are required.

#### **Expansion Obligations of TSOs**

Pursuant to the EMR II and national legislation, all European TSOs are generally obliged to maintain, expand and optimize the grid to meet the demand to the extent economically reasonable. Therefore, TSOs are obliged to develop and execute national and EU-wide network development plans.

In addition, several national laws apply in member states that accelerate grid expansion to reduce grid congestion. In the past such bottlenecks were, in particular, caused by the delay of infrastructure expansion projects. To this end, legislation like the German EnWG and the Energy Line Extension Act (*Energieleitungsausbaugesetz*, "**EnLAG**") expedite approval requirements and procedures for projects that serve the public interest. Also the NABEG aims at accelerating important extra-high-voltage line grid extensions, but is subject to a rather complex proceeding. In any case, the applicable approval requirements such as the thresholds for electromagnetic fields under the Electromagnetic Fields Ordinance (*Verordnung über elektromagnetische Felder*, 26. BImSchV) have to be complied with and affected individuals and environmental associations may be entitled to file lawsuits against the approvals obtained by a TSO.

#### **Refinancing of Grid-related Investments**

Grid tariffs are the main source of income for TSOs and, *inter alia*, refinance grid-related investments. Therefore, the regulation of TSOs' profits also impacts the sales of our transmission portfolio. There is, however, no full harmonization of grid tariff regulation at EU level. EMR II



requires that tariffs are cost-reflective, transparent, take into account the need for network security and flexibility as well as reflect actual costs incurred insofar as they correspond to those of an efficient and structurally comparable network operator, be applied in a non-discriminatory manner and provide for incentives to increase efficiency. The implementation of these guidelines differs in part in EU member states. In the past, many member states took a cost-based regulation approach in form of a guaranteed rate-of-return or cost-plus regulation adding a profit margin to the costs of a grid operator. These models have more and more been replaced by incentive-based regulations which provide financial rewards or penalties with a view to an efficient cost base. Incentive-based regulation usually takes the form of yearly revenue caps or price caps in connection with a guaranteed rate of return to ensure sufficient investment into the grid. Most member states, but not Germany and Spain, use a WACC factor (Weighted Average Cost of Capital) to calculate the rate of return. In addition, efficiency requirements force grid operators to reduce costs and work more efficiently regarding their OPEX and/or CAPEX.

In Germany, the EnWG, the Ordinance on Electricity Grid Tariffs (*Stromnetzentgeltverordnung*, "**StromNEV**") and the Ordinance on Incentive Regulation (*Anreizregulierungsverordnung*, "**ARegV**") implement the requirements of EU law. The BNetzA defines a revenue cap for each calendar year of a regulatory period. For electricity TSOs, the current (third) regulatory period began on January 1, 2019 and will end on December 31, 2023. The respective revenue caps are based on the TSOs' cost base level (*Kostenausgangsniveau*) which is determined according to a cost analysis two years prior to the beginning of the regulatory period. The calculated grid costs also serve as input parameter for an efficiency benchmarking prior to the regulatory period in which the individual efficiency factors and targets (*Xind*) are determined through the application of complex benchmarking methodologies. However, an efficiency benchmark is generally not applied to permanently non-influenceable costs (*dauerhaft nicht beeinflussbare Kosten*). Under the ARegV, grid expansion measures fall within the scope of permanently non-influenceable costs if they increase interconnector capacity and/or compromise pilot usage of HVDC technology to expand grid capacity or to connect (even inner-German) grids. Special rules also apply for the replacement of infrastructure. Whereas the ARegV generally sets out a project-specific deduction for the respective costs of a measure, leading to a decrease of recognized costs and thus to reduced profit generated by replacements, such deduction does not apply to investments in HVDC systems intended to expand system capacity or to establish new cross-border connections. Adjustments are performed as of January 1 of each year. Accordingly, a TSO is generally entitled to adjust its grid tariffs in accordance with its adjusted revenue.

A further key driver for the determination of the revenue caps are the BNetzA's determinations of interest rates providing for the imputed return on equity within the cost base level. In the current third regulatory period, the BNetzA has decreased these interest rates from 7.14% in the second regulatory period (2014-2018) to 5.12% (assets commissioned prior to January 1, 2006, "old assets") and from 9.05% to 6.91% (assets commissioned as of January 1, 2006, "new assets"). The respective interest rates are applied to non-influenceable costs regardless of the TSO's individual efficiency. Another important component of the revenue cap determination is the sectoral productivity factor (*Xgen*), which reflects the deviation of the electricity grid specific from the general economic productivity, and, as of the third regulatory period, is determined by the BNetzA at 0.9% for electricity grid operators, compared to 1.5% in the second regulatory period pursuant to the ARegV. However, the determination has been appealed and proceedings are pending as of the date of this Prospectus.

Under the Network Charge Modernization Act (*Netzentgeltmodernisierungsgesetz*) of July 22, 2017, TSOs are no longer entitled to recover investments for offshore grid connections via network tariffs but rather via a separate offshore surcharge. Under the Ordinance on the Calculation of the Offshore Surcharge and Regarding Adjustments in Regulation Law (*Verordnung zur Berechnung der Offshore-Netzumlage und zu Anpassungen im Regulierungsrecht*) of March 21, 2019, the provisions of the StromNEV apply accordingly to the offshore surcharge. Hence, equity interest calculation of future offshore grid connections remains



unchanged. Like under the prior framework, the respective costs are excluded from the efficiency benchmark. Costs for establishing offshore grid connections may be settled annually via the offshore surcharge.

#### **13.4.2 Canada**

Like the EU, Canada is a party to the Paris Agreement and committed to decreasing national emissions by 30% in 2030 compared to the base year 2005. The Pan-Canadian Framework on Clean Growth and Climate Change (“PCF”) implements this policy for all sectors of the economy. The PCF is supplemented by further policies and measures of Canadian provinces and territories and supported by federal investments such as, for instance, a low carbon economy fund.

##### *13.4.2.1 Expansion of Non-emitting Electricity Sources*

Although the Canadian energy mix varies among the provinces, Canada’s emissions from electricity generation are already generally considered to be low, with more than 80% of electricity being generated by non-emitting sources, mainly hydroelectricity according to the PCF. Under the Green Energy Act of 2009, Ontario launched a feed-in tariff program which was however terminated by ministerial order of July 13, 2018 due to increasing electricity prices. In addition, the Federal Department of Natural Resources Canada generally proposes four pathways for Canada’s energy transition, namely wasting less energy, switching to clean power, using more renewable fuels and producing cleaner oil and gas. According to this, all provinces must recognize renewable energy expansion as a requirement and embark on various programs to increase its proportion.

##### *13.4.2.2 Carbon Pricing and Coal Phase-out Standards*

Another key component to achieve decarbonization is the Federal GHG Pollution Pricing Act (“GHGPPA”) of 2018, which implements carbon pricing as of 2019, starting with CAD 20 per emitted ton of CO<sub>2</sub>. The carbon price shall rise to CAD 50 per ton of CO<sub>2</sub> by 2022, with an annual increase of CAD 10 and applies to 21 types of fuel and combustible waste. Already prior to the GHGPPA, the provinces had partially established regulatory frameworks to address and enforce decarbonization. For example, British Columbia has had a carbon-tax in place since 2008 whereas Quebec participates in a cap-and-trade program with U.S. State of California. Against this background, the federal GHGPPA is designed to serve as a backstop where provinces fail to enact adequate measures, including cap-and-trade systems, based on mandatory minimum pricing and emission reduction targets. In this case, the federal government is entitled to impose the GHGPPA carbon pricing system. As a result, the GHGPPA is in effect in various provinces. However, the GHGPPA is fraught with legal uncertainty because Canadian provincial courts have ruled differently on the competence to impose carbon pricing provisions in the provinces. Ultimately, the Supreme Court of Canada will have to decide the matter.

On November 29, 2018, the Canadian department of environment issued a new emission performance standard regulation for conventional coal-fired power plants. Operators are only allowed to continue operation if they comply with substantially increased emission performance standards for coal-fired electricity generating units by 2030, such as by utilizing carbon capture technologies. Otherwise they have to cease operation at the end of the fiftieth year following their respective commissioning date but no later than December 31, 2029. Electricity generating units which commenced their operation prior to 1974 had to comply with the standards or already cease operation by December 31, 2019.

##### *13.4.2.3 Consequences of rising electricity prices for the financial promotion of renewables*

In Canada several provinces have addressed price increases in electricity in their policies and as a consequence have even terminated ongoing projects. For instance, Ontario enacted the Green Energy Repeal Act to stop approvals for “wasteful energy projects” where the need for electricity was not clearly demonstrated. On June 10, 2019, the Alberta government suspended Alberta’s 2016 RES program (“REP”) and required that at least 30% of energy must be produced by RES.

The REP had been enabled for a total of three investment rounds and that existing projects be continued until at least 2021, however now no additional tendering proceedings will be carried out. The Government of Ontario declared a moratorium on offshore wind power plants in 2011 which precludes development in the Great Lakes.

#### *13.4.2.4 Establishment of the Canadian Energy Regulator and revised impact assessment*

The Canadian federal and provincial governments share regulatory jurisdiction over the oil, gas and electricity sectors, resulting in a number of legal and regulatory frameworks for the exploration of Canadian oil and gas reserves and in the electricity sector overall. As a consequence neither a single energy policy nor a single regulatory body exists. However, on June 21, 2019, the Canadian parliament passed Bill C-69, which included the Canadian Energy Regulator (“CER”) Act (“CER Act”) to replace the National Energy Board Act, and established the CER as a federal regulatory committee with federal authority on August 28, 2019. Under the CER Act, CER is competent for oil and gas pipelines, including traffic and tariffs, international power lines and certain interprovincial power lines, renewable energy projects and offshore power lines, access to lands and the exportation of oil, gas and electricity as well as the interprovincial oil and gas trade.

Bill C-69 also includes the Impact Assessment Act (“IA Act”) under which the federal Impact Assessment Agency (“IAA”) is established. The federal impact assessment process established under the IA Act serves as a planning tool which takes into account a broad range of potential environmental, health, social and economic effects of designated projects identified by regulation or designated by the Minister of Environment and Climate Change. Decisions are based on whether the potential adverse effects in areas of federal jurisdiction are in the public interest and in contrast to the previous environmental assessment process, where decisions were based on whether a project is likely to cause significant adverse environmental effects. The impact assessment covers a comprehensive catalogue of factors to be decided on and also provides for public participation.

#### *13.4.2.5 Infrastructure expansion*

The CER must approve construction of transmission lines across provincial boundaries and, as per the IA Act, infrastructure projects within provinces as well. Investments by the TSOs are regulated by both the provincial regulator of each province and by the CER as far as investments between provinces or import and export of electricity to neighboring jurisdictions are concerned. Canada has a long-term infrastructure plan in place to cover green infrastructure. The Canadian Infrastructure Bank attracts and co-invests with private and institutional investors, such as TSOs, in new, revenue-generating infrastructure projects that are in the public interest prioritizing, *inter alia*, green infrastructure projects.

### **13.4.3 USA**

Energy and climate policies in the U.S. differ significantly from those in effect in the European Union and Canada and remain hard to predict over mid and long term. In the absence of mandatory GHG emission reduction targets at the federal level, individual states have taken different approaches to reduce sector-specific GHG emissions. For example, although the U.S. federal administration in 2019 terminated the Paris Agreement with effect as of November 4, 2020, two thirds of the U.S. states have enacted certain renewable portfolio standards (“RPS”) to promote the use of clean electricity sources and twelve states operate ETSs.

#### *13.4.3.1 The U.S. Energy Dominance Policy*

The U.S. energy dominance policy (“EDP”) under the Trump administration repealed and replaced several regulations promulgated under the prior Obama administration to reduce GHG emissions consistent with goals set by the USA under the Paris Agreement. Unlike existing European policies, the EDP intends to drive economic growth by increasing oil and gas extraction and accelerating infrastructure development. Federal legislative efforts include additional drilling

opportunities and prioritized proceedings for pipeline projects and LNG terminals. Most notably, Alaska's Arctic National Wildlife Refuge was opened up for oil and gas drilling activities at the end of 2017. However, in September 2019, Congress passed the Arctic Cultural and Coastal Plain Protection Act restoring protection of the arctic refuge. As of the date of this Prospectus, the bill is pending approval in the Senate.

Following an executive presidential order, the EPA on June 19, 2019, also repealed the carbon pollution emission guidelines for existing sources, commonly referred to as the Clean Power Plan ("**CPP**"). The CPP was the first- U.S. national standard to address carbon pollution from power plants, originally introduced by the EPA under the CAA in 2015. By setting strict CO<sub>2</sub> emission limits, in particular for coal-fired power plants, the CPP aimed to cut CO<sub>2</sub> emissions from the power sector by 32% by 2030 compared to 2005 levels. The Affordable Clean Energy Rule ("**ACE Rule**") and related implementing regulations then replaced the CPP with the aim to reduce CO<sub>2</sub> emissions without shutdowns of coal-fired power plants by promoting technology and equipment upgrades. It establishes heat rate improvements, *i.e.*, efficiency improvements, as the best system of emission reduction for CO<sub>2</sub>, employing a broad range of technologies and techniques. In determining their application, states may take into account the remaining useful life of the source and other source-specific factors in establishing standards of performance, which might allow for establishing less stringent standards of performance, in particular, for plants with a near-term decommissioning date. However, the ACE Rule does not apply to gas-fired power plants.

On January 25, 2018, the EPA further issued a guidance memorandum on the reclassification of sources for HAP as area source under the CAA at any time after taking steps to limit emissions despite EPA's prior "once in always in policy". Subsequently, in 2019, EPA issued a proposed rule on the reclassification of major sources as area sources implementing its reclassification policy. The applicable eligibility threshold for a reclassification is 10 tons per year in case of a single HAP or 25 tons of a combination of different HAP.

On December 6, 2018, the EPA issued an updated cross-state air pollution rule (close-out-rule), which addresses interstate pollution obligations under the so-called "good neighbor" regime of the CAA and exempts 20 states from submitting state implementation plans and establishing control requirements to address transported ozone pollution to ultimately allow other states to meet their NAAQS. On September 13, 2019, the D.C. Circuit Court of Appeals, however, vacated the close-out-rule, holding that it violated CAA requirements.

Under the Obama administration, on June 3, 2016 the EPA enacted various emission standards for the oil and gas sector which are applicable to new, reconstructed and modified sources and intend to curb emissions of methane, smog forming volatile organic compounds and toxic air pollutants. The performance standards include a number of obligations to reduce methane emissions from existing oil and gas sources and, in particular, New Source Performance Standards ("**NSPS**"). Under the current policy, the EPA has taken various approaches to postpone the implementation of NSPS standards. Most recently on August 29, 2019, the EPA issued a proposal to remove methane control provisions from the NSPS for oil and natural gas.

Industry-related approaches to lower emission standards are accompanied by less stringent demand-side requirements regarding the consumption of oil and gas. For instance, the National Highway Traffic Safety Administration ("**NHTSA**") and EPA jointly issued a rule to finalize "critical parts" of the Safer, Affordable, Fuel-Efficient (SAFE) Vehicles Rule. Under this rule, the NHTSA claims statutory authority to set nationally applicable fuel economy standards. The rollout on March 31, 2020 set standards that increase 1.5% in stringency each year from model years 2021 through 2026. Compared to maintaining the post-2020 standards set forth in 2012, the U.S. fuel consumption would thereby increase by about half a million barrels per day which, according to EPA figures, would impact the global climate by 3/1000th of one degree Celsius by 2100.

#### 13.4.3.2 CO<sub>2</sub> reduction and Clean Energy Standards

Despite the EDP, there are also approaches to foster and enforce CO<sub>2</sub> emission reductions in the USA. On the federal level, the House of Representatives tried to compel the U.S. President to act in accordance with the Paris Agreement with its Climate Action Now Act in May 2019. On January 28, 2020, the Committee on Energy and Commerce presented a Draft for a Climate Leadership and Environmental Action for our Nation's (CLEAN) Future Act ("**CLEAN Future Act**") aiming at a net-zero emission strategy by 2050 and providing for a clean electricity standard ("**CES**") requiring all retail electricity suppliers to provide an increasing supply of clean electricity to consumers starting in 2022, increasing to 100% clean energy by 2050. On July 1, 2020, Democrats in the House Select Committee on the Climate Crisis released a Climate Crisis Action Plan that aims to achieve "net-negative" emissions by 2100 and proposes comprehensive reforms to federal environmental and energy laws.

In addition, on February 27, 2020 Senate representatives of both parties presented a Draft American Energy Innovation Act ("**AEIA Draft**") compiling more than 50 energy related bills. Its key provisions relate to energy efficiency, renewable energy and energy storage, carbon capture, advanced nuclear technologies, industrial and vehicle technologies, grid security and modernization, and workforce development. The US federal government has also incentivized CO<sub>2</sub> emission reductions through federal tax credit programs, such as the Section 45Q tax credit, which is available to taxpayers who capture carbon oxide from certain sources and then sequester it in secure geological formations. Guidance on the Section 45Q tax credit is still developing but it is similar in structure to the production tax credit and investment tax credit available to renewable energy projects (see "*13.4.3.3 Financial Promotion of CO<sub>2</sub> Emissions Reductions and Renewable Portfolio Standards*" below).

#### 13.4.3.3 Financial Promotion of CO<sub>2</sub> Emissions Reductions and Renewable Portfolio Standards

Currently, renewable energy projects in the USA rely on the federal production tax credit ("**PTC**") and investment tax credit ("**ITC**"). The PTC is a tax credit per kWh for the first 10 years of electricity generation applicable to wind projects in different ranges depending on the begin of construction and was prolonged in December 2019 until 2020. The ITC offers a tax credit to projects regarding part of the investment costs at the start of a project. On June 26, 2020, legislation was introduced into the US House of Representatives that would extend the PTC until 2025 and the ITC beyond 2027, if adopted.

Separate from federal tax programs and activities aimed at the development of clean energy, many states have enacted and expanded ambitious RPS and CES frameworks. For example, in 2015, Hawaii enacted the first RPS in the USA that mandates its electric utility companies to acquire 100% of net electricity sales from RES by the end of 2045 and Vermont passed a 75% RPS target by end of 2032, rising to 90% by 2050. California updated its RPS in 2018 to require 100% of the electricity consumed in the state to come from carbon-free sources by 2045. In 2019, New York passed the Climate Leadership and Community Protection Act, requiring a 100% carbon neutral power system by 2040 and an 85% reduction in GHG by 2050. New Mexico, the District of Columbia, Maine, Nevada, Puerto Rico, and Washington have also recently adopted 100% clean energy targets. Governors in Colorado, Connecticut, Illinois, Rhode Island, Massachusetts, Minnesota, New Jersey and Wisconsin have also each committed to achieving 100% carbon-free electricity, with targets for achieving that goal ranging from 2030 to 2050. In 2018, ten states increased their RPS and in 2019, the District of Columbia, New Mexico, Nevada and Maryland increased their targets as well.

The promotion of carbon-free electricity sources is based on the states' RPS and on other state regulatory policies, such as procurement schemes, which require utilities in the electricity sector to bid for and contract directly with certain state-preferred energy types and sources. In June 2019, Maine enacted a law to incentivize 375 MW of new distributed generation. At least five states have so far adopted targets specifically for energy storage, including New York, which has a current target to procure 3 GW of energy storage capacity by 2030. Virginia's recently passed bill committing the commonwealth to 100% renewable energy by 2040 also includes an energy

storage deployment target of 2.7 GW by 2035. The amount of energy storage in the USA is expected to double again in 2019 and by 2024; deployments are expected to exceed 4.4 GW. At least five states have now adopted specific targets for energy storage, with New York's target of 3 GW by 2030 being the most ambitious to date. Other states have included energy storage in their planning processes and competitive solicitations.

To accommodate the increased implementation of electric storage resources, the Federal Energy Regulatory Commission ("FERC") issued Order No. 841 in 2018 and directed regional grid operators to remove barriers to the participation of electric storage resources in the organized wholesale electricity markets by requiring the RTOs and ISOs to establish market rules that facilitate such participation and take into account the physical and operational characteristics of electric storage resources.

#### 13.4.3.4 Offshore Wind Expansion Plans

There is also considerable effort in the U.S. to foster the large-scale development and deployment of offshore wind generation. In particular east coast states enacted ambitious offshore wind generation targets and procurement obligations under their RPS and CES schemes. The states of New York (*Climate Leadership and Community Protection Act*, enacted on July 18, 2019, "CLCPA"), New Jersey (*Offshore Wind Development Act*, issued in January 2018 and Executive Order No. 8 of January 31, 2018, and No. 92 of November 19, 2019) Massachusetts (*An Act to Promote Energy Diversity*, issued on August 8, 2016 and *An Act to Advance Clean Energy*, issued on July 31, 2018), Maryland (*Clean Energy Jobs Act*, enacted on May 29, 2019) and Connecticut (*An Act Concerning the Procurement of Energy Derived from Offshore Wind*, issued on June 7, 2019) enacted ambitious offshore wind targets and procurement obligations by way of legislative acts, Virginia by way of an executive order (*Executive Order No. 43* of 17 September 2019). The largest commitment to offshore development can be found in the New York CLCPA, pursuant to which the state of New York targets the development of 9 GW in offshore wind capacity by 2035. California, Delaware, Hawaii, Maine, New Hampshire and North Carolina have all also expressed interest in the deployment of offshore wind generation, with varying levels of development. There is also interest in deploying offshore wind generation in inland waters, as there are current plans for offshore wind generation development in Lake Erie near Cleveland, Ohio.

#### 13.4.3.5 Infrastructure Expansion and Regulation

Under the Federal Power Act, FERC oversees and regulates the interstate transmission of electricity. FERC's Order No. 1000 adopted significant reforms of FERC's transmission planning and cost-allocation rules. Order No. 1000 sought to address significant recent changes in the bulk power industry, including an increased emphasis on integrating renewable generation and reducing congestion, by implementing new policies to push transmission providers and planners to seek more reliable, efficient and cost-efficient solutions. The major reforms of Order No. 1000 include (i) requiring each public utility transmission provider to participate in a regional transmission planning process that produces a regional transmission plan and regional and interregional cost allocation methods for planned projects; (ii) requiring each public utility transmission provider to amend its transmission tariff to describe procedures for considering transmission needs driven by public policy requirements established by state or federal laws or regulations, such as state RPS; (iii) removing from FERC-approved tariffs and agreements any federal right of first refusal for incumbent utilities to build and own certain new transmission facilities; and (iv) improving coordination between neighboring transmission planning regions.

Order No. 1000 also provides that transmission upgrade cost allocations must be roughly commensurate with the benefits received. FERC required public utility transmission providers to begin making filings with FERC during 2012 that proposed revisions to their transmission planning processes under their respective tariffs to comply with Order No. 1000. Throughout 2013, FERC issued orders regarding some of these compliance filings in which it accepted and rejected various proposed revisions, including rejecting a number of proposals to retain certain



types of rights of first refusal for incumbent transmission providers to build and own transmission projects eligible for socialized cost recovery.

The further course for large-scale transmission projects, including HVDC technology and financial incentive regulation remains hard to predict. The Draft CLEAN Future Act aims to establish a comprehensive national transmission policy designed to facilitate, in particular, a decarbonized electricity supply, which, besides cost-effectivity, shall take into account and evaluate benefits offered by interregional and regional transmission solutions. Thereby, the draft aims to broadly revise the respective FERC regulations and emphasize decarbonization and long-term efficiency. By contrast, the AEIA Draft aims to direct FERC's attention to energy storage with provisions focused on the development of micro-grids.

On April 2, 2020, FERC issued a proposed rulemaking to revise its existing transmission incentives policy and corresponding regulations for certain types of transmission projects subject to cost-of-service ratemaking. These incentives include, among other things, return on equity adders and possible recovery of costs for transmission projects abandoned for reasons beyond the control of a transmission developer. In its proposed rulemaking FERC recognized that a number of significant advancements in the development of new transmission facilities had occurred since 2006, when FERC formalized its current incentive policies. In particular, among other things, FERC proposes to depart from the risks and challenges approach used to evaluate requests for transmission incentives and instead focus on granting incentives based on the benefits to consumers of transmission infrastructure investment, which is an important factor with regard to establishing inter-regional HVDC transmission projects, such as long distance HVDC transmission lines to transmit power from regions with significant renewable generation potential to distant population and load centers. Moreover, FERC proposes a separate return on equity incentive for transmission projects that provide significant and demonstrable reliability benefits by providing quantitative analysis, where possible, as well as qualitative analysis. If adopted, in particular transmission projects that significantly increase import or export capability between balancing authorities would be eligible for additional incentives.

Further FERC orders which affect or may affect our HVDC business particularly include the reform of generator interconnection procedures and agreements issued on February 21, 2019 (Order No. 827), the cyber security incident reporting reliability standards of July 19, 2018 (Order No. 845-A) and the order on uplift cost allocation and transparency in markets operated by RTOs and ISOs of April 19, 2018 (Order No. 844).

In May 2020, President Trump issued an Executive Order prohibiting certain transactions regarding bulk-power system electric equipment designed, developed, manufactured or supplied by persons owned by, controlled by, or subject to the jurisdiction or direction of a foreign adversary. The prohibition applies only to those transactions that pose: (i) an undue risk of sabotage to or subversion of the design, integrity, manufacturing, production, distribution, installation, operation or maintenance of the bulk-power system in the U.S.; (ii) an undue risk of catastrophic effects on the security or resiliency of U.S. critical infrastructure or the economy of the U.S.; or (iii) an unacceptable risk to the national security of the U.S. or the security and safety of U.S. persons.

#### **13.4.4 China**

China's long-term energy policy is characterized by commitments under the Paris Agreement, which requires it to reduce carbon emissions per unit of GDP by 60 to 65% and increase the non-fossil share of its primary energy consumption to 20% by 2030. These commitments have been incorporated into the National Strategy on Energy Production and Consumption Revolution (2016-2030) of April 25, 2017 ("**ERS**").

##### **13.4.4.1 China's Five-Year Plan**

China's energy development targets are set out in the 13<sup>th</sup> Five-Year Plan on Energy Development ("**Energy 13<sup>th</sup> FYP**") based on the National 13<sup>th</sup> Five-Year Plan and released by the

National Energy Administration (“NEA”). It includes an energy consumption cap at five billion tons of coal equivalents and a 15% target for the share of non-fossil-based energy in China’s primary energy mix by the end of 2020. The associated 13<sup>th</sup> Five-Year Plan for Wind Power and the 13<sup>th</sup> Five-Year Plan for Solar Power set respective targets of 210 GW and at least 160 GW of installed power generation to be reached by the end of 2020. The Energy 13<sup>th</sup> FYP also sets out targets to promote and construct demonstration projects to achieve breakthroughs in the field of advanced hydrogen production. However, most targets are non-binding and provide directional market development. China’s future energy policy for the period from 2021 to 2025 will be set by the 14<sup>th</sup> Five-Year Plan, which is expected for March 2021.

#### *13.4.4.2 China’s Energy Bill*

On April 10, 2020, the NEA released a consultative draft of a new energy law of the People’s Republic of China, which will merge all existing energy laws. It prioritizes the development and utilization of RES and aims to set further targets for the share of renewable energy generation within China’s overall energy mix by establishing a binding renewable energy target mechanism and a guaranteed consumption mechanism for RES. The bill also stresses that China will strengthen its supervision of pollutants and GHG emissions. Additionally, wholesale energy prices will be gradually liberalized. However, the bill merely constitutes a framework law that has to be implemented by various measures at local level. Therefore, as of the date of this Prospectus, specifics on the regulatory objectives are unclear.

#### *13.4.4.3 Conventional Power Generation Regulation*

The Energy 13<sup>th</sup> FYP sets a 1,100 GW cap for coal-fired power generation by the end of 2020. In addition, the legal framework for construction and operation of carbon intensive energy generation facilities, in particular coal-based power plants, is becoming more stringent. On March 17, 2016, the NEA established a “traffic light” system to curtail the construction of new coal-fired power plants. On the basis of factors such as resource constraints, coal plant profitability and existing coal-fired power capacity, the NEA assesses whether provinces must immediately halt all new coal plant construction projects or may (cautiously) proceed with approvals and constructions. In 2019, the NEA published the results of an “early warning” report for coal power in 2022 that indicated that ten provinces and regions would have an excess of coal-fired electricity generation capacity by 2022, which is a sharp reduction from its 21 provinces in the early warning for 2021 issued in 2018. Consequently, eleven areas were permitted to start building coal-fired power plants again.

The Action Plan for the Upgrade of Coal-Fired Power released in September 2014 and subsequent policies set net efficiency targets for existing coal-fired power plants of 39.6% and for new plants of 40.9%. Furthermore, China has substantially tightened its air emission rules, especially for coal-fired power plants, in order to eliminate outdated coal-fired energy units.

Wholesale prices for energy are strictly regulated in China based on its Electric Power Law, but market-based mechanisms have been gradually introduced to liberalize the energy market. Under the previous scheme, the National Development and Reform Commission (“NDRC”) determined the wholesale price for energy generated by coal-fired power plants by a power on grid tariff and a corresponding coal price pass-through mechanism. On September 26, 2019, China announced it would terminate this scheme for coal-fired power plants by 2020 and implement a market-based electricity pricing structure. The new mechanism sets a base wholesale price and a variable element, allowing an upward price revision of 10% and downward of 15%, depending on negotiations or biddings between power generators, supply companies and end users.

Regarding gas-fired power generation, the 13th Five-Year Plan for Power Sector Development, issued by the NEA and the NDRC on December 22, 2016, sets a target of 110 GW to be reached by the end of 2020.

#### 13.4.4.4 Emission Trading System

In December 2017, China launched a national Emission Trading System (“Chinese ETS”), to be implemented by the end of 2020. Currently, the Chinese ETS covers only coal-fired power generation facilities but it is intended to be expanded to cover petrochemical, chemical, building materials, steel, nonferrous metals, paper and domestic aviation. When fully implemented, the Chinese ETS will cover eight billion tons of CO<sub>2</sub> emissions per annum from around 100,000 industrial plants. The Ministry of Ecology and Environment will allocate allowances, thereby taking into account not only emission targets but also economic growth and structure adjustments. The Chinese ETS will not feature an overall cap on CO<sub>2</sub> emissions. Instead, every covered facility will be allocated a CO<sub>2</sub> intensity benchmark, stipulating the amount of CO<sub>2</sub> it may emit per unit of electricity it generates. Plants that fall below their benchmark will have excess quota to sell, noncompliance will lead to significant sanctions. The Chinese ETS therefore incentivizes energy efficiency rather than the decrease of the overall fossil-based energy generation.

#### 13.4.4.5 Nuclear Power Strategy

Besides coal and gas-fired power generation, China continues to rely on nuclear energy. After a moratorium on new nuclear power plants following the 2011 Fukushima accident, China resumed its nuclear power strategy. The Energy Development Strategy Action Plan, passed by the State Council in 2014, sets a target for installed nuclear power capacity of 58 GW and 30 GW for nuclear power capacity under construction by 2020. However, the expansion depends on further decisions at the political level.

#### 13.4.4.6 Renewable Energy Generation Expansion Targets

The ERS stipulates that China is aiming for non-fossil power generation to account for at least 31% of electricity consumption by the end of 2020 and at least 50% by 2030.

On May 10, 2019 the NEA and the NDRC released a renewable energy obligation policy, the Notice Establishing a Mandatory Renewable Electricity Consumption Mechanism, imposing provincial renewable energy consumption quota ranging from 10% in eastern provinces to 88% in southwestern provinces (Renewable Portfolio Standard Targets) to promote renewable energy consumption. These targets are binding for state owned or provincial grid companies as well as large end-users. In January 2017, the NDRC, the NEA and the Chinese Ministry of Finance jointly issued the Trial Mechanism on Issuing and Trading Renewable Energy Green Certificates which electricity consumers can voluntarily purchase to achieve their renewable portfolio standard targets. Parties that outperformed their quota obtain tradable Renewable Energy Certificates which they may sell to parties that failed to meet their quotas.

#### 13.4.4.7 Renewable Energy Generation Support Schemes

The support scheme for renewable energy generation has undergone significant changes in recent years with a particular trend towards a subsidy-free RES power generation.

Wind and solar-based power generation development in China has mainly been driven by policy support such as feed-in tariffs, local subsidies, demonstration projects and high targets of installed capacity. According to the feed-in tariff system, the wholesale price for renewable energy consists of the coal-fired power on grid tariff and an additional remuneration dependent on various factors, in particular wind or solar resources and energy demand. Under the market-based electricity pricing structure introduced in 2020, the wholesale base price set by the authorities replaces the coal-fired power on grid tariff as point of reference for subsidies.

Regarding subsidies for solar PV, the NEA has handed out annual quota to each province and only installations covered by the annual quota are eligible to receive subsidies through feed-in tariffs on the basis of tender procedures. To curb the increase of solar PV and to adjust to the decreased manufacturing costs, feed-in tariffs have been lowered in recent years and halved in 2020.

Wind power projects, onshore and offshore, must compete for construction quotas and feed-in tariffs through tender procedures as well since the NDRC has released a bidding feed-in tariff scheme for wind power generation in 2019 replacing fixed feed-in tariffs. Under the scoring system of the bidding feed-in tariff scheme, the bidding price constitutes only one out of six relevant factors in addition to grid connection, preliminary work, project design, technology excellence and investor capability. However, new offshore power projects starting construction after January 1, 2021 will no longer receive subsidies from the central government, but local governments may still subsidize these projects. Onshore wind power projects will become subsidy-free by 2021.

Furthermore, on January 7, 2019, NDRC and NEA jointly announced the plan to launch subsidy-free wind and solar pilots in regions with superior wind or solar resources and power consumption capability which are not confined to the annual capacity cap. For those pilot projects, grid companies should give grid-access priority and ensure full uptake of the electricity output. In order to promote pilot projects, further incentives apply, in particular regarding land use rights.

#### *13.4.4.8 Further Policies to Support Renewable Energy Generation*

Despite the paradigm shift regarding the subsidization of RES, China continues to strengthen its market position in green technologies. In April 2019, the NDRC and the Ministry of Science and Technology jointly issued the Guidance on Building a Market-oriented Green Technology Innovation System ("**Green Technology Guidance**"), containing measures that relevant government bodies should implement by 2022 to accelerate green innovation in China. The Green Technology Guidance, in particular, requires more efforts to enhance financial support and encourage companies to participate in government supported and market oriented projects in green technology innovation through financial incentives and improved IP rights.

To further reduce its GHG emissions in the heating sector caused by coal heating systems, China's government in 2017 introduced the Clean Winter Heating Plan in Northern China (2017-2021) calling for large scale renewable energy deployment in clean heating. Accordingly, the clean heating rate should increase from 34% in 2017 to 70% by 2021 in the northern area and to 100% in key cities and districts, in particular through wind power heating as well as biomass and waste-fueled co-generation plants. The NEA urged local authorities to set annual targets for generating heating using wind power generated energy, to promote the deployment of wind power heating and to improve market-based trading by the Notice on Improving the Power Trading for Wind Power Heating and Expanding Wind Power Heating, introduced in April 2019.

#### *13.4.4.9 Infrastructure Expansion*

Due to the increased deployment of RES, China's energy infrastructure faces new challenges. In particular, renewable energy generation results in high volatility of feed-in energy, as wind and solar energy generation is weather-dependent. Hence, the demand for energy storage increases owing to the rising need for grid resilience and stability. To support further growth in RES and meet increased demand for energy storage due to the weather dependency of RES, the NDRC released the 2019-2020 Action Plan to Guide the Technological and Industrial Development of the Energy Storage Sector (NDRC 2019, No. 725). The plan aims to promote and develop energy storage capacities and technology by improving the legal framework for energy storage projects and encouraging demonstration projects.

Power grid expansion planning is essential to balance energy demand and generation as well as transmission capacity. Hence, the grid planning process carried out by the NEA considers policy objectives such as renewable energy deployment targets as well as the growing demand for energy. The planning results in a final national power plan issued by the NEA after being approved by the NDRC. The 2015-2020 Power Grid Construction and Reform Plan released by the NEA in July 2015 provides for a cumulative infrastructure investment of approximately RMB 2 trillion by 2020. Additionally, in November 2018, the NDRC and the NEA jointly released the Clean Energy Consumption Action Plan according to which China will invest significantly in grid

infrastructure in order to reduce curtailment rates and expand energy transmission capacities. At the same time China plans to expand its high voltage regional AC grid to absorb the output of the HVDC lines. As regional grids are AC grids but transmission grids use DC technology, China is in the process of developing a hybrid AC-DC grid system and at the same time plans further investments in smart grid infrastructure.

## **13.5 Market Access Regulations**

### **13.5.1 Public Procurement Law**

We conduct a large share of our business with governments and government-owned enterprises. The award of contracts with such entities is commonly subject to public procurement laws which are found in international, European and national legislation. Public procurement laws generally require public entities, sectoral contracting entities and concession grantors to award contracts and concessions in a transparent and non-discriminatory tender procedure, dependent on certain thresholds. Tender obligations also apply to material amendments to existing contracts. In case of violation of public procurement requirements, the underlying contract may become null and void and competitors may claim damages against the public contracting entity.

On an international level, many of the countries into which we deliver our products are bound by public procurement provisions of the Government Procurement Agreement (*Übereinkommen über das öffentliche Beschaffungswesen*, "GPA"). At the European level, Directive (EC) 2014/24 on public procurement applies. Germany has implemented the international and European rules into national procurement law, particularly in form of the German Act against Restrictions of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*).

In the U.S., the Federal Acquisition Regulation sets out the policies and procedures for acquisitions by all federal departments and agencies and implements or addresses nearly every procurement-related U.S. statute or executive policy. Public procurement in Canada is regulated on various governmental levels (federal, provincial, municipal), including the Code of Conduct of Procurement, the Federal Accountability Act and the Financial Administration Act. In China, the Government Procurement Law and the Law on Tenders and Bids set the legal framework for public procurement. The Brazilian Constitution requires a public procurement procedure for all purchases and sales made and all services and works commissioned by public administration. Brazilian Federal Law 8,666/1993 provides the general framework for these procedures. The USA, Canada, China and Brazil have each implemented regulations on domestic preference of national products and services that have to be observed during the evaluation process. These domestic preferences may be mitigated by multilateral and bilateral trade agreements like the GPA, which has been signed by the U.S. and Canada, but not yet Brazil and China.

### **13.5.2 Export Control and Sanctions Regulations**

#### **13.5.2.1 Internal Market and Customs**

Within the European Union's internal market, the principle of free movement of goods generally applies. When importing from and exporting goods to non-EU countries, we must comply with national and European as well as international export control laws and customs regulations.

At the EU level, the regulatory framework concerning customs is the Union Customs Code (Regulation (EU) 952/2013), with powers of customs authorities being further set out in national laws of the member states. In Germany, details are regulated in the German Customs Administration Act (*Zollverwaltungsgesetz*), according to which customs controls may consist of, among other things: (i) examining goods, (ii) verifying the accuracy and completeness of information given in a declaration or notification, (iii) verifying the existence, authenticity, accuracy and validity of documents, (iv) inspecting means of transport, luggage and other goods carried by or on persons, and (v) carrying out official enquiries and other similar acts.



### 13.5.2.2 Foreign Trade and Dual Use Goods

As we sell our products and provide our services to customers worldwide, we are subject to the restrictions of several export control regulations. In addition, we procure goods and services from suppliers worldwide which might also be subject to export restrictions. In Germany, exporting companies have to comply with European and German export control regulations, applicable depending on (i) the kind of product and the purpose for which the product has been developed, (ii) the country of destination and (iii) the intended use of the exported goods. Exports are supervised by the Federal Office for Economic Affairs and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle*, “BAFA”). Applicable legislation includes the German Foreign Trade and Payments Act (*Außenwirtschaftsgesetz*), the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*), and Regulation (EC) 428/2009 setting up a community regime for the control of exports, brokering and transit of dual-use items (“**Dual Use Regulation**”).

In Germany, depending on the kind of goods and services, the purpose for which the goods have been designed, the country of destination and the intended use, exports may be subject to license requirements or control measures by the BAFA. Authorizations are, *inter alia*, mandatory for the export of goods and services that are listed in the Dual Use Regulation, but may also be required for non-listed goods or services if these goods or services are intended to be used for certain military or nuclear purposes. The latter may, in particular, be the case for control and instrumentation equipment that we produce for power plants.

### 13.5.2.3 Embargoes and Trade Sanctions

When selling and/or delivering our products to customers around the globe we must observe economic sanctions and embargoes. Such measures can be based on national legislation (like in Germany, the UK or the USA), but also on acts of supranational organizations like the European Union and the United Nations. They can take the form of comprehensive embargoes (total embargoes), partial embargoes, such as arms, sectoral or financial embargoes and may be directed at countries, organizations, groups, non-state entities and individuals. Person-related sanctions usually prohibit placing assets of any kind at the disposal of sanctioned parties or providing them with any economic resources.

In the USA, the U.S. Customs and Border Protection Agency, among others, regulates the import and export of goods from the USA. Imports are governed by a number of laws, including the Tariff Act of 1930. The U.S. Departments of Justice, Commerce, State and Treasury and other federal agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of economic sanctions laws, export controls laws, anti-money laundering laws and other federal statutes and regulations, including those established by the U.S. Department of Treasury’s Office of Foreign Assets Control (“**OFAC**”). Various government agencies may seek to impose modifications to business practices, including cessation of business activities in sanctioned countries or with sanctioned persons or entities as well as modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions.

Moreover, in November 2018, the U.S. announced it would withdraw from the Joint Comprehensive Plan of Action which had previously eased U.S. sanctions on Iran under the authority of, among others, the Iran Sanctions Act, the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010, the National Defense Authorization Act for Fiscal Year 2012, the Iran Threat Reduction and Syria Human Rights Act of 2012, the Iran Freedom and Counter-Proliferation Act of 2012, and various executive orders. In broad terms, the U.S. have re-imposed U.S. extraterritorial sanctions measures against Iran in connection with activity related to Iran’s energy, petrochemical, automotive, shipping, shipbuilding, port operating and financial sectors. Persons engaged in such activities involving Iran will face exposure to secondary sanctions or enforcement actions under U.S. law.

U.S. trade sanctions have been particularly relevant regarding our business with Cuba, Iran and Venezuela, because we have to ensure that no U.S. goods, persons or companies are involved in

such transactions, not even indirectly. The U.S. sanctions apply primarily to U.S. persons, which, *inter alia*, include all companies and other legal entities organized under U.S. law as well as permanent residents. In the case of the Cuba and Iran sanctions programs, the U.S. sanctions also apply to non-U.S.-entities owned or controlled by U.S. persons. The United States have also imposed primary sanctions on certain Russian individuals, companies and sectors of the Russian economy.

Besides country or territory-based and sectoral sanctions (which, e.g., target certain sectors of the Russian economy), the U.S. government also imposes list-based sanctions against certain entities and individuals, including through the List of Specially Designated Nationals and Blocked Persons administered by OFAC. The obligation to screen U.S. sanctions lists may also follow from contracts with suppliers, credit facilities or loan agreements that require compliance with U.S. sanctions or screening against U.S. sanctions lists.

In addition, U.S. sanctions may also have an extraterritorial effect and apply even to non-“U.S. persons” as defined above (so-called “secondary sanctions”), if such entity or individual undertakes certain transactions or activities which are subject to a set of sanctions to be imposed by U.S. administration. For example, as a result of the Countering America’s Adversaries Through Sanctions Act of 2017, non-U.S. persons must comply with certain secondary sanctions against Russia, even if such activities have no connection to the U.S. Among other things, non-U.S. persons may face penalties for knowingly facilitating significant transactions or significant financial transactions for or on behalf of a party subject to the United States’ sanctions against Russia. Further, non-U.S. persons and entities that cause a U.S. person to violate U.S. sanctions may also violate the U.S. sanctions for facilitation reasons and risk civil and criminal penalties under applicable U.S. law. Accordingly, transacting business with customers in particular countries such as Cuba may be allowed under EU law but still violate U.S. sanctions. In case of such conflicts between EU law and U.S. sanctions, the Blocking Statute (EC) 2271/96 (as amended) prohibits EU companies from complying with certain listed U.S. sanctions and shields these entities from the effects of U.S. sanctions in the EU. Such anti-boycott rules apply, for example, to the 2018 U.S. sanctions targeting Iran. EU companies are, nonetheless, free to conduct their business as they see fit, *i.e.*, not trade with countries sanctioned by the U.S.

EU trade sanctions have a broad scope, applying (i) within the territory of the member states, (ii) to any person inside or outside the territory of the European Union who is a national of a member state, (iii) to any legal person, entity or body which is incorporated or constituted under the law of a member state whether acting inside or outside the European Union, and (iv) to any legal person, entity, or body in respect of any business done in whole or in part within the European Union.

In recent years, our business has been particularly affected by EU sanctions against Russia which apply alongside and in addition to U.S. sanctions. The embargoes limit the freedom of foreign trade with the embargoed countries. They also prohibit that funds, other financial assets and economic resources be made available directly or indirectly to or for the benefit of a natural or legal person, group or entity included in the list of restricted parties of that embargoed country, or by prohibiting goods, services, financial or other related services from being rendered for the benefit of restricted parties of that embargoed country. These examples reflect the current legal situation only, which is, however, subject to frequent changes as sanctions lists are updated on a regular basis.

### **13.5.3 Financing of Projects, Export Support and State Aid**

#### **13.5.3.1 Financing and Export Support**

As exporter of goods produced in numerous global manufacturing plants, we make use of different national Export Credit Agencies (“ECAs”) which support and promote national exports by providing risk coverage for lenders and exporters. For ECAs from OECD-member countries, the Arrangement on Officially Supported Export Credits (“OECD Consensus”) applies and defines the framework for ECAs projects, including rules for financial support regarding things like coal-

fired or nuclear power plants, renewable energy, climate change mitigation and adaptation and water projects. As another example, European governments support certain exports into third countries using specific export credit guarantees if no other insurance is available for such exports. In connection with the OECD Consensus, these ECAs introduced ECA-specific rules and regulations. We have to comply with these different terms and conditions in order to benefit from the ECA support. Because of our manufacturing locations in the USA and Canada, we can also be supported by US and Canadian ECAs for which again the OECD Consensus, but also national ECA-specific rules and regulations apply. Our customers also use various sources of funds to finance their projects, such as loans from commercial banks, bonds, (multilateral) development banks, other financial institutions, public bodies or private investors. These entities and their financing products can be subject to rules and regulations of financial regulators, central banks and other entities with regulatory power.

There is a trend that providers of funds, including public body lenders, ECAs and development banks, are introducing environmental and social governance frameworks and related lending policies to increase their funding of renewable energy and climate change mitigation projects. At the same time, many of them reduce financial support for fossil fuel based power plants or make it subject to the plant meeting certain obligations regarding emissions. One example relevant to our business is the World Bank's decisions to end financing of coal-fired power plants in 2013 and to end financial support for oil and gas extraction in 2020 in principle. Also the EIB has announced it will cease funding energy projects based on fossil fuels, including new gas plants, by the end of 2021 and only allow funding for certain low-emission gas projects with emissions not exceeding 250 g CO<sub>2</sub> per kWh. Currently, the USA supports fossil fuel based operations through things like tax advantages, but in 2019, several bills were introduced into the legislative process which aim at reforming or repealing support for fossil fuels, such as the Clean Energy for America Act or the Energy Sector Innovation Credit Act. As of the date of this Prospectus, these had not yet been adopted. Governments of certain Canadian provinces allow companies to pay reduced royalty for the extraction of natural gas in order to encourage investments in gas extraction technology.

#### 13.5.3.2 State Aid

Occasionally, we carry out or participate in projects that are partly financed by public funds, most recently in Germany, Canada and China. These projects usually have an energy-related background such as installation of space reductions for grid connections, waste heat recovery or use of hydrogen in manufacturing processes. Within the past three fiscal years, we have received government grants in an overall amount of less than € 30 million for such projects per year.

In the EU, any state aid has to comply with EU state aid rules which require the respective EU member state to notify and seek approval from the EU Commission. Whenever we benefit from public grants we have to comply with different terms and conditions of grant decisions and applicable collateral clauses, in particular regarding the use of funds for specific funding purposes, documentation obligations, employment commitments, exploitation periods and/or transfer restrictions, as the case may be. Failure to comply with the notification requirement or with the terms and conditions of the grant decisions may result in an obligation to repay the aid. Similarly, in Canada, government financing programs provide public funds for certain projects, in particular R&D funding. In China, the Anti-monopoly Law prohibits the abuse of administrative powers to eliminate or restrict competition and related law enforcement practice.

## 13.6 Data Privacy

We are subject to stringent data privacy regulations, *inter alia*, with respect to the collection, storage, use and disclosure of personal data. Although we predominantly operate in a B2B environment where our customers are not usually end consumers but legal entities outside the scope of data privacy legislation in most countries, nevertheless our customer service may include processing of personal data on behalf of our customers (such as customers' employee data, data of third parties acting on our customers' behalf or personal data of our customers' end

consumers). The same applies *mutatis mutandis* to our suppliers. In addition, our systems and products process different types and special categories of personal data, for example with respect to employees we deal with data regarding health, religious beliefs trade union memberships, and disabilities. We may also deal with personal data of other natural persons having a legitimate interest, consent or other legal basis to our business.

Privacy regulations establish complex, multi-jurisdictional regulatory frameworks on a variety of subjects including the circumstances under which we may process the personal data. This complex framework involves (i) conflicting privacy laws and regulations in different countries, (ii) the circumstances under which processing of sensitive information is permitted without consent of the data subject, (iii) rights of the data subject to access, delete and correct its personal data, (iv) requirements to notify the data subject of privacy practices for personal data and (v) administrative, technical and physical safeguards required of entities that process personal data.

For example, when processing personal data in the European Economic Area we are subject to the General Data Protection Regulation (EU) 2016/679 ("**GDPR**") and respective implementing legislation under national laws of member states, like in Germany the Federal Data Protection Act (*Bundesdatenschutzgesetz*, "**BDSG**"). Both the GDPR and BDSG have been applicable since May 25, 2018. The GDPR has significantly changed the legal framework for data protection in the EU and triggered additional compliance efforts and costs for German companies in general. A large part of our data processing operations consist of exchanges of personal data among our group companies in different countries ("**Intragroup Exchange**"). Intragroup Exchange of personal data to a country outside the European Economic Area for which the EU Commission has not recognized an adequate level of data protection ("**Third Country**") is only permissible if the recipient in the Third Country ensures adequate safeguards for the protection of personal data. Regarding data transfers to the USA, the European Court of Justice in a judgement of July 16, 2020 (*Schrems II*) annulled the EU-US Privacy Shield as basis for such transfer. Transfers to any Third Country can henceforth only be based on standard contractual clauses ("**SCC**") or binding corporate rules ("**BCR**"). However, in view of the court even SCCs require the data exporter and the data importer to verify the adequate level of protection in the Third Country and where necessary take supplementary measures or suspend data transfers. In view of the European Data Protection Board, this also applies to BCR. As of the date of this Prospectus, we are assessing in which cases supplementary measures may be required or the ways we process personal data may have to be adjusted and closely monitor the guidance expected to be provided by the data protection authorities on the consequences of the judgement.

We have implemented different measures in order to achieve compliance (including, but not limited to, adjustments of internal processes, safeguarding of internal and external data transfers, entering into data protection contracts, and monitoring by our legal and compliance team) and are further developing our data protection systems, procedures and organization, for example by designation of data protection officers where required by data protection laws or internal data privacy managers in other jurisdictions. For the Intragroup Exchange of personal data to a Third Country, we will use the Siemens AG Binding Corporate Rules by signing adoption agreements alike SGRE. These apply to and are mandatory for (i) units of Siemens Energy AG and its affiliated companies located within the EEA, and (ii) affiliated companies located outside the EEA if the personal data originate from (a) Siemens Energy AG or (b) affiliated companies located within the EEA. In addition, we use an intercompany agreement for protection of personal data in company-wide IT systems ("**Framework Agreement Personal Data**"), which applies among and between all Siemens Energy AG group companies. The Framework Agreement Personal Data regulates processing and use of personal data as well as technical and organizational measures to protect such data in accordance with data protection requirements. The GDPR introduced substantial sanctions for non-compliance. A violation of obligations under the GDPR may constitute an administrative offense which can result in fines or investigative measures imposed by the competent data protection authority as well as civil liabilities or even criminal sanctions. The IT application to which the Framework Agreement Personal Data applies is specified and described in a data processing description, which together with the Framework Agreement

Personal Data forms the data processing agreement between and among the Siemens Energy AG companies on processing personal data for a specified IT application.

Regarding our business in the USA, we are subject to numerous federal and state privacy laws with general prohibitions on unfair or deceiving practices, including the prohibition to handle personal data in an unexpected manner and including data protection for specific sectors. There are specific rules on cybersecurity and notification requirements in case of a data breach. Each state has developed its own data breach notification requirements. Data privacy and protection laws are evolving in the U.S. and can vary significantly. For example, California recently implemented the California Consumer Privacy Act (“CCPA”) which added further requirements and penalties in the collection of California residents’ personal data. The CCPA applies to businesses collecting personal data of California residents and requires them to disclose how they process the personal data of California residents. Furthermore, the CCPA provides California residents with additional data privacy rights including the right to access and delete their personal data. Federal and state regulators are actively enforcing these requirements. The authorities may for non-compliance with federal or state privacy laws impose substantial fines. In addition, private parties may start lawsuits, including class-actions, based on tort law and standards relating to unfair and deceptive acts and practices.

Private sector organizations in Canada are governed by both federal and provincial privacy laws. The federal Personal Information Protection and Electronic Documents Act (“PIPEDA”) applies to personal information related to commercial activities, *i.e.*, customers, vendors and business partners. PIPEDA neither applies to personal information of employees nor to provinces that have substantially similar legislation. As of the date of this Prospectus, similar legislation is in place in the provinces of Quebec, British Columbia and Alberta, with Ontario, New Brunswick, Nova Scotia, and Newfoundland and Labrador having privacy legislation for health information which has been declared substantially similar to PIPEDA. All other provinces have not enacted substantially similar health information legislation and are, therefore, subject to PIPEDA. In addition, some provinces have passed privacy laws that apply to employee information. As of the date of this Prospectus, these provinces are Alberta and British Columbia. In all cases, both federal and provincial privacy laws must be adhered to. PIPEDA requires organizations operating in Canada to nominate a data privacy officer and implement a privacy panel as well as having data breach notification policies and procedures in place. Our Canadian companies have adopted the most stringent data protection requirements in order to avoid having to implement different policies and procedures in provinces having their own substantially similar data privacy laws.

Regarding our activities in China, we are bound by Chinese data privacy law which consists of numerous and industry-specific regulations complemented by standards. In addition, data privacy considerations can be inferred from general principles of civil law including tort law. The legal landscape is complex and subject to frequent changes. Therefore, uncertainty remains as to the specific application of Chinese data privacy law as well as to the practical steps needed in order to achieve compliance. On March 6, 2020, China’s State Administration for Market Supervision and State Standardisation published revised personal data protection best practice guidelines comprising recommended national standards for personal information security and aims to regulate the collection, storage, use, sharing, transfer and disclosure of personal information.

### **13.7 Anti-Bribery, Anti-Corruption, Antitrust and Competition**

We are subject to anti-corruption, anti-bribery, anti-money laundering, antitrust and competition laws. Any violation of these laws in any jurisdiction in which we operate may have serious consequences for entities and/or individuals participating in such misconduct. For example, under German criminal law we must adhere to rules against corruption and bribery of public officials (Sections 332, 334 of the German Criminal Code (*Strafgesetzbuch*)) or private sector employees or business representatives (Section 299 of the German Criminal Code) as well as rules against the taking and giving of bribes meant as an incentive to violating one’s official duties (Sections 331, 333 of the German Criminal Code). These provisions may under certain conditions also apply to circumstances that occur solely or partly on foreign territory. On June 16, 2020, the German



Federal Government adopted a bill revising the overall framework for sanctioning corporations (*Verbandssanktionengesetz*) including increased fines, which is now going through the legislative process. Furthermore, the UK Bribery Act 2010 established company liability for corrupt acts committed by persons acting on behalf of the company. The act prohibits bribery of public officials and business-to-business bribery. With global jurisdiction, companies can be held liable in the UK for acts of corruption committed by employees, agents or subsidiaries anywhere in the world. In the USA, under the Foreign Corrupt Practices Act of 1977, as amended ("**FCPA**"), it is also prohibited to make payments to foreign government officials to assist in obtaining or retaining business. The anti-bribery provisions of the FCPA now also apply to foreign firms and persons who cause, directly or through agents, an act in furtherance of such a corrupt payment to take place within the territory of the United States. The Chinese Criminal Law prohibits "official bribery" which applies to a state functionary or an entity as well as "commercial bribery" which applies to non-state functionaries. Under the Brazilian Criminal Code and Brazilian Anti-Bribery Law, individuals and legal entities can be liable for bribery of public officials in Brazil.

We are also subject to various antitrust and competition laws. In a broader sense these laws include all legal provisions that concern the protection of a diverse and free competition. Antitrust law, in particular, aims to protect free competition. National and supranational authorities that monitor compliance with antitrust and competition laws may initiate investigations and proceedings into alleged infringements, such as anti-competitive agreements between undertakings or the abuse of a dominant market position. Violations of antitrust and competition laws can have various consequences including criminal sanctions, administrative fines, disgorgement of profits, exclusion from public tenders, nullity of agreements and civil claims for damages. Antitrust and competition laws in individual jurisdictions may also include rules requiring the approval by antitrust authorities regarding mergers and acquisitions or joint ventures and enable the authorities to impose certain conditions or obligations in these cases.

## 14 GENERAL INFORMATION ON THE COMPANY AND THE SIEMENS ENERGY GROUP

### 14.1 Formation, Incorporation, Commercial Register, Name

The Company was established by Blitzstart Holding AG on July 27, 2016 under the legal name "Blitz 16-806 GmbH" in the form of a limited liability company (*Gesellschaft mit beschränkter Haftung*) under German law and registered in the commercial register of the local court (*Amtsgericht*) of Munich under HRB 227428. Siemens acquired all shares of the Company on August 9, 2016. Subsequently, the Company's legal name was changed to "Kyros 52 GmbH" and its statutory seat was moved to Hanover where it was registered in the commercial register of the local court (*Amtsgericht*) of Hanover under HRB 215360. In preparation of the Spin-Off, the Company's legal form was changed to a stock corporation (*Aktiengesellschaft*), its seat was moved to Munich and its legal name was changed to "Siemens Energy AG". As of the date of the Prospectus, the Company is registered in the commercial register of the local court (*Amtsgericht*) of Munich under HRB 252581.

The Company's commercial name is "Siemens Energy". In addition, some of the Company's subsidiaries use other commercial names reflecting other important Group brands, in particular "Siemens Gamesa".

### 14.2 Our History

As Siemens Energy, we continue Siemens' history in the energy business which began over 150 years ago. Its technological origins are marked by an innovation with which Werner von Siemens revolutionized electrical engineering in 1866. Building on the work of Michael Faraday, he discovered the dynamoelectric principle and designed the predecessor of modern large generators: the dynamo machine. After around ten years of development and testing, the dynamo machine was ready for series production in 1875. This was the beginning of a new era in the history of electrical engineering. The possibility of being able to generate and distribute electrical energy in large quantities in an economical way fundamentally changed the economy. 1866 can therefore rightly be regarded as the actual founding year of Siemens Energy. Since then, many technological milestones, of which only a small selection is mentioned here, are part of our heritage.

The construction and equipping of conventional power plants is the first pillar. In 1881, Siemens & Halske supplied electrical equipment including generators for the world's first public power plant in the southern English town of Godalming. In 1897, South Africa's first public power plant was completed and many other power plant projects followed. Power engineering also contributed to Siemens' return to world markets after World War I: In 1929, the Ardnacrusha hydroelectric power plant on the Shannon River went into operation, thus ensuring the electrification of the free state of Ireland. At almost the same time, Siemens built the West Power Plant in Berlin with a capacity of 228 megawatts (MW), the most modern thermal power plant in Europe at the time. After World War II in 1956, the first Siemens gas turbine, the "VM1," was tested in Muelheim an der Ruhr.

In the mid-1950s, Siemens entered the nuclear business with its first test facilities and in 1969 received an order to build the world's then largest nuclear power plant in Biblis near Worms, Germany. In 1969, Siemens and AEG founded Kraftwerk Union AG, into which both parties transferred their nuclear technology operations in 1973 and which Siemens fully consolidated into Siemens AG after AEG's withdrawal in 1987. In 2011, Siemens decided to discontinue its business activities in turnkey nuclear power plants.

In 2002, as part of Siemens' acquisition of Mannesmann Atecs AG, Siemens acquired the turbocompressor business of Mannesmann Demag Delaval. This business was merged into the industrial turbines and power plants division. In 2003, Siemens purchased Alstom Industrial Turbines; a manufacturer of small, medium and industrial gas turbines. In 2018, Siemens completed work on the world's three largest CCPPs in Egypt which increased power generation

capacity by 14.4 GW – enough to reliably and efficiently supply up to 40 million people with electrical energy.

Transmission technology has long been a second important pillar for Siemens, in which it has always sought to set standards. Prominent examples of its contribution to the field include the development of the expansion switch in 1930 or the first SF<sub>6</sub> high-voltage switch in 1964. These and other developments significantly contributed to efficient, reliable and flexible power distribution. An important highlight was the construction of the first HVDC transmission system in 1975, which supported Siemens' strong technology and market position in power transmission. In 2015, Siemens, working in a consortium with the Italian cable manufacturer Prysmian, installed the first offshore grid connection worldwide that began commercial operations using high-voltage DC transmission technology.

In 1978, the construction at the time of the world's largest hydroelectric power plant Itaipú in Brazil on the border between Brazil and Paraguay demonstrated the potential renewables can have for electricity generation – a third important pillar of our offering. In 1994, a ceramic high-temperature fuel cell from Siemens achieved an output of 1.8 kilowatts (KW) for the first time worldwide. In 2012, we built the world's then largest rotor for the 6-MW offshore wind power plant near Østerild in Denmark. Finally, in 2019, the world's largest pilot plant for carbon-neutral production of hydrogen at that time (source: Power Engineering International, "World's largest "green" hydrogen pilot begins operation in Austria", November 19, 2019) went into operation in Linz, Austria.

In addition to these technological developments, the Siemens Energy business has also reached numerous organizational milestones: The success of heavy current engineering strongly supported the business of Siemens & Halske. Halske's heavy current department merged with Elektrizitäts-Aktiengesellschaft (EAG) to form Siemens-Schuckertwerke GmbH. The two world wars were followed by a phase of reconstruction and corporate consolidation, which culminated in the founding of Siemens AG in 1966. In 1998, Siemens acquired the fossil fuel power plant business of the American Westinghouse group, thereby expanding its conventional power plant business. In 2004, the acquisition of the Danish company Bonus Energy A/S laid the foundation for success in the wind power business. In 2014, Siemens acquired the Rolls-Royce aero-derivative gas turbine and compressor business, thereby broadening its position in the oil and gas industry. In 2015, Siemens closed its acquisition of the U.S. company Dresser-Rand, a leading provider of compressors, steam and gas turbines. In 2017, Siemens and Iberdrola S.A. created SGRE, a leading wind energy company with global reach and production sites on all continents. Following Spin-Off Completion, drawing on Siemens' history in the field, Siemens Energy will open a new chapter of energy technology.

### **14.3 Business Address, Fiscal Year, Duration, Legal Entity Identifier, Corporate Object**

The Company's business address is Otto-Hahn-Ring 6, 81739 Munich, Germany, Tel. +49 (0) 89 636-00, and its website is: [www.siemens-energy.com](http://www.siemens-energy.com). The information on this website is not incorporated by reference and does not form part of this Prospectus. The Company has also registered the second level domain 'siemens-energy' in combination with other top level domains. The Company's fiscal year ends on September 30 of each calendar year. The Company has been formed for an unlimited duration. The Company's Legal Entity Identifier (LEI) is 5299005CHJZ14D4FDJ62.

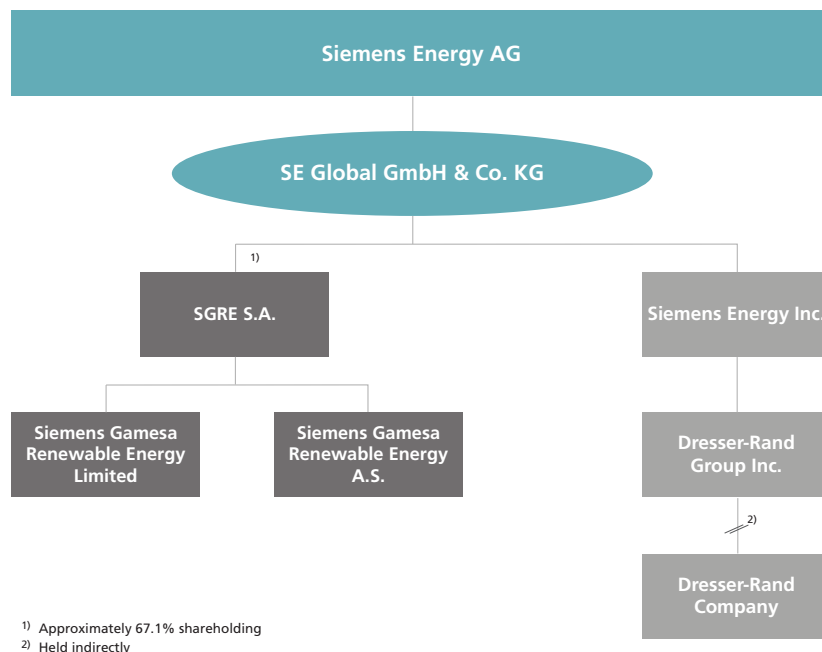
Pursuant to Section 2 of its Articles of Association, the object of Siemens Energy AG is to manufacture, supply, operate, distribute and trade in products, systems, facilities and solutions and to render maintenance, repair and other services, as well as R&D, in the areas of energy production, transfer, distribution and storage, in the areas of oil and gas across all areas of production, in the areas of decarbonization, sector coupling, hydrogen solutions and other renewable and non-renewable sources of energy as well as the adjacent fields of activity such as electrical engineering, automation, electronics, precision mechanics and mechanical engineering. The Company can operate in the context of these activities in all information technology fields (including electronic data processing and transfer, software, platforms and self-learning systems)

and render related services. Moreover, the Company, in particular through its consolidated subsidiaries, can operate in the financial sector and participate directly or indirectly in enterprises and companies of any type, also in managing its own assets. Finally, the Company may engage in business of any kind and take any and all measures related to, or which seem to be directly or indirectly useful in promoting, the above activities.

The Company may realize its object itself or through consolidated subsidiaries or associated companies (including joint ventures). It can confine itself to some of the activities specified in the preceding paragraph. The Company can set up associated companies, acquire participating interests and change them structurally, bring them under uniform control or may limit itself to managing the participating interest, sell participating interests and also conclude enterprise and cooperation agreements of any kind.

#### 14.4 Group Structure

The following chart provides a simplified overview of the future structure of the Siemens Energy Group and the material direct and indirect holdings of Siemens Energy AG upon Spin-Off Completion. Except as otherwise indicated, all shareholdings are 100.0%; certain subsidiaries are owned by other subsidiaries:



## 14.5 Information on Major Holdings of Siemens Energy AG

Assuming Spin-Off Completion, the following direct and indirect subsidiaries of the Company had a book value equivalent to at least 10.0% of the total assets of the Siemens Energy Group as of September 30, 2019 or contributed the equivalent of at least 10.0% of the EBIT of the Siemens Energy Group in the fiscal year 2019. All shares in affiliates have been fully paid in. The figures stated for share capital (issued capital and reserves), book value of the shares, receivables and liabilities, as well as net income (loss), for the period have been taken from the respective financial statements and accounting system of the entities as of September 30, 2019 and were prepared in accordance with IFRS.

Corporate name, corporate seat and line of business	Fiscal year ended September 30, 2019 (unaudited)						
	Direct or indirect share of capital in %	Investment carrying amount	Share capital	Equity	Receivables from Siemens Energy Aktien-gesellschaft	Liabilities to Siemens Energy Aktien-gesellschaft	Results for the year <sup>2)</sup>
	(in € million, except for percentages and except as stated otherwise)						
<b>Siemens Energy, Inc.,</b> . . . . . Orlando, Florida, United States; Development, engineering, design and building of fossil fuel power plants and power- generating components. Manufacturing and servicing of gas and steam turbines, compressors, wind turbines, generators, power generation and distribution, oil and gas solutions for oil, gas, power generation, pipeline, and LNG markets, and pumping, water treatment solutions, marine systems, hydro and wind power plants, solar power plants, geothermal energy systems, PV inverters, environmental systems, liquefied natural gas fuel gasifier systems, and fuel cells. Development, design sale, service and maintenance of digital solutions and controls, cybersecurity solutions for all industrial markets and manufacturing, sale, service, repair and operation of power transmission and transformer products.	100.0%	—	0	8,590.8	—	—	158.4



Corporate name, corporate seat and line of business	Fiscal year ended September 30, 2019 (unaudited)						
	Direct or indirect share of capital in %	Investment carrying amount	Share capital	Equity	Receivables from Siemens Energy Aktien-gesellschaft	Liabilities to Siemens Energy Aktien-gesellschaft	Results for the year <sup>2)</sup>
	(in € million, except for percentages and except as stated otherwise)						
<b>Dresser-Rand Company, . . . . .</b> Houston, Texas, United States; Manufacturing, sale, maintenance, repair and operation of custom engineered rotating equipment, including compressors, pumps and associated machinery in the oil, gas, chemical, process, power generation, petrochemical and other industrial markets.	100.0%	—	—	3,952.1	—	—	(208.3)
<b>Siemens Gamesa Renewable Energy Limited, . . . . .</b> Frimley, Camberley, Surrey, United Kingdom; Trading, design, engineering, manufacturing, supply, installation and service of wind turbines as well as related activities.	59.0% <sup>1)</sup>	—	207.1	78.8	—	—	111.5
<b>Siemens Gamesa Renewable Energy A/S, . . . . .</b> Brande, Denmark; Trading, design, engineering, manufacturing, supply, installation and service within the renewable energy business area in particular with respect to wind turbines as well as related activities, acting as holding company and conduction investment and financing business.	59.0% <sup>1)</sup>	—	2.7	651.0	—	—	388.4
<b>Dresser-Rand Group Inc., . . . .</b> Houston, Texas, United States; Manufacturing, sale, maintenance, repair and operation of custom engineered rotating equipment, including compressors, pumps and associated machinery in the oil, gas, chemical, process, power generation, petrochemical and other industrial markets.	100.0%	—	0.7	4,686.7	—	—	(216.3)

- <sup>1)</sup> In February 2020, Siemens AG acquired a further 8.1% shareholding in SGRE S.A. that was transferred to Siemens Energy in the Carve-Out, thereby raising the indirect shareholding to approximately 67%. Following Spin-Off Completion, the Company will indirectly hold approximately 67%.
- <sup>2)</sup> The figures shown in this column represent income before income taxes.

## 14.6 Auditors

EY has audited and issued German-language unqualified independent auditor's reports (*uneingeschränkte Bestätigungsvermerke des unabhängigen Abschlussprüfers*) on (i) the English-language combined financial statements of Siemens Energy as of and for the fiscal years ended September 30, 2019, 2018 and 2017 prepared in accordance with IFRS and (ii) the German-language unconsolidated financial statements of Siemens Energy AG (prior to its change in name, Kyros 52 Aktiengesellschaft) as of and for the fiscal year ended September 30, 2019, prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*).

EY is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*), Rauchstrasse 26, 10787 Berlin, Germany.

## 14.7 Notices, Paying Agent

Pursuant to the Articles of Association, the Company's notices are published in the German Federal Gazette (*Bundesanzeiger*). Notices to our shareholders may also be communicated by data transmission. Notices regarding the Shares are also published in the German Federal Gazette.

Notices in connection with the approval of the Prospectus or any supplements thereto will be published in accordance with the Prospectus Regulation, in the manner of publication provided for in the Prospectus, that is, through publication on our websites.

Deutsche Bank Aktiengesellschaft, Corporate Bank, Trust and Agency Services/Post IPO Services, Taunusanlage 12, 60325 Frankfurt am Main, Germany, will be the Paying Agent for the Company's Shares effective from the commencement of trading. Registration Agent in connection with general shareholders' meetings is Siemens Energy AG, c/o ADEUS Aktienregister-Service-GmbH, Königinstraße 28, 80802 Munich, Germany.

## 15 SHAREHOLDER STRUCTURE

As of the date of the Prospectus, all of the Existing Shares, currently representing all of shares in the Company, are held directly or indirectly by Siemens AG, so that the Company is controlled by Siemens AG.

The following table shows certain information concerning the Shares held by Siemens AG, both as of the date of the Prospectus (before Spin-Off Completion) and immediately after Spin-Off Completion which includes the issuance of 399,654,856 New Shares that will be transferred to the shareholders of Siemens AG. See also "5 Carve-Out, Spin-Off and Listing".

	Before Spin-Off Completion		After Spin-Off Completion	
	Shares	in%	Shares	in%
<b>Siemens AG</b> .....	326,990,337	100.0%	255,052,463	35.1%
<i>thereof directly</i> .....	239,682,401	73.3%	167,744,527	23.1%
<i>thereof indirectly, through SBI GmbH (SBI SE Shares)</i> .....	87,307,936	26.7%	87,307,936	12.0%
<b>Siemens Pension-Trust e.V.</b> .....	—	—	71,937,874	9.9%
<b>Shareholders of Siemens AG</b> .....	—	—	<b>399,654,856</b>	<b>55.0%</b>

Conditional upon Spin-Off Completion, Siemens has transferred 9.9% of the Shares to Siemens Pension-Trust e.V. In view of the investment guidelines of Siemens Pension-Trust e.V. and applicable asset diversification requirements, we cannot exclude that Siemens Pension-Trust e.V. will reduce its shareholding, which could result in additional selling pressure and could therefore negatively affect the price of the Company's Shares.

Furthermore, Siemens intends to significantly reduce its shareholding in the Company within twelve to 18 months after Spin-Off Completion.

## 16 INFORMATION ON THE SHARE CAPITAL OF THE COMPANY AND APPLICABLE REGULATIONS

### 16.1 Share Capital and Shares

As of the date of the Prospectus, the Company's share capital amounts to € 326,990,337 and consists of 326,990,337 ordinary registered shares with no par value, each representing a notional par value of € 1. Our share capital is fully paid in. Upon Spin-Off Completion, which is expected to occur on September 25, 2020, our share capital will be € 726,645,193 and consist of 726,645,193 ordinary registered shares with no par value, each representing a notional par value of € 1. The Shares are created under German law.

#### 16.1.1 Form, Voting Rights

All Shares are registered shares with no par value (*Stückaktien*), each representing a notional amount of the share capital of € 1. Each Share confers one vote at the general shareholders' meeting of the Company. The voting rights are not restricted. Shareholders who already held Shares of the Company prior to Spin-Off Completion do not have any special voting rights.

#### 16.1.2 Dividend Rights, Participation in Liquidation Proceeds

The Shares carry full dividend rights as from October 1, 2019, i.e., for the full fiscal year beginning on October 1, 2019 and ending on September 30, 2020. Any dividends will be paid out in accordance with the rules of the clearing system of Clearstream Banking AG, with registered seat in Frankfurt am Main, Germany, and business address at Mergenthalerallee 61, 65760 Eschborn.

The Shares will be entitled to a share of any liquidation proceeds or insolvency surpluses in the proportion of their notional share in the Company's share capital.

#### 16.1.3 Representation, Transferability

In accordance with Section 4 paragraph 4 of the Articles of Association, the Executive Board determines the form of share certificates. Section 4 paragraph 3 of the Articles of Association excludes shareholders' rights to individual share certificates, to the extent legally permitted and to the extent the rules of the stock exchange on which the Shares are listed do not require individual certification. Pursuant to Section 4 paragraph 3 of the Articles of Association, the Company is entitled to issue certificates that represent individual shares (individual certificates) or multiple shares (global certificates). Also, shareholders are not entitled to request that dividend coupons and renewal coupons are issued.

All Shares are represented by global certificates that either have been deposited or will be deposited in connection with the Spin-Off with Clearstream Banking AG. Details on dividend payments and the payment agent will be published in the German Federal Gazette (*Bundesanzeiger*) after the respective general shareholders' meeting. Neither German law nor the Company's Articles of Association provide for a special procedure for the exercise of dividend rights by shareholders that are not resident in Germany.

As of the date of the Prospectus, the Shares are represented by three global certificates deposited with Clearstream Banking AG. The shareholders of Siemens Energy AG hold an interest in this global holding of Shares in accordance with their proportional share as co-owners.

The Company's Shares are freely transferable in accordance with the legal requirements for registered shares and no consent obligation applies in case of their transfer.

#### 16.1.4 ISIN / WKN / Common Code / Trading Symbol

International Securities Identification Number (ISIN) .....	DE000ENER6Y0
German Securities Identification Number (WKN) .....	ENER6Y
Common Code .....	222693756
Trading Symbol .....	ENR

## 16.2 Development of the Share Capital over the Last Three Years and in the Course of the Spin-Off

The Company was established with an original share capital of € 25,000 against contribution in cash.

On May 16, 2017, the Company's shareholders' meeting resolved to increase the Company's share capital from € 25,000 by € 68,000 to € 93,000. The consummation of the capital increase was registered with the commercial register of the local court (*Amtsgericht*) of Hanover, Germany, on June 15, 2017.

On August 9, 2019, the Company's shareholders' meeting resolved to increase the Company's share capital from € 93,000 by € 7,000 to € 100,000. The consummation of the capital increase was registered with the commercial register of the local court (*Amtsgericht*) of Hanover, Germany, on August 23, 2019.

On May 22, 2020, the Company's extraordinary shareholders' meeting resolved to increase the Company's share capital from € 100,000 by € 326,890,337 to € 326,990,337 in connection with the Capital Increases Against Contribution in Kind (see, "5.2.3 The Capital Increases Against Contribution in Kind"). The consummation of the Capital Increases Against Contribution in Kind was registered with the commercial register of the local court (*Amtsgericht*) of Munich, Germany, on September 1, 2020. The 326,990,337 shares existing after the effectiveness of these capital increases are referred to as the Existing Shares in the Prospectus.

On May 22, 2020, the Company's extraordinary shareholders' meeting resolved to increase the Company's share capital from € 326,990,337 by € 399,654,856 to € 726,645,193 in connection with the Spin-Off Capital Increase (see, "5.3.3 Spin-Off Capital Increase and Post-Formation Audit"). The consummation of the Spin-Off Capital Increase was registered with the commercial register of the local court (*Amtsgericht*) of Munich, Germany, on September 1, 2020. The issuance of these shares will become effective simultaneously with the Spin-Off Completion expected to occur on September 25, 2020. The shares that are expected to be created by way of this capital increase are referred to as the New Shares in the Prospectus. The New Shares are expected to be credited to the shareholders of Siemens AG on or about September 28, 2020 (see "5.3.5 Trustee, Allotment Ratio, Allotment, Settlement" for more information).

## 16.3 Authorized Capital

In the Spin-Off and Transfer Agreement, Siemens AG undertook to ensure that the articles of association of the Company will contain an authorized capital as further specified in the Spin-Off and Transfer Agreement for the time after Spin-Off Completion. Therefore, Siemens as shareholder of the Company will ensure to convene an extraordinary shareholders' meeting prior to Spin-Off Completion and to resolve to amend Section 4 paragraph 5 of the Company's Articles of Association. Pursuant to such amended Section 4 paragraph 5 of the Company's Articles of Association, the Executive Board, with approval of the Supervisory Board, will be authorized to increase the share capital until the expiration of July 31, 2025 by up to € 363,322,596 through the issuance of up to 363,322,596 no par value registered shares against contributions in cash and/or in kind. The authorization may be exercised once or several times, in total or in partial amounts. The new shares shall participate in profits from the beginning of the fiscal year in which they have been issued. To the extent permitted by law, the Executive Board, with approval of the Supervisory Board, can stipulate in deviation from both the above and Section 60 paragraph 2 of the German Stock Corporation Act (*Aktiengesetz*) that the new shares shall participate in profits from the beginning of a fiscal year that has already ended and for which no resolution on appropriation of the net income has been adopted by the annual shareholders' meeting at the time the shares are issued. The Executive Board is authorized, with the consent of the Supervisory Board, to determine the further content of rights attached to the shares and the terms and conditions of the share issue ("**Authorized Capital 2020**").

The new shares must generally be offered to the shareholders for subscription; they can also be subscribed by credit institutions or enterprises within the meaning of Section 186 paragraph 5



sentence 1 of the German Stock Corporation Act (*Aktiengesetz*) with the obligation that they must be offered to the shareholders for subscription. However, the Executive Board, with approval of the Supervisory Board, is authorized to exclude shareholders' subscription rights in the event of capital increases against contributions in cash

- in order to grant shares to employees of the Company and its affiliated companies (employee shares). The new shares may also be issued through a bank or a company operating in accordance with Section 53 paragraph 1 Sentence 1 or Section 53b paragraph 1 Sentence 1 or paragraph 7 of the German Banking Act (*Kreditwesengesetz*), which subscribes to these shares in order to offer these to employees of the Company and its affiliated companies. To the extent permitted by law, the employee shares may also be issued in such a way that the contribution to be paid on them is covered by the portion of the net income for the year which the Executive Board and Supervisory Board could allocate to other revenue reserves in accordance with Section 58 paragraph 2 of the German Stock Corporation Act (*Aktiengesetz*),
- to the extent necessary for fractional amounts resulting from the subscription ratio,
- in order to grant holders/creditors of conversion or option rights on shares in the Company or of respective conversion obligations from bonds issued or guaranteed by the Company or any of its consolidated subsidiaries subscription rights as compensation against effects of dilution to the extent to which they would be entitled upon exercising such conversion or option rights or fulfilling such conversion obligations,
- if the issue price of the new shares is not significantly lower than the stock market price of the Company's listed shares. The arithmetical portion of the share capital attributable to shares issued against cash contributions excluding subscription rights in accordance with Section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) may not exceed 10.0% of the share capital. The relevant value is the share capital at the time this authorization takes effect or, if this value is lower, at the time the authorization is exercised. Shares issued or sold during the term of this authorization up to the time of its exercise in direct or analogous application of this provision shall count towards this limit. Also to be included are shares that were issued or granted or are to be issued or granted on the basis of a convertible bond or bond with warrants issued during the term of this authorization under exclusion of subscription rights in accordance with Section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*),
- in the event of a so-called "scrip dividend", in which shareholders are offered the option of contributing their dividend claim to the Company (in whole or in part) as a contribution in kind against the granting of new shares from the Authorized Capital 2020.

The calculated proportion of share capital to be allocated to the shares issued under exclusion of the shareholders' subscription rights may not exceed € 72,664,519 in nominal value. Included in the calculation of this capital limit shall be the share capital that is allocated to those new shares which are issued during the term of this authorization under exclusion of subscription rights or are to be issued on the basis of conversion/option rights or conversion obligations under bonds, to the extent that such bonds were issued under exclusion of shareholders' subscription rights during the term of this authorization.

## 16.4 Conditional Capital

In the Spin-Off and Transfer Agreement, Siemens AG undertook to ensure that the articles of association of the Company will contain a conditional capital as further specified in the Spin-Off and Transfer Agreement for the time after Spin-Off Completion. Therefore, Siemens as shareholder of the Company will ensure to convene an extraordinary shareholders' meeting prior to Spin-Off Completion and to resolve to amend Section 4 paragraph 6 of the Company's Articles of Association. Pursuant to such amended Section 4 paragraph 6 of the Company's Articles of Association, the share capital will be conditionally increased by up to € 72,664,519 ("**Conditional Capital 2020**"). The conditional capital increase shall be effected through the issuance of up to 72,664,519 no par value registered shares and only to the extent to which holders/creditors of

convertible bonds or warrants under warrant bonds issued until the expiration of July 31, 2025, by the Company or any of its consolidated subsidiaries under the authorization of the Executive Board to be granted by a shareholders' meeting of the Company prior to Spin-Off-Completion exercise their conversion or option rights or fulfill their conversion obligations, provided that no other forms of fulfillment of delivery are used. The new shares shall be issued at the conversion or option prices to be determined in each case in the terms and conditions of the bonds and/or the warrants in accordance with the above-mentioned authorization. The Executive Board shall be authorized to determine the further details of the capital increase and its implementation. The new shares issued shall participate in profits from the beginning of the fiscal year in which they are created. To the extent permitted by law, the Executive Board may determine the profit participation of new shares in deviation of both the aforesaid and Section 60 paragraph 2 of the German Stock Corporation Act (*Aktiengesetz*), also for a fiscal year that has already ended.

## 16.5 Convertible Bonds and Bonds with Warrants

In the Spin-Off and Transfer Agreement, Siemens AG undertook to ensure that the Company will be authorized to issue convertible bonds and bonds with warrants as further specified in the Spin-Off and Transfer Agreement for the time period after Spin-Off Completion. Therefore, Siemens as shareholder of the Company will ensure to convene an extraordinary shareholders' meeting prior to Spin-Off Completion and to resolve to grant such authorization.

According to such authorization, the Executive Board will be authorized to issue, once or several times, including simultaneously in different tranches, subordinated or unsubordinated convertible bonds and/or warrant bonds (including all possible arrangements envisaged, hereinafter referred to as "**bonds**") in an aggregate principal amount of up to € 4,000,000,000 and in this connection to grant and impose, respectively, conversion or option rights or conversion obligations on no par value registered shares of the Company ("**Siemens Energy Conversion Shares**"), representing a pro rata amount of up to € 72,664,519 of the share capital ("**Maximum Amount of Share Capital**"). The bonds can also be issued by a consolidated subsidiary of the Company. The authorization includes the option to assume the guarantee for bonds issued by consolidated subsidiaries of the Company, to grant or impose on the holders or creditors of these bonds conversion or option rights and conversion obligations for Siemens Energy Conversion Shares up to the Maximum Amount of Share Capital and to make the statements and take the required actions necessary for successful issuance of bonds.

The bonds can be issued for financing purposes (raising debt capital or equity) and also for other purposes, such as to optimize the Company's capital structure.

The bonds may be issued in exchange for contributions in cash and/or consideration in kind. Warrant bonds may be issued in exchange for consideration in kind to the extent that the terms and conditions of the warrants provide for full payment in cash of the option price per Siemens Energy Conversion Share upon exercise. The principal amount or an issue price of bonds below the principal amount may also be chosen such that, at the time of issue, it corresponds to the pro rata amount of the share capital represented by the shares to be issued in accordance with the terms and conditions of the bonds and/or the warrants (hereinafter referred to as "**terms and conditions of the bonds**"), i.e., it need not necessarily exceed such amount.

The authorization for the issue of bonds expires on July 31, 2025.

The terms and conditions of the bonds may also provide for a conversion obligation at the end of the term (or at an earlier date or a specific event). The terms and conditions of the bonds may also provide for the issuer's right to grant the holders or creditors, in whole or in part, no par value shares in the Company or shares in another listed company instead of payment of the amount of money due upon final maturity of the bond associated with option rights or conversion rights or obligations (this also includes maturity due to termination).

In the case of warrant bonds, option rights shall be attached to each bond certificate, in particular in the form of one or more warrants, entitling the holder/creditor to subscribe to Siemens Energy Conversion Shares, subject to the terms and conditions of the bonds. In the case

of convertible bonds, the holders/creditors of the convertible bonds shall be entitled and/or obliged to convert them into Siemens Energy Conversion Shares, subject to the terms and conditions of the bonds. In all cases, the conversion ratio or the exchange or subscription ratio is obtained by dividing the principal amount or the lower issue price of a convertible bond, or if a warrant is exercised, the amount owed under its terms and conditions, by the conversion or option price stipulated for one Siemens Energy Conversion Share. The pro rata amount of the share capital represented by the shares to be subscribed for on the basis of one convertible bond or, in the case of an exchange, of one warrant bond, must not exceed the principal amount or the lower issue price of the bond.

The conversion/option price per share applicable at the time of issue must, except in cases of a conversion obligation, not be less than 80.0% of the price of the Shares as quoted in Xetra trading (or a comparable successor system). The calculation shall be based on the average closing price over the ten trading days prior to the date on which the Executive Board finally resolves to issue the bonds or on the Company's notice of acceptance following a public request for submission of subscription offers. If shareholders' subscription rights are not excluded, the price on the trading days during the subscription period can be used as the basis instead (with the exception of the days in the subscription period necessary to publish the conversion/option price on time in accordance with Section 186 paragraph 2 of the German Stock Corporation Act (*Aktiengesetz*)). In cases of bonds with a conversion obligation, the conversion price may at least either equal the minimum price set out above or correspond to the average volume-weighted price of the Shares in Xetra trading (or a comparable successor system) on at least three trading days immediately prior to calculation of the conversion price as defined in more detail by the terms and conditions of the bonds, even if this average price and the applicable conversion price derived from it is below the minimum price (80.0%) set out above. Section 9 paragraph 1 and Section 199 paragraph 2 of the German Stock Corporation Act (*Aktiengesetz*) remain unaffected.

The authorization also includes the option, subject to the terms and conditions of the bonds, to provide dilution protection and/or other adjustments under certain circumstances. Dilution protection or other adjustments may be provided for in particular if the Company changes its capital structure during the term of the bonds and/or warrants (e.g., through a capital increase, a capital decrease or a stock split), but also in connection with dividend payouts, the issue of additional convertible and/or warrant bonds, transformation measures and in the case of other events affecting the value of the option or conversion rights or obligations that may occur during the term of the bonds and/or warrants (e.g., control gained by a third party). Dilution protection or other adjustments may be provided in particular by granting subscription rights, by adjustments of the conversion/option price as well as by amending or introducing cash components.

The Executive Board is authorized to determine the terms of issue and further terms and conditions of the bonds or to establish such terms and conditions by mutual agreement with the respective issuing consolidated subsidiary. In particular, the terms and conditions of the bonds may also provide for and stipulate the following:

- whether and under what conditions (e.g., at the discretion of the issuer or the Company) servicing may occur from conditional capital (in particular from the Conditional Capital 2020 created in connection with this authorization), from authorized capital, from treasury shares, or instead of delivery of Siemens Energy Conversion Shares by paying compensation for the value in cash or delivery of other securities that can be traded at a trading venue within the meaning of Section 2 paragraph 22 of the German Securities Trading Act (*Wertpapierhandelsgesetz*),
- whether the bonds or warrants be issued in bearer or registered form,
- the number and features of the warrants (including those with different features) to be attached to each bond certificate and whether they are detachable when or after being issued,
- interest and term (be it unlimited or different) for the bonds or warrants,
- features of the bond component, which in particular may include hybrid bonds,

- whether, in the case of warrant bonds, the option price may be paid in whole or in part by transfer of bond certificates (as payment),
- whether the conversion/option prices or the conversion/subscription or exchange ratios are to be determined when the bonds are issued or during the term of the bonds or warrants and how these prices/ratios are to be defined (in each case including any minimum and maximum prices and variable features or computation on the basis of future market prices); the requirements regarding the conversion/option price per Share described above remain unaffected,
- whether and how a conversion ratio should be rounded,
- whether an additional cash payment or a compensation in cash should be specified,
- in the case of mandatory conversions, how details are to be determined regarding the exercise, fulfillment of obligations or rights, deadlines and determination of conversion or option prices,
- whether the bonds should be issued in euros or in the legal currency of an OECD country other than euros. For the purpose of determining the maximum aggregate principal amount of this authorization in the case of issues in foreign currencies, the principal amount of the bonds shall in each case be converted into euros on the day when the decision of the issue thereof is taken.

Generally, the bonds must be offered to the shareholders for subscription. They can also be issued to credit institutions or enterprises operating under Section 53 paragraph 1 sentence 1 or Section 53b paragraph 1 sentence 1 or Section 53b paragraph 7 of the German Banking Act (*Kreditwesengesetz*) with the obligation that they must be offered to the shareholders for subscription. However, the Executive Board shall be authorized to exclude the subscription right with the approval of the Supervisory Board,

- provided that the bonds are issued in exchange for cash payment and the issue price of the bonds is not significantly lower than their theoretical market price computed in accordance with generally accepted actuarial methods. The part of the share capital mathematically attributable to the shares to be issued or granted on the basis of bonds issued under this authorization, with shareholders' subscription rights excluded in accordance with Section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*), must not exceed 10.0% of the share capital. The share capital at the time this authorization takes effect or, if this amount is lower, at the time at which this authorization is used shall apply. When determining this limit, shares shall also be taken into account which, during the term of this authorization until its use, are issued or disposed of in direct or *mutatis mutandis* application of Section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*). The same applies to shares that have been issued or granted or are to be issued or granted on the basis of a convertible bond or warrant bond issued during the term of this authorization, with shareholders' subscription rights excluded in accordance with Section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*),
- to the extent necessary for fractional amounts resulting from the subscription ratio, or
- in order to grant holders/creditors of conversion or option rights on Siemens Energy Conversion Shares or of respective conversion obligations from bonds issued or guaranteed by the Company or any of its consolidated subsidiaries subscription rights as compensation against effects of dilution to the extent to which they would be entitled after exercise of such conversion or option rights or fulfillment of such conversion obligations.

The calculated proportion of share capital to be allocated to the shares to be issued or granted on the basis of bonds issued under this authorization under exclusion of the shareholders' subscription rights may not exceed € 72,664,519 nominal. Included in the calculation of this capital limit shall be the share capital that is allocated to those new shares, which are issued during the term of this authorization under exclusion of subscription rights or are to be issued on the basis of conversion/option rights or conversion obligations under bonds, to the extent that

such bonds were issued under exclusion of shareholders' subscription rights during the term of this authorization.

## **16.6 Authorizations to Acquire and Use Treasury Shares; Treasury Shares Held**

In the Spin-Off and Transfer Agreement, Siemens AG undertook to ensure that the Company will be authorized to acquire and use treasury shares as further specified in the Spin-Off and Transfer Agreement for the time period after Spin-Off Completion. Therefore, Siemens as shareholder of the Company will ensure to convene an extraordinary shareholders' meeting prior to Spin-Off Completion and to resolve to grant the following authorization.

1. The Company is authorized to repurchase Shares until the expiration of July 31, 2025, for every permissible purpose, up to a limit of 10.0% of its share capital as of the time the resolution takes effect or as of the date on which the authorization is exercised, if the latter value is lower. The total number of Shares repurchased under this authorization and any other Shares previously acquired and still held in treasury by the Company or attributable to the Company pursuant to Section 71d, Section 71e of the German Stock Corporation Act (*Aktiengesetz*) may at no time exceed 10.0% of the respective share capital.
2. Any repurchase of Shares shall be accomplished at the discretion of the Executive Board either (1) by acquisition on the stock exchange, (2) through a public share repurchase offer or (3) through a public offer to swap Shares for shares in a listed company within the meaning of Section 3 paragraph 2 of the German Stock Corporation Act (*Aktiengesetz*). Offers under subsections (2) and (3) above can also be solicited by a request for submission of offers.
  - a. If the Shares are to be acquired on the stock exchange, the purchase price paid on the stock exchange per Share (excluding incidental transaction charges) may neither exceed the stock market price of a Share on the trading day, as determined during the opening auction in Xetra trading (or a comparable successor system), by more than 10.0% nor fall below such market price by more than 20.0%.
  - b. If the Shares are to be acquired through a public share repurchase offer, the purchase price paid per Share (excluding incidental transaction charges) may neither exceed the average closing price of a Share in Xetra trading (or a comparable successor system) on the fourth, third and second trading day prior to the decision by the Executive Board regarding the offer or acceptance of offers made by the shareholders, by more than 10.0% nor fall below such closing price by more than 20.0%.
  - c. If the Shares are to be acquired through a public offer to swap Shares for shares in a listed company within the meaning of Section 3 paragraph 2 of the German Stock Corporation Act (*Aktiengesetz*) ("**exchange shares**"), the exchange price paid by the Company (in the form of one or more exchange shares, any arithmetic fractions and any cash component) per Share (excluding incidental transaction charges) may neither exceed the relevant value of a Share by more than 10.0% nor fall below the relevant value of a Share by more than 20.0%. The basis for calculating this relevant value for each Share and for each exchange share is in each case the average closing price in Xetra trading (or a comparable successor system) on the fourth, third and second trading day prior to the decision by the Executive Board regarding the offer or acceptance of offers made by the shareholders. If the exchange shares are not traded in Xetra trading (or a comparable successor system), the relevant value shall be the closing price on the stock exchange where the exchange shares recorded their highest trading volume in the preceding full calendar year.

The Executive Board shall define the arrangements for acquiring the Shares in more detail. If the number of Shares tendered or offered by shareholders for purchase or exchange exceeds the total volume which the Company intends to repurchase, the shareholders' tender right may be excluded to the extent that the repurchase will be in proportion to the Shares tendered or offered by each shareholder. Furthermore, the tender, acceptance or offer of



small quantities of up to 150 Shares per shareholder may receive preferential treatment and rounding according to commercial principles may be provided for.

If, after the publication of an offer, the market price differs from the price or from a price range defined in connection with a request for submission of offers and these differences may be material to the success of the offer, the price or the price range may be adjusted during the submission period or up to acceptance. In this case the provision that the purchase or exchange price may neither exceed the relevant value of a Share by more than 10.0% nor fall below it by more than 20.0% refers to the respective closing price of the Share, and potentially the exchange share, on the last trading day prior to the ultimate decision of the Executive Board on the adjustment.

3. The Executive Board is authorized to use any Shares repurchased on the basis of this authorization – in addition to selling them on the stock exchange or through an offer to all shareholders proportionately according to their percentage of ownership – for every permissible purpose, in particular as follows:
  - a. Such Shares may be cancelled without an additional resolution by the Company's shareholders' meeting being required for such cancellation or its implementation. Such cancellation leads to a capital decrease; in this case, the Executive Board is authorized to reduce the share capital by the pro rata amount of the share capital attributable to the cancelled shares and the Supervisory Board is authorized to adjust the number of shares and the share capital in the Articles of Association accordingly. The cancellation can upon decision by the Executive Board pursuant to Section 237 paragraph 3 no. 3 of the German Stock Corporation Act (*Aktiengesetz*) also be carried out without a capital decrease by adjusting the pro rata amount of the other shares of no par value relative to the Company's share capital pursuant to Section 8 paragraph 3 of the German Stock Corporation Act (*Aktiengesetz*). In this case, the Executive Board is authorized to adjust the number of shares of no par value specified in the Articles of Association.
  - b. Such Shares may be used in connection with share-based compensation programs and/or employee share programs of the Company or any of its affiliated companies and issued to individuals currently or formerly employed by the Company or any of its affiliated companies as well as to board members of any of the Company's affiliated companies. In particular, the Shares may be offered for acquisition, awarded and transferred for free or against payment to said persons and board members, provided that the employment relationship or board membership must exist at the time of the offer, award commitment or transfer.
  - c. Such Shares may, with approval of the Supervisory Board, be sold against payment in cash if the selling price is not significantly lower than the stock market price of a Share. The part of the share capital mathematically attributable to the shares used in this way must not exceed 10.0% of the share capital. The share capital at the time the authorization takes effect or, if this amount is lower, at the time at which this authorization is used, shall apply. When determining this limit, shares shall also be taken into account which, during the term of this authorization to acquire shares until its use, are issued in direct or *mutatis mutandis* application of Section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*). The same applies to shares to be issued or granted on the basis of a convertible bond or warrant bond issued during the term of this authorization to acquire shares, with shareholders' subscription rights excluded in accordance with the provisions of Section 186 paragraph 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*).
  - d. Such Shares may be used to service or secure obligations or rights to acquire Shares arising particularly from or in connection with convertible bonds or warrant bonds of the Company or its consolidated subsidiaries. Moreover, the Executive Board shall be authorized to exclude subscription rights in order to grant holders/creditors of conversion or option rights or respective conversion obligations on Shares subscription rights as compensation against effects of dilution to the extent to which they would be

entitled after exercise of such rights or fulfillment of such obligations, and to use Shares to service such subscription rights.

- e. Such Shares may be used to list Shares on foreign stock exchanges on which they are currently not admitted to trading. The price at which these shares are floated on foreign stock exchanges must not be more than 5.0% lower than the arithmetic mean of the prices (excluding incidental transaction charges) of the Shares in the closing auction in Xetra trading (or a comparable successor system) on the Frankfurt Stock Exchange during the last three stock exchange trading days prior to the Shares being floated on the foreign stock exchange.
4. The Supervisory Board shall be authorized to use Shares acquired on the basis of this authorization as follows: such shares may be used to service obligations or rights to acquire Shares that were or will be agreed with members of the Executive Board within the framework of rules governing Executive Board compensation. In particular, they may be offered for acquisition, awarded and transferred to members of the Executive Board, provided that the employment relationship or board membership exists at the time of the offer, award commitment or transfer.
5. The authorizations in this resolution may be exercised independently of each other, once or several times, solely or jointly, in whole or in part also by any of the Company's consolidated subsidiaries or by third parties acting on behalf of the Company or any of its consolidated subsidiaries. In addition, acquired Shares may also be transferred to consolidated subsidiaries.
6. Shareholders' subscription rights relating to repurchased Shares shall be excluded to the extent to which such Shares are used in accordance with the authorizations pursuant to section 3. lit (b) through (e) and section 4. above. In addition, the subscription right with regard to fractional amounts may be excluded from an offer to acquire Shares made to all shareholders.

As of the date of the Prospectus, the Company does not hold any treasury shares.

## **16.7 General Provisions Governing a Liquidation of the Company**

Apart from a liquidation as a result of insolvency proceedings, the Company may be liquidated only with a vote of 75.0% or more of the share capital represented at the general shareholders' meeting at which such vote is taken. Pursuant to the German Stock Corporation Act (*Aktiengesetz*), in the event of the Company's liquidation, any assets remaining after all of the Company's liabilities have been settled will be distributed *pro rata* among its shareholders. The German Stock Corporation Act (*Aktiengesetz*) provides certain protections for creditors which must be observed in the event of liquidation.

## **16.8 General Provisions Governing Share Capital Increases and Decreases**

The German Stock Corporation Act (*Aktiengesetz*) provides that the share capital of a stock corporation may be increased by a resolution of the general shareholders' meeting. Such resolution must be adopted by a majority of at least 75.0% of the share capital represented when the resolution is passed unless the stock corporation's articles of association provide for a different majority. Our Articles of Association provide in Section 17 para. 2 that the resolutions of the general shareholders' meeting are adopted by a simple majority of the votes cast unless mandatory law or the articles of association require a higher majority or additional requirements (which is currently not the case under the Articles of Association of the Company). In addition, shareholders may resolve to issue authorized capital by a vote of 75.0% of the share capital represented at the passing of the resolution authorizing the Executive Board to issue Shares, up to a specific amount within a period not exceeding five years. The nominal amount of such issuance may not exceed 50.0% of the share capital in existence at the time of the authorization, that is, at the time the authorized capital is entered into the commercial register.

Additionally, shareholders may resolve to create contingent capital for the purpose of issuing Shares (i) to holders of convertible bonds or other securities convertible into Shares of the Company, (ii) as consideration in connection with a merger with another company or (iii) to executives and employees. A resolution to create contingent capital must be adopted by at least 75.0% of the share capital represented at the passing of the resolution. The nominal amount of the contingent capital created for the purpose of share issues to executives and employees may not exceed 10.0%, a contingent capital created for any other purpose may not exceed 50.0% of the nominal share capital in existence at the time such resolution is passed. The creation of contingent capital beyond this threshold is permitted only for the purpose of enabling the company to make an exchange in the event of its impending insolvency or for the purpose of averting over indebtedness.

A resolution to reduce the share capital must be adopted by at least 75.0% of the share capital represented at the passing of the resolution.

## **16.9 General Provisions on Subscription Rights**

According to the German Stock Corporation Act (*Aktiengesetz*), every shareholder is generally entitled to subscription rights to any new shares issued within the framework of a capital increase, including convertible bonds, bonds with warrants, profit-sharing rights or income bonds. Such subscription rights are freely transferable and may generally be traded on German stock exchanges within a specified period prior to the expiration of such period.

The general shareholders' meeting may pass a resolution excluding subscription rights if at least 75.0% of the share capital represented adopts the resolution. To exclude subscription rights, the Executive Board must also make a report available to the shareholders justifying the exclusion and demonstrating that the Company's interest in excluding the subscription rights outweighs the shareholders' interest in keeping them. The exclusion of subscription rights upon the issuance of new Shares is permitted, in particular, if the Company increases the share capital against cash contributions, the amount of the capital increase does not exceed 10.0% of the existing share capital and the issue price of the new Shares is not significantly lower than the stock exchange price of the Company's existing shares.

## **16.10 Exclusion of Minority Shareholders**

Under the rules of Sections 327a *et seq.* of the German Stock Corporation Act (*Aktiengesetz*) regarding the so-called "squeeze-out" of minority shareholders, the general meeting of a stock corporation may resolve upon request by a shareholder who holds 95.0% of the share capital (majority shareholder) that the shares held by the remaining minority shareholders be transferred to the majority shareholder against payment of adequate cash compensation. The amount of the cash compensation to be granted to the minority shareholders must reflect the situation of the company at the time the resolution is adopted by the general meeting. For the purpose of calculating the compensation amount, the full enterprise value is relevant and will generally be determined by applying the discounted future earnings method (*Ertragswertmethode*). The minority shareholders are entitled to file for valuation proceedings (*Spruchverfahren*) in the course of which the appropriateness of the cash compensation is reviewed.

Under the German Transformation Act (*Umwandlungsgesetz*), a majority shareholder holding at least 90.0% of a stock corporation's share capital can require the general shareholders' meeting to resolve that the minority shareholders must sell their stock to the majority shareholder against the payment of adequate compensation in cash, provided that (i) the majority shareholder is a stock corporation, a partnership limited by shares (KGaA), or a European stock corporation (SE) having its seat in Germany, and (ii) the squeeze-out is performed to facilitate a merger under the German Transformation Act (*Umwandlungsgesetz*) between the majority shareholder and the stock corporation. The general shareholders' meeting approving the squeeze-out must take place within three months of the conclusion of the merger agreement. The procedure for the squeeze-out is essentially identical to the squeeze-out under stock corporation law described

above, including the minority shareholders' right to have the appropriateness of the cash compensation reviewed.

Furthermore, pursuant to the provisions in Sections 39a and 39b of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) regarding the so-called "takeover law squeeze-out", a bidder who, following a takeover offer or a mandatory tender offer, holds at least 95.0% of the voting share capital of the target company may, within a period of three months following the expiration of the acceptance period, apply to the Regional Court (*Landgericht*) of Frankfurt am Main for a court order to transfer to such bidder the remaining voting shares against payment of adequate compensation. No resolution of the general meeting is required. The consideration granted under the takeover offer or the mandatory tender offer is considered adequate compensation if the bidder, based on such offer, has acquired at least 90.0% of the share capital subject to the offer. Furthermore, following a takeover offer or a mandatory tender offer, the shareholders of the target company who did not accept such offer may accept the offer within three months after the expiration of the acceptance period (so-called "sell-out"), provided the bidder is entitled to file an application for the transfer of the remaining voting shares in accordance with Section 39a of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) (Section 39c of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*)).

Pursuant to the provisions of Sections 319 et seq. of the German Stock Corporation Act (*Aktiengesetz*) regarding the integration (*Eingliederung*) of a subsidiary, the general meeting of a stock corporation may resolve the integration into another company provided that the future principal company (*Hauptgesellschaft*) is a German stock corporation and holds at least 95.0% of the shares of the company to be integrated. The shareholders of the integrated company are entitled to adequate compensation, which is generally to be granted in the form of shares of the principal company. The amount of compensation is to be determined by the so-called "merger value ratio" (*Verschmelzungswertrelation*) between the companies, i.e., the exchange ratio which would have to be considered adequate in the event of a merger of the two companies.

## **16.11 Mandatory Takeover Bids**

Pursuant to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), every person whose share of voting rights reaches or exceeds 30.0% of the voting shares of the Company (after admission of the Company's shares to trading on the regulated market of the Frankfurt Stock Exchange) must, within seven calendar days, publish this fact, including the percentage of its voting rights, on the Internet and through electronic media for disseminating financial information. Subsequently, and unless an exemption from this obligation has been granted by BaFin, such person must submit a mandatory public tender offer to all shareholders of the Company. The German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) contains several rules that provide for an attribution and aggregation of voting rights in order to ensure that the shares are attributed to the person actually controlling the voting rights attached thereto. If a person fails to give notice of reaching or exceeding the 30.0% threshold or fails to submit a mandatory public tender offer, shareholder rights (including voting rights and, in certain cases, the right to collect dividends and liquidation proceeds) are suspended for the duration of non-compliance under certain circumstances. In addition, a fine may be imposed.

## **16.12 Disclosure Requirements for Holdings of Shares and Other Instruments**

After the Company's Shares have been admitted to trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange, the Company, as a listed company, and its shareholders will become subject to the provisions of the German Securities Trading Act (*Wertpapierhandelsgesetz*) governing disclosure requirements for shareholdings.

Section 33 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) requires that anyone who acquires, sells or whose shareholding in any other way reaches, exceeds or falls below 3.0%,

5.0%, 10.0%, 15.0%, 20.0%, 25.0%, 30.0%, 50.0% or 75.0% of the voting rights in an issuer whose home country is Germany and whose shares are admitted to trading on an organized market must immediately, and no later than within four trading days of such occurrence, notify the issuer and at the same time BaFin. The notice period commences as soon as the person obliged to notify (*Meldepflichtiger*) knows, or, under the circumstances of the case should know, that his or her voting rights reach, exceed or fall below the abovementioned thresholds, and no later than two trading days after reaching, exceeding or falling below the threshold. Only in the case where the voting rights reach, exceed or fall below the thresholds as a result of an event affecting all voting rights, then the notice period may commence at a later time. The notification requirement is set off by the establishment of an obligation to transfer such ownership immediately (*ohne zeitliche Verzögerung*).

Notice must be given using a standard form annexed to the German Securities Trading Reporting Regulation (*Wertpapierhandelsanzeigeverordnung*). It must include the address of the individual or entity, the share of voting rights held and the date of reaching, exceeding or falling below the respective threshold, and must be issued via a mandatory standard form. The Company must publish such notices immediately but no later than within three trading days after their receipt, via media outlets or outlets where it can be assumed that the notice will be disseminated in the EU (including, during the transitional period of the UK's withdrawal from the EU, the United Kingdom) and the non-EU parties to the agreement on the EEA (so-called "*Medienbündel*"). The Company must also transmit the notice to BaFin and to the German Business Register (*Unternehmensregister*) for storage.

For purposes of the notification requirements, the German Securities Trading Act (*Wertpapierhandelsgesetz*) contains various rules that require the attribution (*Zurechnung*) of voting rights of certain persons associated with the shareholder or acting together with the shareholder. For example, shares held by a subsidiary (as defined in Section 35 of the German Securities Trading Act (*Wertpapierhandelsgesetz*)) are attributed to the parent company; similarly, shares held by a third company for the account of another company are attributed to the latter. Furthermore, any kind of cooperation among shareholders that is intended to effect a permanent and material change in the business strategy of the Company can result in an attribution of voting rights. This means that the cooperation does not necessarily have to concern the exercise of voting rights specifically; coordination in individual cases, however, will not trigger the attribution of voting rights.

Pursuant to Section 38 of the German Securities Trading Act (*Wertpapierhandelsgesetz*), similar obligations to notify the Company and BaFin for reaching, exceeding or falling below the abovementioned thresholds (other than the 3.0% threshold) apply to direct and indirect holders of certain instruments other than shares. This applies to instruments that grant upon maturity an unconditional right to acquire already issued voting shares of the Company, a discretionary right to acquire such shares, or instruments that refer to such shares and have a similar economic effect to the aforementioned instruments. Notifiable instruments include, *inter alia*, transferable securities, options, futures contracts, swaps, forward rate agreements and contracts for difference. The number of voting rights relevant for the notification requirement will generally be calculated by reference to the full nominal amount of shares underlying the instrument except where the instrument provides exclusively for a cash settlement. Details for such calculations are laid down in the Commission Delegated Regulation (EU) 2015/761 of December 17, 2014.

Shares or instruments held for trading by a securities services company are not taken into account for determining the notification obligation if it is ensured that the voting rights held by them are not exercised, and that they amount to no more than 5.0% of the voting shares, or do not grant the right to purchase more than 5.0% of the voting shares.

Notifiable holdings pursuant to Sections 33 and 38 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) must be aggregated, leading to a notification obligation for total holdings above a 5.0% threshold pursuant to Section 39 of the German Securities Trading Act (*Wertpapierhandelsgesetz*).



Furthermore, a person obliged to notify (*Meldepflichtiger*) who reaches or exceeds the threshold of 10.0% of the voting rights, or a higher threshold, is obligated to notify the issuer within 20 trading days regarding the objective being pursued through the acquisition of voting rights, as well as regarding the source of the funds used for the purchase pursuant to Section 43 of the German Securities Trading Act (*Wertpapierhandelsgesetz*). Changes in those objectives must also be reported within 20 trading days. An issuer may stipulate in its Articles of Association that the aforementioned disclosure requirement does not apply.

In case that the disclosure requirements are not met, shareholder rights (including voting rights and, in certain cases, the right to collect dividends and liquidation proceeds) are – subject to certain exceptions – suspended for the duration of non-compliance. If the failure to comply with the disclosure requirements specifically relates to the share of voting rights and is the result of a willful or grossly negligent conduct, the suspension period is extended by six months after the person obliged to notify (*Meldepflichtiger*) files the required notification. In addition, a fine may be imposed if a required notification is not at all, incorrectly or incompletely made, or not made in the right manner or in a timely fashion. BaFin also has the right to publish decisions on sanctions and measures with regard to violations of the disclosure obligations and persons responsible for such violations.

### **16.13 Disclosure of Transactions of Persons Discharging Managerial Responsibilities**

Pursuant to Article 19 of the Market Abuse Regulation (Regulation (EU) No. 596/2014 of April 16, 2014) (**"Market Abuse Regulation"**), persons discharging managerial responsibilities (**"Executives"**) shall notify the Company and BaFin of every transaction conducted on their own account relating to shares or debt instruments of the Company or to derivatives or other financial instruments linked thereto (so-called "directors' dealings"). The same applies to persons closely associated with Executives who must notify the Company and BaFin if they enter into such transactions. Transactions that must be notified also include, among others, pledging or lending of financial instruments, transactions undertaken by any person professionally arranging or executing transactions on behalf of an Executive or a closely associated person, including where discretion is exercised, as well as transactions made under a life insurance policy. The notification requirement applies to any subsequent transaction once a total amount of € 20,000 has been reached within a calendar year. Notification shall be made promptly and no later than three business days after the date of the transaction.

For the purposes of the Market Abuse Regulation, Executive means a person within the Company who is a member of the administrative, management or supervisory body of the Company or a senior executive who is not such member but who has regular access to inside information relating directly or indirectly to the Company and who has power to take managerial decisions affecting the future developments and business prospects of the Company. A person closely associated with an Executive means certain family members, namely a spouse, a registered civil partner (*eingetragener Lebenspartner*), a dependent child as well as a relative who has shared the same household for at least one year on the date of the transaction concerned. A person closely associated also includes a legal person, trust or partnership, the managerial responsibilities of which are discharged by an Executive of the Company or by a family member of his or hers. Finally, the term includes a legal person, trust or partnership which is directly or indirectly controlled by an Executive of the Company (or by one of its family members) or which is set up for the benefit of such a person, or the economic interests of which are substantially equivalent to those of such a person.

The Company shall ensure that information of which it is notified is promptly made public. In any case, it shall be made public no later than three business days after the transaction in a manner which enables fast access to this information on a non-discriminatory basis in accordance with ESMA's implementing technical standards. Furthermore, according to the German Securities Trading Act (*Wertpapierhandelsgesetz*), the Company shall without undue delay transmit the information to the German Business Register (*Unternehmensregister*) and notify BaFin. Non-compliance with the notification requirements may result in a fine.

## 16.14 Post-Admission Disclosure Requirements

After the admission to trading of the Company's shares, the Company will for the first time be subject to the legal disclosure requirements for German stock corporations with shares listed on a public exchange. These disclosure requirements include, among others, periodic financial reporting and other required disclosures according to the German Securities Trading Act (*Wertpapierhandelsgesetz*) as well as disclosure requirements under the Market Abuse Regulation. The Company will also be obliged under the Listing Rules of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (*Börsenordnung für die Frankfurter Wertpapierbörse*), as amended from time to time, to publish quarterly statements, as the Company's shares are to be listed on the Prime Standard sub-segment of the regulated market of the Frankfurt Stock Exchange.

Pursuant to Article 17 of the Market Abuse Regulation, the Company shall inform the public as soon as possible of inside information (as defined below) which directly concerns the Company. In such case the Company shall also, prior to informing the public, inform BaFin and the management of the trading venues and facilities (*Geschäftsführungen der Handelsplätze*) where financial instruments of the Company have been admitted to trading or been included in such trading, and, after publication, without undue delay transmit the information to the German Business Register (*Unternehmensregister*).

Inside information comprises, among others, any information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.

The Company may, on its own responsibility, delay disclosure of inside information if (i) immediate disclosure is likely to prejudice the legitimate interests of the Company, (ii) delay of disclosure is not likely to mislead the public and (iii) the Company is able to ensure that the inside information will remain confidential. In such case, the Company shall also inform BaFin that disclosure of the information was delayed and shall provide a written explanation of how the conditions set out in the preceding sentence were met, immediately after the information is disclosed to the public. Where disclosure of inside information has been delayed and the confidentiality of that inside information is no longer ensured, the Company shall disclose such inside information to the public as soon as possible.

## 16.15 EU Short Selling Regulation

Under Regulation (EU) No 236/2012 of the European Parliament and of the Council of March 14, 2012 on short selling and certain aspects of credit default swaps (the "**EU Short Selling Regulation**"), short sales of shares (*i.e.*, sales of shares that the seller does not own, with the intention of acquiring shares of the same class at a later point in time in order to be able to deliver the shares to the buyer), are permitted only under certain conditions. Significant net short positions in shares must be reported to BaFin and, if a certain threshold is exceeded, they must also be publicly disclosed. The reporting and publication obligations are set forth in detail in the German Regulation on Net-Short Positions (*Netto-Leerverkaufspositionsverordnung*) of December 17, 2012, as amended. Net short positions are calculated by netting the long and short positions held by a natural or legal person in the issued capital of the company concerned. The details are set forth in the EU Short Selling Regulation and the regulations adopted by the EU Commission implementing it. In certain situations, described in greater detail in the EU Short Selling Regulation, BaFin is permitted to restrict short selling and comparable transactions.

## 17 Governing Bodies and Employees

### 17.1 Overview

The Company's governing entities are its Executive Board, its Supervisory Board and the general shareholders' meeting (*Hauptversammlung*). The responsibilities of these entities are determined by the German Stock Corporation Act (*Aktiengesetz*), the Articles of Association, the internal rules of procedure for the Supervisory Board (*Geschäftsordnung des Aufsichtsrats*) and the rules of procedure for the Executive Board (*Geschäftsordnung des Vorstands*), which will be resolved in the constituting session of the Supervisory Board following Spin-Off Completion.

The Executive Board is responsible for independently managing the Company in accordance with applicable law, the Articles of Association and internal rules of procedure for the Executive Board. The Executive Board represents the Company in dealings with third parties. The Executive Board is responsible for implementing appropriate risk management and control systems within the Siemens Energy Group that provide timely warning of any development that might jeopardize our continued existence. The Executive Board is obliged to report to the Supervisory Board, in accordance with statutory regulations, regularly, timely and comprehensively on all matters of planning, development of business, risks, risk management and compliance. The Executive Board reports to the Supervisory Board regularly on the projected business objectives and other key issues relating to corporate planning (especially finance, investment and human resources planning). These regular reports include a budget for the following fiscal year, a plan for the medium term and a discussion of any deviations between actual developments and objectives previously reported on, including the reasons for such deviations. The Executive Board is also obligated to report regularly to the Supervisory Board, at a minimum on a quarterly basis, on the status of the business and condition of the Company and its subsidiaries.

Simultaneous membership on the executive board and supervisory board of the same German stock corporation is not permitted under German law. The Supervisory Board may appoint certain of its members as deputies for absent or incapacitated members of the Executive Board for a predetermined period of time which may not in any event exceed one year. The members of the Supervisory Board may not exercise the functions of a member of the Supervisory Board during their term of office as deputy members of the Executive Board.

The Supervisory Board appoints the members of the Executive Board and is entitled to dismiss them for good cause. The Supervisory Board advises and oversees the Executive Board on the management of the Company but is not itself authorized to manage the Company. The Articles of Association or the Supervisory Board must, however, designate certain types of transactions that may only be undertaken with the approval of the Supervisory Board. Section 9 para. 2 of the Company's Articles of Association provides that the rules of procedure for the Company's Executive Board or Supervisory Board or resolutions of the Supervisory Board must make certain transactions or types of transactions subject to the consent of the Supervisory Board. Matters subject to the consent of the Supervisory Board are expected to include, among other things, the acquisition, disposal and transformation of companies, shareholdings and parts of companies above a certain threshold, the termination of the current area of business exceeding a certain revenue share of total Group revenues of the preceding fiscal year and the conclusion of financing agreements exceeding certain thresholds.

Members of the Executive Board and the Supervisory Board owe a duty of care, a duty of legality and a duty of loyalty to the Company. Board members must consider a number of interests, including those of the Company and its shareholders, employees and creditors. The Executive Board must also take into consideration shareholders' rights to equal treatment and equal access to information. Should members of the Executive Board or Supervisory Board breach these duties, they will be jointly and severally liable to the Company for compensatory damages. The Directors' and Officers' (D&O) liability insurance policy which the Company intends to enter into will provide financial loss coverage up to a certain amount for members of the Executive Board and the Supervisory Board with regard to their activities. The Company will bear the cost of these insurance policies. However, it should be noted that applicable German law requires that each

member of the Company's Executive Board remains personally responsible in the case of any finding of personal liability of such member, as the case may be, for 10.0% of the total amount of such personal liability, up to an amount that equals 150.0% of such member's total annual fixed remuneration.

Under German law, a shareholder is generally not able to take legal action against members of the Executive Board or Supervisory Board if he or she believes that these persons have neglected their duties towards the Company and this has resulted in damage to the Company. Company claims for compensatory damages against members of the Executive Board or Supervisory Board may, as a rule, only be asserted by the Company itself, in which case the Company is represented by the Executive Board when claims are made against members of the Supervisory Board and the Supervisory Board when claims are made against members of the Executive Board. According to a ruling by the German Federal Court of Justice (*Bundesgerichtshof*), the Supervisory Board is obligated to assert claims for compensatory damages against the Executive Board that are likely to be successful unless important Company interests would conflict with such an assertion of claims and such grounds outweigh, or are at least comparable to, the grounds in favor of asserting claims. In the event that the competent corporate body decides not to pursue such claims, then such claims of the Company for compensatory damages must nevertheless be asserted against members of the Executive Board or Supervisory Board if the general shareholders' meeting passes a resolution to this effect by a simple majority vote. The general shareholders' meeting may appoint a special representative to assert such claims. Shareholders whose aggregate holdings amount to at least 10.0% or € 1,000,000 of the Company's share capital may apply to the court to appoint a special representative to assert claims for compensatory damages, who, in the event of such an appointment, becomes responsible for this matter in place of the Company's management. In addition, if there are facts supporting the claim that the Company has been damaged by fraud or gross breaches of duty, shareholders whose aggregate holdings amount to at least 1.0% or € 100,000 of the Company's share capital have the option, under certain circumstances, of being granted permission by the competent court to file a lawsuit on their own behalf for compensatory damages for the Company against members of the board. Such a lawsuit will be dismissed if the Company itself files a lawsuit for compensatory damages.

The Company may only waive or settle any damage claims against members of the Executive Board or Supervisory Board if three years have passed since the claims came into existence, and only if a simple majority of the shareholders votes in favor of such waiver or settlement at the shareholders' general meeting and provided that a minority of the shareholders whose shares collectively reach the level of 10.0% of the share capital does not raise an objection which is entered in the minutes of the meeting.

Under German law, it is illegal for shareholders or any other individuals to attempt to influence members of the Executive Board or Supervisory Board, authorized representatives (*Prokuristen*) or other persons holding a commercial power of attorney to act in a way harmful to the Company. Shareholders with a controlling influence may not use such influence to cause the Company to act against its own best interests, unless any resulting damages are compensated for. Any person who uses his or her influence to cause a member of the Company's Executive Board or Supervisory Board, authorized representative or person holding a commercial power of attorney to act in a manner harmful to the Company or its shareholders is obligated to compensate the Company and its shareholders for any resulting damage. In addition, members of the Executive Board and Supervisory Board may be jointly and severally liable for breach of their duties.

## **17.2 Executive Board**

### **17.2.1 General**

According to the current version of the Articles of Association, the Executive Board consists of several persons. The Supervisory Board determines the number of Executive Board members. The Supervisory Board may appoint one Executive Board member as chair and another member as

deputy chair. Currently, the Company's Executive Board consists of four members and Dr.-Ing. Christian Bruch has been appointed as chair. The Supervisory Board appoints the members of the Executive Board for a maximum term of five years, with a maximum term of three years for first-time appointments in accordance with the German Corporate Governance Code. Reappointment or extension of the term for up to five years is permissible. The Supervisory Board may revoke the appointment of an Executive Board member prior to the expiration of his or her term for good cause, such as for gross breach of fiduciary duties or if the shareholders' meeting passes a vote of no-confidence with respect to such member, unless the no-confidence vote was clearly unreasonable. The Supervisory Board is also responsible for entering into, amending and terminating employment agreements with the Executive Board members and, in general, for representing the Company in and out of court against the Executive Board. The Executive Board determines the Company's business areas and operating segments. The Supervisory Board resolves upon the allocation of businesses to the various members of the Executive Board. It is expected that the Supervisory Board will appoint Mr. Holt as labor director (*Arbeitsdirektor*) pursuant to Section 33 of the German Co-Determination Act (*Mitbestimmungsgesetz*). According to the Articles of Association, the Company is represented statutorily by two Executive Board members or one Executive Board member acting jointly with an authorized representative.

### 17.2.2 Current Members of the Executive Board

The following table lists the current members of the Executive Board, their age, the date on which they were first appointed, the date on which their current appointment is scheduled to end, their position in administrative, management and supervisory bodies and as partners in other companies outside the Group during the past five years; unless stated otherwise below, these memberships are current:

Name	Appointed		Appointed until	Responsibilities	Other Activities
	Age	in			
Dr.-Ing. Christian Bruch .....	50	2020	2025	Chief Executive Officer, Chief Sustainability Officer	<ul style="list-style-type: none"> <li>• Executive vice president Linde plc and CEO Linde Engineering (2018-2020)</li> <li>• Speaker of the executive board of Linde AG (2019-2020)</li> <li>• Member of the executive board of Linde AG with responsibility for the Engineering Division and the Corporate Function Technology &amp; Innovation as well as Digitalization (2015-2018)</li> <li>• Managing director of Linde Holding GmbH, Munich, Germany (2019-2020)</li> <li>• Member of the executive board of Linde Intermediate Holding AG, Munich (2019-2020)</li> <li>• Member of supervisory board of Lenzing AG, Austria (since 2019)</li> </ul>



Name	Age	Appointed in	Appointed until	Responsibilities	Other Activities
Maria Ferraro . . . . .	47	2020	2023	Chief Financial Officer, Chief Diversity Officer	<ul style="list-style-type: none"> <li>• Company supervisor at: <ul style="list-style-type: none"> <li>◦ Siemens Industrial Automation Products Ltd., Chengdu, China (2017-2020)</li> <li>◦ Siemens Computational Science (Shanghai) Co., Ltd. China (2018-2020)</li> <li>◦ Siemens Industry Software (Beijing) Co. Ltd. (2019-2020)</li> <li>◦ Siemens Numerical Control Ltd., Nanjing (2017-2020)</li> </ul> </li> <li>• Member of the supervisory board of: <ul style="list-style-type: none"> <li>◦ IBS Industrial Business Software (Shanghai) Ltd., China (2018-2020)</li> <li>◦ Siemens Industry Software (Shanghai) Co. Ltd. (2018-2020)</li> <li>◦ Camstar Systems Software (Shanghai) Co. Ltd. (2018-2020)</li> <li>◦ Siemens S.p.A., Italy (2019-2020)</li> <li>◦ Siemens S.A., Spain (2019-2020)</li> <li>◦ Siemens AB, Sweden (2019-2020)</li> </ul> </li> <li>• Member of the board of directors of Siemens Ltd. Seoul, Korea (2019-2020)</li> </ul>
Tim Oliver Holt . . . . .	51	2020	2023	Executive Board Member acting as Segment Manager Gas and Power, Segment Manager SGRE and expected to be responsible for personnel ( <i>Arbeitsdirektor</i> )	<ul style="list-style-type: none"> <li>• Member of the board of directors of: <ul style="list-style-type: none"> <li>◦ EthosEnergy Group Limited (since 2016)</li> <li>◦ Siemens India (since 2020)</li> <li>◦ Siemens Foundation US (since 2016)</li> </ul> </li> </ul>
Dr.-Ing. Jochen Eickholt . . . . .	58	2020	2023	Executive Board Member acting as Segment Manager Gas and Power and responsible for project excellence	<ul style="list-style-type: none"> <li>• Chief Executive Officer of Siemens' Mobility Division (2014-2017)</li> <li>• Head of Integration Management Siemens Alstom (2017-2018)</li> <li>• Chairman and Managing Partner of the portfolio companies of Siemens AG (2018-2019)</li> </ul>

Name	Age	Appointed in	Appointed until	Responsibilities	Other Activities
					<ul style="list-style-type: none"> <li>• Head of the supervisory board of Valeo Siemens eAutomotive (2018-2020)</li> <li>• Deputy head of the supervisory board of Primetals Technologies (2018-2020)</li> <li>• Deputy head of supervisory board of EthosEnergy Group Limited and Voith Hydro Holding GmbH &amp; Co. KG (since 2018)</li> </ul>

The termination dates of the service agreements for each of the members of the Company's Executive Board correspond with their respective terms in office.

The members of the Executive Board can be reached at the Company's business address.

#### 17.2.2.1 Dr.-Ing. Christian Bruch

Dr.-Ing. Christian Bruch was born in 1970 in Düsseldorf, Germany. He holds a degree in Mechanical Engineering (*Diplom-Ingenieur/Maschinenbau*) from the University of Hanover, Germany, and in 2001 received a PhD from the Swiss Federal Institute of Technology (ETH), Zurich, Switzerland, where he was also active as a researcher in project engineering between 1997 and 2000. Dr.-Ing. Bruch began his professional career in 2000 at the RWE Group in Essen, Germany, where he was initially a project engineer and from 2002 head of Research and Project development of RWE Fuel Cells GmbH. In 2004, Dr.-Ing. Christian Bruch moved to the Linde Group, Munich, Germany, where he spent more than 15 years of his professional career in different positions, with the majority of the time spent in management positions. First, he worked as sales engineer, then in 2006, he was appointed a manager in the on-site business of Linde's Gases Division. In 2009, he was appointed head of Air Separation Plants of the Engineering Division of the Linde Group, and in 2013, he became a member of the Management Board of the Engineering Division. From 2015 to April 2020, he was a member of the Executive Board of Linde AG, with responsibility for the Engineering Division as well as for the Corporate Function Technology & Innovation as well as for Digitalization. In addition, in 2019, Dr.-Ing. Bruch was appointed Executive Vice President of Linde plc, Dublin and Guildford, Republic of Ireland, Managing Director of Linde Holding GmbH, Munich, Germany, and a member of the Executive Board of Linde Intermediate Holding AG, Munich. He resigned from all these positions in April 2020, when he moved to the Siemens Group. With effect as of May 1, 2020, Dr.-Ing. Christian Bruch was appointed Managing Director of SEM GmbH, assuming the role of Chief Executive Officer of the Siemens Gas and Power business. Simultaneously, he was appointed member of the Executive Board and will assume the role of Chief Executive Officer and Chief Sustainability Officer following the Spin-Off. Furthermore, Dr.-Ing. Christian Bruch is a member of the executive board of the German Committee on Eastern European Economic Relations (*Ost-Ausschuss der Deutschen Wirtschaft*) and a member of the German National Hydrogen Council (*Nationaler Wasserstoffrat*).

#### 17.2.2.2 Maria Ferraro

Ms. Maria Ferraro was born in 1973 in Hamilton, Ontario, Canada. She is a designated chartered accountant with a degree from the Canadian Institute of Chartered Accountants in Ontario, Canada. Ms. Ferraro began her professional career at Price Waterhouse Coopers in Hamilton, Ontario, Canada in 1993, where she was junior auditor to the manager of audit engagements. In 2002, she changed to Nortel Networks for whom she worked in Ontario, Canada and in Paris, France in several roles, including as manager for bid finance and sales support for Nortel's wireless business as well as internal auditor in operational review. Maria Ferraro joined the Siemens Group in 2004, where she held multiple leadership positions in the area of finance in

Canada, Germany, the United States and the United Kingdom. While holding a variety of roles in Canada and on a global level, she also gained in-depth experience in European and Asian markets. For example, she was head of Accounting and Corporate Controller, Director of Corporate Accounting and Reporting and manager for performance control for Siemens Canada Ltd., Oakville, Ontario, Canada. In 2011, Ms. Ferraro was a special executive trainee for Siemens AG and in 2012, she was appointed head of Accounting and Corporate Controller of Siemens Corporation, Iselin/New Jersey, USA. Ms. Ferraro became Chief Financial Officer of Siemens Canada Ltd. in 2013 and was appointed Chief Financial Officer of Siemens plc, United Kingdom in 2015, before being appointed Chief Financial Officer of the Digital Factory Division of Siemens AG. In April 2019, she was appointed Chief Financial Officer of Siemens Digital Industries. In addition to this position, Ms. Ferraro became Chief Diversity Officer of Siemens AG with effect as of December 1, 2019. With effect as of May 1, 2020, she was appointed Managing Director of SEM GmbH, assuming the role of Chief Financial Officer of the Siemens Gas and Power business. Simultaneously, Ms. Ferraro was appointed member of the Executive Board and will assume the role of Chief Financial Officer and Chief Diversity Officer following the Spin-Off. She is also a member of the board of directors of SGRE S.A. Furthermore, Ms. Ferraro is a member of the advisory board of the TUM School of Management at Technical University of Munich.

#### 17.2.2.3 Tim Oliver Holt

Mr. Tim Oliver Holt was born in 1969 in Bremerhaven, Germany. He holds a degree (*Diplom-Ingenieur*) in Aerospace Engineering from the Technical University of Berlin, Germany (1995) and completed an Executive MBA program offered jointly by the Northwestern University Kellogg School of Management (Evanston, Illinois, USA) and the WHU – Otto Beisheim School of Management in Germany (2000-2002). Mr. Holt has spent his entire professional career at the Siemens Group, where he has held numerous positions. He began as test engineer (1995-1998) and later as manager for gas turbine testing (1998-2000) for Siemens' gas turbine plant (*Gasturbinenwerk*) in Berlin. From 2000 to 2005, Mr. Holt acted as director for service operations for Europe and Asia, Australia within Siemens Power & Gas Services, both in Muelheim an der Ruhr and in Berlin. From 2005 to 2010, he was Vice President for Strategy at Siemens' Power Generation Services division in Orlando/Florida, United States, and later – from 2010 to 2014 – Chief Executive Officer of the Renewables Service business unit, also in Orlando. In 2015, Mr. Holt acted as Project Executive for the transformation program "PG2020" of Siemens' Power & Gas division while being based both in Orlando and Erlangen, Germany, before becoming Chief Executive Officer of the Power & Gas Service business unit, and later – with effect as of October 1, 2016, Chief Executive Officer of the Siemens division Power Generation Services. He became Chief Operating Officer of the Siemens Gas and Power business in 2018. In 2019, he became Managing Director of SEM GmbH. On April 1, 2020, Mr. Holt was appointed member of the Executive Board. He will be Executive Board Member responsible as Segment Manager for the Gas and Power segment (Transmission division and service) and the SGRE segment as well as for employee-related matters (*Arbeitsdirektor*) following the Spin-Off. He is also a member of the board of directors of SGRE S.A.

#### 17.2.2.4 Dr.-Ing. Jochen Eickholt

Dr.-Ing. Jochen Eickholt was born in 1962 in Lage, Germany. He studied Electrical Engineering at the RWTH Aachen University in Aachen, Germany and at the Imperial College of Science, Technology and Medicine in London, United Kingdom. He obtained a doctoral degree from the Fraunhofer Institute for Production Technology in Aachen. After several external positions, Dr.-Ing. Eickholt joined the Siemens Group in 1999, where he was first Chief Executive Officer of Siemens Elektropřístroje s.r.o. in the Czech Republic and as of 2000 Senior Vice President of Supply Chain Management and Sales for the business area Cordless Products. In 2004, he became Senior Vice President of Supply Chain Management, Development and Procurement for the management board of the Devices area. In 2005, Dr.-Ing. Eickholt joined the management board of BenQ Mobile International, Munich, Germany, before returning to Siemens in 2006 as Chief Executive Officer of Siemens Home and Office Communications. In 2009, he was appointed Chief Executive Officer of the Rail Automation business unit of Siemens AG. In 2012, Dr.-Ing. Jochen

Eickholt started his role as Chief Executive Officer of Siemens' Rail Systems Division. He became Chief Executive Officer of Siemens' Mobility division in 2014 and in 2017 Head of Integration Management Siemens Alstom. A further career step was his appointment as Chair and Managing Partner of the portfolio companies within the Siemens Group in 2018. During this time, he also served in Siemens-external controlling bodies as Head of the Supervisory Board of Valeo Siemens eAutomotive and Deputy Head of the Supervisory Board of Primetals Technologies. In 2020, Dr.-Ing. Eickholt was appointed Managing Director of SEM GmbH. On April 1, 2020, he became member of the Executive Board. He will be Executive Board Member responsible as Segment Manager for the Gas and Power segment (divisions Generation and Industrial Applications as well as operational excellence) following the Spin-Off. Dr.-Ing. Eickholt currently also holds positions in Siemens external controlling bodies as the Deputy Head of the supervisory board of EthosEnergy Group Ltd. and Voith Hydro Holding GmbH & Co. KG.

### 17.2.3 Compensation, Other Benefits

Dr.-Ing. Christian Bruch and Ms. Maria Ferraro were appointed as members of the Executive Board with effect as of May 1, 2020. Dr.-Ing. Jochen Eickholt and Mr. Tim Oliver Holt were appointed with effect as of April 1, 2020. Therefore, the current members of the Executive Board received no compensation from the Company during the fiscal year ended September 30, 2019. See Note 26 to the Audited Combined Financial Statements included elsewhere in the Prospectus for a description of the executive board compensation of Siemens AG that was attributable to Siemens Energy in the fiscal years 2019, 2018 and 2017.

Currently, the members of the Executive Board are also serving as managing directors of SEM GmbH, which is the general partner of SE Global GmbH & Co. KG, and are receiving the entirety of their compensation under their employment contracts with SEM GmbH, with the exception of Mr. Tim Oliver Holt, who receives a portion of his compensation from Siemens Energy Inc. In the three-month period ended June 30, 2020, the members of the Executive Board received a total cash compensation of € 5.5 million. Additionally, in the three-month period ended March 31, 2020, Dr.-Ing. Jochen Eickholt and Mr. Tim Oliver Holt received a total cash compensation of € 0.3 million.

The members of the Executive Board have not been granted or received any compensation by Siemens Energy AG. It is planned that Siemens Energy AG will assume responsibility for remunerating the members of the Executive Board shortly after Spin-Off. Once the members of the Executive Board will be compensated by Siemens Energy AG, they will no longer receive remuneration for their position as managing directors of SEM GmbH. Pending the final approval by the Supervisory Board of Siemens Energy AG after the Spin-Off, the remuneration system for Executive Board members shall be structured as set out below:

#### 17.2.3.1 Remuneration System

The remuneration system for the Executive Board supports the achievement of Siemens Energy's strategic goals and sets incentives for sustainable value creation while also discouraging excessive risk-taking. The proposed target compensation structure for the Executive Board members consists of non-performance and performance-based components: approximately 30.0% base compensation, 30.0% short-term variable compensation ("**Bonus**") as well as 40.0% long-term share-based compensation ("**Stock Awards**"). The remuneration system for the Executive Board has the following components:

##### 17.2.3.1.1 Non-Performance-Based Components

The members of the Executive Board receive a fixed base salary in cash which is paid in twelve equal installments. The annual base salary for Dr.-Ing. Bruch is € 1,440,000, for each of Ms. Ferraro, Mr. Holt and Dr.-Ing. Eickholt it is € 720,000.

Additionally, non-monetary benefits and perquisites ("**Fringe Benefits**") are granted, such as provision of a company car, contributions towards the cost of insurance, reimbursement of fees for tax advice, accommodation and moving expenses (including any taxes that have been assumed in this regard), as well as costs connected with preventive medical examinations. The

value of such Fringe Benefits must not exceed a specific maximum as determined prior to a given fiscal year by the Supervisory Board in relation to the base salary.

#### 17.2.3.1.2 Performance-Based Components

Performance-based components include a short-term incentive (Bonus) and a share-based long-term incentive (Stock Awards):

**Short-term incentive (Bonus).** The Bonus rewards the contribution made in the previous fiscal year to achieving Siemens Energy's strategic goals. This contribution is measured by three equally-weighted components: return on capital employed, Adjusted EBITA margin and individual targets of either financial or non-financial nature. The level of target achievement for each of the three components can vary between 0.0% and 150.0%. For a 100.0% target attainment (target amount), the amount of the Bonus equals the amount of base compensation. The Bonus is paid out in cash. Despite the attainment of the set targets, the Supervisory Board can reduce the amount due under the Bonus (down to zero) or seek to recover past compensation already paid out in case of severe breaches of duty, severe violations of compliance rules and/or severe unethical behavior of a member of the Executive Board. The Bonus is capped at the maximum possible level of target achievement, *i.e.*, at 150.0%.

**Share-based long-term incentive (Stock Awards).** The Stock Awards reward a sustainable development of Siemens Energy by measuring the achievement of financial and non-financial targets over a four-year period. They are annual grants of forfeitable stock commitments made to each Executive Board member at the beginning of a fiscal year. After a four-year vesting period, beneficiaries receive one share in the Company for each Stock Award or an equivalent amount in cash. The preliminary number of Stock Awards to be fulfilled after the vesting period depends on the Company's performance during the vesting period as measured in three components: total shareholder return relative to the STOXX Global 1800 Industrial Goods and Services (70.0%) and the MVIS US-Listed Oil Services 25 (30.0%), *i.e.*, the change in price of a Siemens Energy Share during the vesting period plus all dividends distributed during this period, compared with the shareholder return of the two indices (40.0%), Siemens Energy's average earnings per share compared with a pre-determined target (40.0%), and performance according to targets based on ESG factors (20.0%). The level of target achievement for each of the three components can vary between 0.0% and 200.0%. Overall target achievement is the weighted average of the target achievement levels of the three components.

Each member of the Executive Board has a target amount for each annual Stock Awards tranche. The annual target amount equals € 1,920,000 for Dr.-Ing. Bruch, for each of Ms. Ferraro, Mr. Holt and Dr.-Ing. Eickholt it is € 960,000. This target amount is multiplied using the maximum possible target achievement rate of 200.0% ("**Maximum Grant Amount**"). Stock Awards for this Maximum Grant Amount are then granted to the beneficiary whereby the number of Stock Awards is calculated by dividing the Maximum Grant Amount by the share price on the grant date, less the value of discounted dividends. Beneficiaries are not entitled to dividends during the vesting period. If the target achievement after the vesting period is less than 200.0%, the number of Stock Awards initially granted will be reduced accordingly, and the number of shares corresponding to the reduced number of Stock Awards will be transferred. The value of Siemens Energy AG shares to be transferred after the end of the vesting period is further limited to a maximum of 250.0% of the target amount. If this cap is exceeded, a corresponding number of Stock Awards will be forfeited without refund or replacement.

The long-term incentive does not allow for the Supervisory Board to make discretionary adjustments to target achievement or pay-out levels except in exceptional circumstances (*e.g.*, severe economic crises). However, the Supervisory Board can reduce the amount due under the long-term incentive (down to zero) or seek to recover past compensation already paid out in case of severe breaches of duty, severe violations of compliance rules and/or severe unethical behavior of the respective beneficiary.



#### 17.2.3.1.3 Pension Benefit Commitments

The Supervisory Board decides annually whether to grant members of the Executive Board a contribution to Siemens Energy's pension plan. At its discretion, the Supervisory Board may instead elect to grant members an amount in cash ("pension substitute"). If pension contributions are made, these are credited to each Executive Board member's personal pension account. Executive Board members are eligible to receive benefits under the pension plan at the age of 62.

#### 17.2.3.1.4 Maximum Amount of Total Compensation

In addition to the caps for Fringe Benefits, Bonus and Stock Awards, a maximum amount of total compensation is agreed annually. The target compensation comprises the base salary, maximum Fringe Benefits, target amounts for the Bonus and Stock Awards and pension contributions or pension substitutes (if any). If compensation exceeds this maximum, the respective amount in excess of the maximum is forfeited without refund or replacement. For the fiscal year 2021, the maximum compensation amounts may be increased on a one-off basis by any Spin-Off incentive (see "17.2.3.4 Spin-Off Incentive in Connection with the Spin-Off").

#### 17.2.3.2 Commitments in Connection with Termination of Executive Board Membership

The Executive Board contracts do not provide any possibility for ordinary termination with notice. The mutual right to terminate the Executive Board contract without notice for cause remains in effect. In the event of early termination of the appointment, the Executive Board contract is also terminated early unless the Supervisory Board adopts provisions to the contrary.

In the event of early termination of the Executive Board contract by mutual agreement, effective with the Spin-Off Completion, the Executive Board contracts will stipulate a severance payment. It is intended that the amount of this payment be limited in line with the recommendations of the German Corporate Governance Code (severance cap), i.e., to two times annual compensation, but not more than the value of the remaining term of the contract.

No severance payments or special pension contributions will be made in case of an early termination at the request of the Executive Board member or termination for cause by the Company.

There are to be no special provisions for members of the Executive Board in the event that a change of control occurs, that is neither special rights to terminate the contract nor severance payments.

#### 17.2.3.3 D&O Insurance

The Executive Board and Supervisory Board members and certain employees of the Siemens Group are currently covered by a group liability insurance policy with regard to their management activities. This policy which is concluded for one-year terms at a time covers personal liability for financial loss associated with performing the respective activity. The policy provides for a deductible/retention that conforms to the requirements of the German Stock Corporation Act (*Aktiengesetz*). Siemens Energy intends to provide a similar insurance coverage under a Siemens Energy group liability insurance policy upon the Spin-Off Completion.

#### 17.2.3.4 Spin-Off Incentive in Connection with the Spin-Off

Prior to Spin-Off Completion, the Executive Board members were granted a Spin-Off incentive, i.e., a transaction bonus, by SEM GmbH. Accordingly, amounts ranging from 100% to 200% of a target amount individually determined for each Executive Board member will be paid out subject to the target being achieved. The target amount is € 1,500,000 for Dr.-Ing. Christian Bruch and € 750,000 each for Dr.-Ing. Jochen Eickholt, Maria Ferraro and Tim Oliver Holt. The target amount will be paid out if two conditions are met. The first condition must be met as of Spin-Off Completion. It is fulfilled if the value of Siemens Energy for determining the financial result of the Spin-Off as determined by an independent company valuation (the "**Market Value**")

exceeds Siemens Energy's book value as determined under IFRS by a certain threshold amount. Any amounts exceeding this threshold amount are subtracted from the Market Value to determine, the "**Adjusted Market Value**". The second condition is met if the Company's stock market value as determined on the basis of the average volume-weighted price of the Shares during the first 120 calendar days after Listing reaches or exceeds the Adjusted Market Value. If these target values are not achieved, no Spin-Off incentive will be paid out. If the target values are exceeded, a maximum of up to 200% of the target amount will be paid out. Values between 100% and 200% are determined by linear interpolation. The Executive Board members are obliged to reinvest the net profits from the Spin-Off incentive in Shares of the Company. It is intended that the obligation to settle the Spin-Off incentive will be assumed by Siemens Energy AG after Spin-Off Completion.

#### *17.2.3.5 Treatment of Siemens Entitlements after the Spin-Off Completion*

Siemens AG and its group companies have granted or will grant prior to the Spin-Off Completion under the share plans of Siemens Group various entitlements to shares of no par value (registered shares) in Siemens AG to members of the Executive Board and employees of Siemens AG as well as to members of corporate bodies and employees of Siemens Group companies, including members of corporate bodies and employees of the Siemens Energy Group (the "**Beneficiaries**") in the context of share-based compensation programs and employee participation programs, respectively (together the "**Stock Entitlements**").

The Stock Entitlements of Beneficiaries of the Siemens Energy Group who leave the Siemens Group as a direct consequence of the Spin-Off Completion (because either their employing company is no longer part of the Siemens Group or their contract provides for a termination as a result of the Spin-Off) will be forfeited in accordance with the rules of the respective share plan. However, these Beneficiaries are entitled to cash compensation, upon the Spin-Off Completion for the Stock Entitlements from that entity of the Siemens Group or the Siemens Energy Group which is bound by the Stock Entitlement. As of August 26, 2020, we expect that the net cash outflow for the cash compensation to be paid by Siemens Energy Group will amount to approximately € 229 million.

#### **17.2.4 Shareholdings of Executive Board Members and Share Ownership Obligation**

The members of the Executive Board do not, apart from Siemens AG shares, directly or indirectly, hold any Shares or options on Shares of the Company as of the date of the Prospectus. The members of the Executive Board in total hold 27,546 shares in Siemens AG for which 13,772 shares in Siemens Energy AG will be issued upon Spin-Off Completion.

Subject to formal approval of the Executive Board members' compensation by the Supervisory Board following Spin-Off Completion, under the Siemens Energy Share Ownership Guidelines, the Executive Board members shall be obligated to continually hold Siemens Energy AG shares of an amount equal to a multiple of their base salary – 300.0% for the CEO and 200.0% for the other members of the Executive Board – during their term of office. An initial approximately four-year build-up phase beginning with the trading of the Shares on the Frankfurt Stock Exchange allows Executive Board members to acquire the necessary shares over time. The average base salary received by each member of the Executive Board over the four years prior to the applicable verification date is relevant for this purpose. Fulfillment of this obligation shall be verified for the first time after the four-year build-up phase and annually thereafter. It is intended that if share price fluctuations cause the value of the accumulated shareholding to fall below the respective required amount, the Executive Board member will be obligated to purchase additional shares.

To compensate for the forfeiture of unvested equity awards at his previous employer, Dr.-Ing. Bruch received a one-time payment of approximately € 3.2 million upon joining Siemens Energy in May 2020. Dr.-Ing. Bruch is required to invest the after tax proceeds from this payment in Shares within 30 days after the Listing.

## 17.3 Supervisory Board

### 17.3.1 General

Currently the Supervisory Board consists of three shareholder representatives. Upon Spin-Off Completion, SE Global GmbH & Co. KG will become a wholly-owned subsidiary of the Company and the Company will therefore become subject to the German Co-Determination Act (*Mitbestimmungsgesetz*). In accordance with Sections 95 and 96 of the German Stock Corporation Act (*Aktiengesetz*) and Section 7 of the German Co-Determination Act (*Mitbestimmungsgesetz*), the Supervisory Board will in future consist of twenty members (ten shareholder representatives and ten employee representatives). The shareholder representatives are elected by the shareholders at the general shareholders' meeting. The new composition of the Supervisory Board must be determined in a formal procedure, so-called "status proceedings" (*Statusverfahren*), that will be initiated by the Executive Board of Siemens Energy AG immediately after the Spin-Off Completion.

The shareholders' meeting of Siemens Energy AG on August 20, 2020 has amended the Articles of Association regarding the Supervisory Board so that the Supervisory Board consists of ten members ("**First Amendment of the Articles of Association**"). The First Amendment of the Articles of Association was registered with the commercial register on September 1, 2020. Furthermore, in anticipation of the Spin-Off Completion, the shareholders' meeting of Siemens Energy AG on August 20, 2020 has amended the Articles of Association regarding the Supervisory Board so that the Supervisory Board will in the future consist of twenty members (ten shareholder representatives and ten employee representatives) ("**Second Amendment of the Articles of Association**"). The Second Amendment of the Articles of Association is subject to the provision that it will be registered with the commercial register in such manner as to ensure that it only becomes effective upon the Spin-Off Completion and completion of the status proceedings. The current and future composition of the Supervisory Board is as follows:

- The three current members of the Supervisory Board will resign upon the Spin-Off Completion.
- The general shareholders' meeting has already elected ten new members of the Supervisory Board. The election is conditional on the Spin-Off Completion. The term of office of these members of the Supervisory Board will end upon the registration of the Second Amendment of the Articles of Association described above. However, under a corresponding condition precedent, they have also been elected for another term of office beginning with the registration of the Second Amendment of the Articles of Association until the end of the general shareholders' meeting that resolves on the discharge for the fiscal year ending September 30, 2020 ("**AGM 2021**").
- After completion of the status proceedings, the Company plans to have employee representatives be appointed by the competent court (the "**Court Appointment**") until such a time as regular employee representatives can be elected in accordance with the provisions of the German Co-Determination Act (*Mitbestimmungsgesetz*) (the "**Employee Election**").

The Supervisory Board members that are shareholder representatives are elected by the shareholders in the Company's general shareholders' meeting. Unless the general shareholders' meeting has set a shorter term, the term of each Supervisory Board member, as well as the term of each substitute member, expires at the end of the annual general shareholders' meeting ratifying the activities of the Supervisory Board for the fourth fiscal year following the commencement of the member's term of office, not including the fiscal year in which the term commences. The election of a successor for a member leaving his or her office before the end of his or her term of office is valid for the remainder of the term of office of the departing member. Re-election is possible.

The Articles of Association provide that Supervisory Board members and substitute members of the Supervisory Board may resign, without good cause on one month's notice, by providing written notice to the Supervisory Board chair. The shareholders' meeting may appoint substitute members for one or more Supervisory Board members, who, in accordance with the order determined by election, may become members of the Supervisory Board if elected shareholder

representatives leave office before the end of their term or if the election has been set aside by a court. The term of the substitute member expires as soon as a successor for the departing Supervisory Board member is appointed but no later than the expiration of the departing Supervisory Board member's term.

At least one member of the supervisory board of a publicly traded company must have expertise in the field of accounting or auditing. It must be ensured that at least one member of the Supervisory Board has this required financial expertise. Under mandatory statutory provisions and the Articles of Association, the Supervisory Board is authorized to establish internal rules of procedure (*Geschäftsordnung*). The Supervisory Board's will adopt internal rules of procedure after the Spin-Off.

Following completion of the status proceedings described above and appointment of the employee representatives to the Supervisory Board, the Supervisory Board will elect a new chair and deputy chair from among its members. The election of the chair and first deputy chair will, pursuant to Section 27 of the German Co-Determination Act (*Mitbestimmungsgesetz*), in the future require a two-thirds majority vote. If either the chair or first deputy chair is not elected by a vote of two-thirds of the members of the Supervisory Board, the shareholder representatives will elect the chair and the employee representatives will elect the first deputy chair by a simple majority of the votes cast. The Supervisory Board may elect one or more other deputy chairs by simple majority vote. The Supervisory Board is authorized to make amendments to the Articles of Association that only affect their wording. Meetings of the Supervisory Board are called by its chair or, if he is unavailable, by a deputy chair, giving at least 14 days' advance notice (not including the day on which the invitation is sent and the day of the meeting itself). In urgent cases the chair can shorten the notice period. The chair may call a meeting in writing, orally, by phone, telefax, e-mail or any other common means of communication. Pursuant to the Articles of Association that enter into force upon the Spin-Off Completion and completion of the status proceedings, at least half of the members of which the Supervisory Board is required to comprise must participate in voting on a resolution to constitute a quorum. For calculating the quorum, any member who is present but abstains from voting is deemed to have participated in the vote. Unless otherwise required by law or by the Articles of Association, resolutions of the Supervisory Board are passed by a simple majority of the votes cast. For purposes of passing a resolution, abstentions do not count as votes cast. If a vote of the Supervisory Board results in a tie, then pursuant to the Articles of Association that enter into force upon the Spin-Off Completion and completion of the status proceedings, the chair's vote counts twice if a second vote on the same motion also results in a tie. The Articles of Association provide that if all members participate or if adequate prior notice is given, then without a meeting and on the chair's instruction resolutions may be passed in writing, orally, by phone, telefax or e-mail or any other common means of communication or any combination thereof.

### 17.3.2 Current and Future Members of the Supervisory Board

The following table lists (i) the current members of our Supervisory Board who will resign upon the Spin-Off Completion, (ii) the future shareholder representatives of the Supervisory Board that have been newly elected under the condition precedent of the Spin-Off Completion and that have been elected for another term of office beginning with the registration of the Second Amendment of the Articles of Association, and (iii) the employee representatives designated for appointment by the competent court, the date on which they were first appointed as well as their other positions in administrative, management and supervisory bodies and as partners in partnerships outside the Group over the past five years; unless stated otherwise below, these memberships are current:

Name / Position	Member Since / As From	Member Until	Other Activities
Steffen Großberger . . .	August 9, 2019	Spin-Off Completion	None, with the exception of Siemens subsidiaries
Peter Kastenmeier . . . .	August 9, 2019	Spin-Off Completion	None, with the exception of Siemens subsidiaries
Christian Schmid . . . . .	August 9, 2019	Spin-Off Completion	None, with the exception of Siemens subsidiaries
Dr. Christine Maria Bortenlänger . . . . .	Spin-Off Completion	AGM 2021	<ul style="list-style-type: none"> <li>• Managing director, Deutsches Aktieninstitut e.V. (since 2012)</li> <li>• Supervisory board member of: <ul style="list-style-type: none"> <li>◦ Covestro AG and Covestro Deutschland AG (since 2015);</li> <li>◦ MTU Aero Engines AG (since 2018);</li> <li>◦ Osram Licht AG and Osram GmbH (since 2013);</li> <li>◦ TÜV Süd AG (since 2011);</li> <li>◦ ERGO Lebensversicherungs AG (2012-2015);</li> <li>◦ SGL Carbon SE (2013-2018).</li> </ul> </li> </ul>
Sigmar Gabriel . . . . .	Spin-Off Completion	AGM 2021	<ul style="list-style-type: none"> <li>• Chair, Atlantik-Brücke e.V. (since 2019)</li> <li>• Senior advisor, Eurasia Group Ltd (since 2019)</li> <li>• Advisor, Speech Design SGL GbR (since 2019)</li> <li>• Supervisory board member of: <ul style="list-style-type: none"> <li>◦ Deutsche Bank AG (since May 2020);</li> <li>◦ Günter Papenburg AG (since 2019);</li> <li>◦ KfW Bankengruppe (until 2018), chair (2014 and 2016);</li> </ul> </li> <li>• Public offices: <ul style="list-style-type: none"> <li>◦ German Federal Minister for Foreign Affairs (2017-2018);</li> <li>◦ German Federal Minister for Economic Affairs and Energy (2013-2017);</li> <li>◦ Vice Chancellor of the Federal Republic of Germany (2013-2018);</li> </ul> </li> </ul>



Name / Position	Member Since / As From	Member Until	Other Activities
Geisha Jimenez Williams	Spin-Off Completion	AGM 2021	<ul style="list-style-type: none"> <li>◦ member of the German parliament (2005-2019);</li> <li>◦ chair of the Social Democratic Party of Germany (2009-2017)</li> <li>• Director at: <ul style="list-style-type: none"> <li>◦ Osmose Utility Services, Inc. (since 2020)</li> <li>◦ Bipartisan Policy Center, Inc. (since 2019);</li> <li>◦ PG&amp;E Corporation (2007-2019), president and CEO (2017-2019);</li> <li>◦ Edison Electric Institute (2016-2019);</li> <li>◦ Institute of Nuclear Power Operations (2016-2019), Chief Executive Officer and co-Chair;</li> <li>◦ Center for Energy Workforce Development (2012-2019);</li> <li>◦ Association of Edison Illuminating Companies (2015-2018)</li> <li>◦ American Red Cross Bay Area Chapter (2009-2015)</li> </ul> </li> <li>• Member of the advisory board of the Morgan Stanley Institute for Sustainable Investing (2018-2019)</li> <li>• Member of the board of directors of PG&amp;E Corporation and of Pacific Gas and Electric Company (until 2019)</li> <li>• Trustee of: <ul style="list-style-type: none"> <li>◦ California Academy of Sciences (2014-2020);</li> <li>◦ University of Miami, FL, United States (2017-2020)</li> </ul> </li> </ul>
Joe Kaeser (designated chair)	Spin-Off Completion	AGM 2021	<ul style="list-style-type: none"> <li>• President and Chief Executive Officer (since 2013), member of the executive board, Siemens AG (since 2006)</li> <li>• Chair of the Asia-Pacific Committee of German Business (<i>Asien-Pazifik-Ausschuss der Deutschen Wirtschaft (APA)</i>) (since 2019)</li> <li>• Supervisory board member or non-executive director of: <ul style="list-style-type: none"> <li>◦ Allianz AG (April 2008 – March 2020);</li> <li>◦ Daimler AG (since 2014);</li> <li>◦ Mercedes-Benz AG (since 2019).</li> <li>◦ NXP Semiconductors N.V. (since 2010);</li> <li>◦ Siemens Ltd., India (since 2011)</li> </ul> </li> </ul>

Name / Position	Member Since / As From	Member Until	Other Activities
Dr.-Ing. Hubert Lienhard . . . . .	Spin-Off Completion	AGM 2021	<ul style="list-style-type: none"> <li>• Member of the executive board and Chief Executive Officer, Voith GmbH &amp; Co. KGaA (2008-2018)</li> <li>• Chair, Asia-Pacific Committee of German Business (<i>Asien-Pazifik-Ausschuss der Deutschen Wirtschaft (APA)</i>)(2014-2019)</li> <li>• Supervisory board member of: <ul style="list-style-type: none"> <li>◦ ENBW Energie Baden-Württemberg AG (since 2013);</li> <li>◦ Heraeus Holding GmbH (since 2011);</li> <li>◦ Voith GmbH &amp; Co. KGaA (since 2018) also member of the shareholder committee since 2018;</li> <li>◦ Kuka AG (2015-2017);</li> <li>◦ SGL Carbon SE (1996-2018)</li> </ul> </li> </ul>
Hildegard Müller . . . . .	Spin-Off Completion	AGM 2021	<ul style="list-style-type: none"> <li>• President, Verband der Automobilindustrie e.V. (since 2020)</li> <li>• Chief Operating Officer Grid &amp; Infrastructure, member of the executive board, Innogy AG (2016-2019)</li> <li>• Supervisory board member of Vonovia SE (since 2013)</li> <li>• Member of the advisory board (<i>Beirat</i>) of IKB Deutsche Industriebank AG (since 2012)</li> <li>• Member of the advisory board (<i>Beirat</i>) of HSBC Trinkaus &amp; Burkhardt AG (since 2009)</li> <li>• Chair of the executive board, BDEW Bundesverband der Energie- und Wasserwirtschaft e.V. (2008-2016)</li> </ul>
Laurence Mulliez . . . . .	Spin-Off Completion	AGM 2021	<ul style="list-style-type: none"> <li>• Member of the board of directors, Globeleq Ltd. (since 2018), chair</li> <li>• Chair of Valtia SA (since 2014, previously NED since 2011)</li> <li>• Non-executive director of: <ul style="list-style-type: none"> <li>◦ SBM Offshore N.V. (since 2015);</li> <li>◦ Morgan Advanced Materials plc (since 2016), senior independent;</li> <li>◦ Aperam SA (2011-2019), chair of the audit committee;</li> <li>◦ Green Investment Bank (2015-2017);</li> <li>◦ Arcus Infrastructure Partners (since 2017);</li> <li>◦ NTR Fund (since 2016)</li> </ul> </li> </ul>
Matthias E. Rebellius . . .	Spin-Off Completion	AGM 2021	<ul style="list-style-type: none"> <li>• Chief Executive Officer, member of the board of directors, Siemens Schweiz AG (since 2019)</li> <li>• Chief Operating Officer, Siemens Smart Infrastructure, Siemens Group (since 2019)</li> </ul>

Name / Position	Member Since / As From	Member Until	Other Activities
Prof. Dr. Ralf P. Thomas . . . . .	Spin-Off Completion	AGM 2021	<ul style="list-style-type: none"> <li>• Chief Executive Officer, Siemens Building Technologies Division, Siemens Group (2015-2019)</li> <li>• Member of the Supervisory Board, Siemens Mobility GmbH (since 2019)</li> <li>• Director, Siemens Ltd. Australia (since 2019)</li> <li>• Chief Financial Officer, member of the executive board, Siemens AG (since 2013)</li> <li>• Supervisory board member of: <ul style="list-style-type: none"> <li>◦ Siemens Healthineers AG (since 2018), chair (since 2019), chair of the audit committee (until January 2020)</li> <li>◦ Siemens Healthcare GmbH (since 2018), chair (since 2019), chair of the audit committee (until November 2019)</li> </ul> </li> <li>• Member of the board of directors, SGRE S.A. (2017-2019)</li> <li>• Chair of the Stock Exchange Commission of Experts at Germany's Federal Ministry of Finance</li> <li>• Member of the administrative board and treasurer of the Max Planck Society for the Advancement of Science e.V.</li> <li>• Chair of the administrative board of the Accounting Standards Committee of Germany (<i>Deutsches Rechnungslegungsstandards Committee e. V.-DRSC</i>)(since 2010)</li> </ul>
Randy Zwirn . . . . .	Spin-Off Completion	AGM 2021	<ul style="list-style-type: none"> <li>• Chief Executive Officer of the Energy Service Division, Siemens AG (2008-2016)</li> <li>• Non-executive director at: <ul style="list-style-type: none"> <li>◦ SunEdison, Inc. (2013-2017);</li> <li>◦ Babcock Power Inc. (since 2016);</li> <li>◦ Navigant Consulting Group, Inc. (2014-2019)</li> </ul> </li> </ul>
Günter Augustat . . . . .	Court Appointment	Employee Election	<ul style="list-style-type: none"> <li>• Member of the supervisory board of SEM GmbH (since April 2020)</li> <li>• Member of the works council of Siemens AG, Berlin Huttenstraße, chair since 2014</li> <li>• Member of the general works council of SE Global GmbH &amp; Co. KG (since 2020)</li> </ul>
Manfred Bäreis . . . . .	Court Appointment	Employee Election	<ul style="list-style-type: none"> <li>• Member of the works council of Siemens AG, Erlangen South (since 2014), chair since 2017</li> </ul>
Dr. phil Andrea Fehrmann . . . . .	Court Appointment	Employee Election	<ul style="list-style-type: none"> <li>• Trade union secretary, IG Metall Regional Office for Bavaria</li> <li>• Member of the supervisory board of: <ul style="list-style-type: none"> <li>◦ Siemens AG (since 2018);</li> </ul> </li> </ul>

Name / Position	Member Since / As From	Member Until	Other Activities
			<ul style="list-style-type: none"> <li>◦ Member of the supervisory board of Bosch Rexroth AG (2013-2017), deputy chair and company representative</li> </ul>
Dr. Andreas Feldmüller . . . . .	Court Appointment	Employee Election	<ul style="list-style-type: none"> <li>• Member of the supervisory board of SEM GmbH (since 2020)</li> </ul>
Rüdiger Groß . . . . .	Court Appointment	Employee Election	<ul style="list-style-type: none"> <li>• Member of the supervisory board of Siemens AG (since 2020)</li> <li>• Member of the central works council of Siemens AG (since 2020), deputy chair</li> </ul>
Nadine Florian . . . . .	Court Appointment	Employee Election	<ul style="list-style-type: none"> <li>• Member of the supervisory board of SEM GmbH</li> <li>• Member of the general works council of Siemens Gas &amp; Power GmbH (since 2020)</li> <li>• Member of the works council of Siemens AG, Duisburg (since 2002), deputy chair (2008-2009); chair (since 2009)</li> <li>• Substitute member of the general works council of Siemens AG (2006-2019)</li> </ul>
Horst Hakelberg . . . . .	Court Appointment	Employee Election	<ul style="list-style-type: none"> <li>• Member of the supervisory board of Siemens Gamesa Renewable Energy Management GmbH (since 2018)</li> <li>• Member of the group works council of Siemens AG (since 2017)</li> <li>• Member of the works council of Siemens Gamesa Renewable Energy GmbH &amp; Co. KG (since 2017), deputy chair</li> </ul>
Robert Kensbock . . . . .	Court Appointment	Employee Election	<ul style="list-style-type: none"> <li>• Member of the works council of Siemens AG (from 1996-2004 and from 2010), member of the central works council of Siemens AG (2010-2020; since 2013 as deputy chair)</li> <li>• Member of the supervisory board of Siemens AG (since 2013)</li> <li>• Chair of the general works council of SE Global GmbH &amp; Co. KG (since 2020)</li> </ul>
Jürgen Kerner . . . . .	Court Appointment	Employee Election	<ul style="list-style-type: none"> <li>• Executive member of the executive board and chief treasurer of IG Metall (since 2013)</li> <li>• Member of the supervisory board of: <ul style="list-style-type: none"> <li>◦ Airbus Operations GmbH (since 2013);</li> <li>◦ Flender GmbH (2018-2020);</li> <li>◦ MAN Energy Solutions (2017-2019);</li> <li>◦ MAN SE (since 2013), deputy chair;</li> <li>◦ MAN Truck &amp; Bus SE (since 2019), deputy chair;</li> <li>◦ Premium Aerotec GmbH (since 2009), deputy chair;</li> <li>◦ Siemens AG (since 2012);</li> <li>◦ Traton SE (since 2019);</li> <li>◦ thyssenkrupp AG (since 2020); deputy chair</li> </ul> </li> </ul>

Name / Position	Member Since / As From	Member Until	Other Activities
Hagen Reimer . . . . .	Court Appointment	Employee Election	<ul style="list-style-type: none"> <li>• Trade union secretary of the executive board of IG Metall (since 2009)</li> <li>• Member of the supervisory board of Siemens AG (since 2019)</li> </ul>

#### 17.3.2.1 Steffen Großberger

*Steffen Großberger*, born 1972, studied business administration at University of Passau, Germany. In 1997, he started his professional career at PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft where he was audit manager in the Assurance & Business Advisory Services division responsible for conducting audits of individual and consolidated financial statements with a focus on companies in the energy supply sector. In 2001, he switched to Siemens Financial Services GmbH, where he worked in the Accounting & Controlling department. Having worked in accounting, in 2004, he became head of affiliates management and the Affiliates & Taxes department of Siemens Financial Services GmbH. Since 2007, he is senior manager of the department Shareholder Controlling Germany/Service Companies/Corporate Development at Siemens AG. In connection with his responsibilities, he is also entrusted with various managing director functions and mandates in supervisory bodies of Siemens Group companies.

#### 17.3.2.2 Peter Kastenmeier

*Peter Kastenmeier*, born 1960, studied business administration at LMU Munich, Germany. He joined Siemens AG in 1987 and has assumed various functions in sales, accounting, controlling and M&A. Currently, he is head of the department Corporate Shareholder Controlling Germany/Service Companies/Corporate Development of Siemens AG. In connection with his responsibilities, he is also entrusted with various managing director functions and mandates in supervisory bodies of Siemens Group companies.

#### 17.3.2.3 Christian Schmid

*Christian Schmid*, born 1961, studied business administration at Augsburg University, Germany. He started his professional career in 1991 at Siemens Nixdorf Informationssysteme AG in the internal audit department. From 1992 through 1998, he was an audit manager at Bayerische Treuhandgesellschaft AG. In 1999, he switched to Siemens AG, where he worked in the finance department and as senior manager group accounting. From 2002, he took on project tasks in the development and introduction of the central IT system for internal and external financial reporting of Siemens Group and was responsible for its change management from 2008. Since 2011, Mr. Schmid has been working in various management functions in the Shareholder Controlling department of Siemens AG and heads the department for shareholder governance topics.

#### 17.3.2.4 Dr. Christine Maria Bortenlänger

*Dr. Christine Maria Bortenlänger*, born 1966, started with an apprenticeship at Bayerische Vereinsbank AG, Munich, studied economics and business administration at Ludwigs-Maximilians-University in Munich, Germany, where she also received a doctorate in political science and economics. She was a project manager in the department Electronic Business Networking/Electronic Commerce at Bayerische Landesbank from 1996 through 1997. She was a senior consultant at the consultancy firm Dr. Seebauer & Partner from 1997 through 1998. Dr. Bortenlänger then became deputy managing director of Munich Stock Exchange in 1998. She was managing director of the Munich Stock Exchange and member of the executive board of Bayerische Börse AG from 2000 through 2012. From 2013 until 2018, she was a supervisory board member at SGL Carbon SE and from 2012 to 2015 at ERGO Lebensversicherungs AG. In 2011, she became a member of the supervisory board of TÜV Süd AG and in 2013 of Osram Licht AG and Osram GmbH. Since 2015, she also holds positions as supervisory board member at Covestro AG



and Covestro Deutschland AG and since 2018 at MTU Aero Engines AG. Since 2012, Dr. Bortenlänger heads Deutsches Aktieninstitut e.V. in Frankfurt am Main as managing director.

#### 17.3.2.5 *Sigmar Gabriel*

*Sigmar Gabriel*, born 1959, studied German language and literature, politics and sociology at University of Göttingen, Germany. In 1989, he was a lecturer in college for further education. From 1991 through 1999, he was a councilor on the district counsel of the District of Goslar. Between 1994 and 1997, he was spokesman for domestic policy of the parliamentary group of the Social Democratic Party of Germany (*Sozialdemokratische Partei Deutschlands*). In 1999, he became Prime Minister of the German State of Lower Saxony, a position he held until 2003. From 2003 through 2005, he was regional chair of the Social Democratic Party of Germany in the German State of Lower Saxony. From 2005 to 2009, Mr. Gabriel assumed office as the German Federal Minister for the Environment, Nature Conservation and Nuclear Safety. Between 2009 and 2017, he was the chair of the Social Democratic Party of Germany. From 2013 through 2017, he was the German Federal Minister for Economic Affairs and Energy as well as Vice Chancellor of the Federal Republic of Germany (until 2018). He later was Federal Minister for Foreign Affairs between 2017 and 2018. From 2005 until 2019, Mr. Gabriel was also a member of the German national parliament (*Bundestag*). From 1998 until 2000, he was a member of the supervisory board of Salzgitter AG. Between 1999 and 2003, he was a member of the supervisory board of Volkswagen AG. At KfW Bankengruppe, he was a supervisory board member between 2005 and 2009 and between 2013 and 2018 when he served the board as one of two chairs. Further, he was a member of the supervisory board of Dena GmbH between 2009 and 2013. Since 2019, he is senior advisor at Eurasia Group Ltd. and advisor of Speech Design SGL GbR. In 2019, he also became chair of Atlantik-Brücke e.V. and a supervisory board member at Günter Papenburg AG. Since May 2020, he is a member of the supervisory board of Deutsche Bank AG.

#### 17.3.2.6 *Geisha Jimenez Williams*

*Geisha Jimenez Williams*, born 1961, studied industrial engineering at the University of Miami, FL, United States, where she received a bachelor's degree in engineering. She also holds a master's degree in business administration from Nova Southeastern University, FL, United States. From 1983, she assumed various roles at Florida Power & Light Company. Most recently, she was vice president for Power Systems, Distribution from 2003 through 2007. In 2007, she joined PG&E Corporation where from 2017 through 2019 she was president and CEO of PG&E Corporation. She was also a director on the PG&E and Pacific and Electric Boards (2017-2019). She was director at the Edison Electric Institute (2016-2019), where she also served on the Executive Committee, and was co-chair of the Customer Energy Solutions Policy Committee. Ms. Williams was also a director of INPO, the Institute of Nuclear Power Operations (2016-2019) as well as director at the Center for Energy Workforce Development (2012-2018), the Association of Edison Illuminating Companies (2015-2018) and the American Red Cross Bay Area Chapter (2009-2015). Ms. Williams also served on the advisory board of the Morgan Stanley Institute for Sustainable Investing from 2018 to 2019. Ms. Williams also served as Trustee at the California Academy of Sciences (2014-2020) and the University of Miami (2017-2020). Since 2019, she is a director of the Bipartisan Policy Center, Inc. and since 2020 she is a director of the Osmose Utility Services, Inc.

#### 17.3.2.7 *Joe Kaeser (Designated Chairman)*

*Joe Kaeser*, born 1957, studied business administration at OTH Regensburg, Germany. He joined Siemens AG in 1980, where he first worked in the Components Group. He was Head of Business Administration of Discrete Components, Finance Director of Semiconductor Plant and Head of Accounting and Product Planning of Semiconductors Group. In 1987, he became Head of Business Administration Projects at Siemens Semiconductors, Malacca, Malaysia, and in 1988, Head of Business Administration of the Discrete Semiconductors Division at Siemens AG. In 1990, he became Head of Business Administration at Opto Semiconductors Division. Mr. Kaeser switched to Siemens Microelectronics Inc., San José, CA, United States, in 1995, where he was Executive Vice President and Chief Financial Officer. Later, in 1999, he came back to Siemens AG, where he

worked in Corporate Finance. He became member of Group Executive Management of the Information and Communication Mobile Group in April 2001 and Chief Strategy Officer of Siemens AG in October 2004. Since May 2006, he is a member of the executive board of Siemens AG, where he first served as CFO and became President and Chief Executive Officer in August 2013. Since 2010, Mr. Kaeser is a non-executive director at NXP Semiconductors N.V. Further, he is a non-executive director of Siemens India since 2011. Since 2014, he is a member of the supervisory board of Daimler AG and since 2019 also of Mercedes-Benz AG. Since 2019, Mr. Kaeser is chair of the Asia-Pacific Committee of German Business (*Asien-Pazifik-Ausschuss der Deutschen Wirtschaft (APA)*).

#### 17.3.2.8 Dr.-Ing. Hubert Lienhard

*Dr.-Ing. Hubert Lienhard*, born 1951, studied chemistry at Technical University of Karlsruhe (KIT), Germany, where he also received a doctorate in engineering. He started his professional career at Lurgi GmbH, where he worked in the plant and machine engineering division. In 1989, he switched to ABB Ltd., where he was director of the gas turbine business unit in Germany. Until 1998, he assumed various roles as executive board member of ABB Group companies. His last position at AGG Group was member of the executive board of the Power Plant Division at ABB Ltd., which he held from 1996 through 1998. In 1998, Dr.-Ing. Lienhard founded The Energy Consulting Group Ltd. He left The Energy Consulting Group Ltd. for Voith AG in 2001, where he became member of the executive board in 2001 and was responsible for Voith Siemens Hydro Power Generation. He became CEO of Voith GmbH & Co. KGaA (formerly Voith AG) in 2008, a position he held until 2018. From 1996 through 2018, he served on the supervisory board of SGL Carbon SE, where he assumed the role of deputy chair between 2013 and 2018. Dr.-Ing. Lienhard served as member of the supervisory board of Kuka AG between 2015 and 2017 and on the supervisory board of Sulzer AG between 2002 and 2011. He was also chair of the Asia-Pacific Committee of German Business (*Asien-Pazifik-Ausschuss der Deutschen Wirtschaft (APA)*) from 2014 to 2019. Since 2018, he is a member of the shareholder committee (*Gesellschafterausschuss*) and of the supervisory board of Voith GmbH & Co. KGaA. Since 2011, he serves on the supervisory board of Heraeus Holding GmbH and since 2013 he serves on the supervisory board of EnBW AG.

#### 17.3.2.9 Hildegard Müller

*Hildegard Müller*, born 1967, studied business administration at Heinrich-Heine-Universität Düsseldorf, Germany. In 1995, she started her professional career at Dresdner Bank. A career in politics culminated in the office of Minister of State to the Federal Chancellor (*Staatsministerin bei der Bundeskanzlerin*), which she held from 2005 until 2008. From 2002 through 2008 she was member of the German parliament (*Bundestag*). In 2008, she left professional politics and joined BDEW Bundesverband der Energie- und Wasserwirtschaft e.V. where she acted as chair of the executive board until 2016. Since 2009 and 2012, respectively, she is a member of the advisory boards (*Beirat*) of HSBC Trinkaus & Burkhardt AG and IKB Deutsche Industriebank AG. Since 2013, she serves as a member of the supervisory board of Vonovia SE. Between 2016 and 2019, she acted as Chief Operating Officer Grid & Infrastructure at innogy SE. During the same period, she held various supervisory and advisory board offices at energy industry-related enterprises, in particular utilities. Since February 2020, she is president of Verband der Automobilindustrie e.V.

#### 17.3.2.10 Laurence Mulliez

*Laurence Mulliez*, born 1966, studied Economics and Finance at Rouen Business School, France. She started her career as a credit analyst at Banque Nationale de Paris in 1988 where she worked until 1990. Having received a master's degree in business administration from the University of Chicago, Illinois, United States in 1992, she worked as a forecast supervisor at M&M Mars Inc. From 1993 through 2009, she assumed various roles at BP plc, starting as a business analyst. Between 2001 and 2002, she was head of strategy Gas, Power and Renewables and chief of staff for Renewables between 2002 and 2003. In 2004, she became vice president for the PTA chemical business in the EMEA region and served as chief executive of Castrol Industrial Lubricants and Services from 2007 through 2009. Ms. Mulliez then was chief executive officer of the

independent power producer Eoxis UK Limited from 2010 to 2013. She is now Chair of the board of Voltalia SA since 2014 and Chair of the board of Globeleq since 2018. She is also senior independent on the Board of Morgan Advanced Materials plc (she joined the Board in 2016) and a non-executive director of SBM Offshore N.V. since 2015. Between 2011 and 2019, she was a non-executive member of the board of Aperam SA, where she also served as chair of the audit committee. Between 2015 and 2017, she served as non-executive director at UK Green Investment Bank and between 1999 and 2009 at Leroy Merlin.

#### *17.3.2.11 Matthias E. Rebellius*

*Matthias E. Rebellius*, born 1965, studied electrical engineering at the University of Applied Science Trier, Germany. In 1990, he joined Siemens AG as a R&D engineer and project manager at the Siemens Industrial Automation Group. In 2000, he became head of marketing and product management for SIMATIC HMI Panels. Mr. Rebellius then switched to the Siemens Building Technologies Division in 2003 where he assumed various roles. In 2008 he became CEO Business Unit Fire & Security and in 2012 President & CEO Building Technologies Americas in USA. In 2015, he became Chief Executive Officer of the Siemens Building Technologies Division, and in 2019, he became Chief Operating Officer of Siemens Smart Infrastructure and Chief Executive Officer of Siemens Schweiz AG. He has been appointed to the executive board of Siemens AG with effect as of October 1, 2020.

#### *17.3.2.12 Prof. Dr. Ralf P. Thomas*

*Prof. Dr. Ralf P. Thomas*, born 1961, after completing an apprenticeship, studied economics and business administration at the University of Erlangen-Nuremberg, Germany, where he also received a doctorate in income tax accounting. He was appointed Honorary Professor for Economics and Business Administration by the University of Erlangen-Nuremberg in 2018. He started his professional career at Siemens in 1995, where he became Head of Accounting and Treasury of Siemens Ltd., South Africa, in 1999. In 2001, he switched to Siemens Medical Solutions, where he worked as a performance controller. At Siemens Medical Solutions, he was Chief Financial Officer of the Angiography, Fluoroscopic and Radiographic Systems Division from 2002 to 2004. In 2004, he became Head of Corporate Finance Accounting, Controlling, Reporting and Taxes at Siemens AG, where he became Chief Financial Officer of the Industry Sector in 2008. Since 2013, he is a member of the executive board of Siemens AG and acts as Chief Financial Officer. From 2017 to 2019, he was a member of the board of directors of SGRE S.A. Since 2018, he is also a member of the supervisory board of Siemens Healthineers AG and Siemens Healthcare GmbH, where he had also assumed the role of chair of the audit committee of Siemens Healthineers AG until January 2020 and of Siemens Healthcare GmbH until November 2019. In 2019, he became chair of the supervisory board of Siemens Healthineers AG and Siemens Healthcare GmbH. Prof. Dr. Thomas is chair of the Stock Exchange Commission of Experts at Germany's Federal Ministry of Finance and a member of the administrative board and treasurer of the Max Planck Society for the Advancement of Science e.V. Further, he is chair of the administrative board of the Accounting Standards Committee of Germany (*Deutsches Rechnungslegungsstandards Committee e. V. – DRSC*) since 2010.

#### *17.3.2.13 Randy Zwirn*

*Randy Zwirn*, born 1954, studied at Brooklyn College, New York, United States. From 1976 until 1998 he assumed various roles at Westinghouse Electric Corporation, from which the Power Generation Division was acquired by Siemens Corp. in 1998. At Westinghouse Electric Corporation, he was, among others, Chief Operating Officer of Power Generation and from 1995 to 1998 president and Chief Executive Officer for Power Generation. After Siemens Corp. acquired Westinghouse Power Generation, he became a member of the Group Executive Management at Siemens Power Generation, Siemens AG, a position he held until 2008. From 2008 through 2016, he was Chief Executive Officer of the Energy Service Division at Siemens AG. From 2013 through 2017, he was a non-executive director at SunEdison, Inc. Further, Mr. Zwirn served as a non-executive director at Navigant Consulting Group, Inc. between 2014 and 2019. Since 2016, he is also a non-executive director at Babcock Power Inc.

#### 17.3.2.14 *Günter Augustat*

*Günter Augustat*, born 1968, completed professional training as a vehicle mechanic and studied energy and process engineering at Technical University of Berlin, where he received the title as a chartered engineer (*Diplom-Ingenieur*). In 2000, after working for other companies, he started his professional career at Siemens AG, where he worked in order and project processing at Kraftwerksservice Berlin and later became group leader in the field of marketing of long-term service contracts. He is a member of the works council Berlin Huttenstraße (gas turbine plant and service), where he assumed the position of works council chairman in 2014. In 2020 he became a member of the general works council of SE Global GmbH & Co. KG.

#### 17.3.2.15 *Manfred Bäreis*

*Manfred Bäreis*, born 1962, started his professional career at Siemens AG in Erlangen after graduating from secondary school (*Mittlere Reife*) in 1978 with professional training as energy devices technician (*Energiegeräteelektroniker*). From 1982 to 1987, he worked as a sales representative in Germany and abroad in the energy sector of Siemens AG. During this time he also completed his basic military service. After further training as an electrical engineer (*Elektrotechniker*) with a focus on energy technology, from 1989 to 2014 Mr. Bäreis held various positions in Germany and abroad in the energy sector of Siemens AG. Since 2014, Mr. Bäreis is an independent member of the works council of Siemens AG at the Erlangen South site, where he assumed the position of works council chairman in 2017. Mr. Bäreis is currently chairman of the works council of SE Erlangen.

#### 17.3.2.16 *Dr. Andrea Fehrmann*

*Dr. phil. Andrea Fehrmann*, born 1970, studied sociology at Hamburg University, Germany, where she received a doctoral degree in sociology. From 2004 to 2005, she was a trainee at IG Metall industrial trade union. She then became a trade union secretary at IG Metall Regional Office for Bavaria in the "Siemens Team" from 2005 to 2010 and in "Industrial Policy" since 2010. Between 2009 and 2012, she was a member of the supervisory board of Siemens Enterprise Communications GmbH, and between 2013 and 2017 deputy chair of the supervisory board and company representative for IG Metall of Bosch Rexroth AG. Since 2018, she is a member of the supervisory board of Siemens AG.

#### 17.3.2.17 *Dr. Andreas Feldmüller*

*Dr. Andreas Feldmüller*, born 1962, studied mechanical engineering at Ruhr University Bochum from 1981 to 1986. From 1986 to 1991 he worked as a research assistant at the chair of mechanics of the Ruhr University Bochum and received his doctorate in engineering in 1991. On July 1, 1991, he started his professional career at Siemens AG in Muelheim an der Ruhr, where he worked in steam turbine engineering until 2009 and held various leading roles, *inter alia* head of the development department for new steam turbines, head of the division Service Engineering, head of engineering offices in Budapest and Delhi. Since 2010, he works in the service organization, since 2016 as head Expanded Scope Solutions responsible for the product management of power plant solutions and since 2019 also for the Plant Engineering of the power plant service. Since 2014, he is the spokesman of the executive employees (*leitende Angestellte*) of the company spokesman committee (*Betriebssprecherausschuss*) Muelheim an der Ruhr. From 2014 until the Carve-Out, he was a member of the executive committee (*geschäftsführender Ausschuss*) of the central spokesman committee (*Gesamtsprecherausschuss*) of Siemens AG, since 2017 as its deputy chairman. Since January 1, 2020, he is a member for SE Global GmbH & Co. KG in the group spokesman committee (*Konzernsprecherausschuss*) of Siemens AG and chairman of the central spokesman committee (*Gesamtsprecherausschuss*) of SE Global GmbH & Co. KG. Since March 2020, he is a member of the supervisory board of SEM GmbH.

#### 17.3.2.18 *Rüdiger Groß*

*Rüdiger Groß*, born 1965, completed professional training as electronics technician for energy devices and further training as industrial master electrician with instructor qualification in 1981.



In the same year, he started his professional career at Siemens AG, where he worked in the load distribution plant in Berlin and later became chair of the works council. Since January 2020, he is a member of the central works council of Siemens AG, where he assumed the position of second chair. In the same year, he became a member of the supervisory board of Siemens AG.

#### *17.3.2.19 Nadine Florian*

*Nadine Florian*, born 1976, completed professional training as an office clerk in 1998. In 1996, she started her professional career with Mannesmann Demag AG in Duisburg. She transferred to Siemens AG in 2001. From 1998 through 2004, she worked as a project scheduler in the project management. Since 2002, she is a member and since 2004 an independent member of the works council. In 2008 she became deputy and in 2009 finally chairwoman of the works council of Siemens AG at the Duisburg location. From 2006 through 2019 she was a substitute member of the general works council of Siemens AG. In 2020, she became a member on the general works council of Siemens Gas & Power GmbH & Co. KG and of the supervisory board of SEM GmbH.

#### *17.3.2.20 Horst Hakelberg*

*Horst Hakelberg*, born 1967, studied electrical engineering at RWTH Aachen and graduated as chartered engineer (*Diplom-Ingenieur*) in 1999. Thereafter, he started his professional career at the EnBW group, where he worked in various positions. In 2008, he continued his professional career at Siemens AG as project manager in the asset service of Energy Distribution. Since 2012, he works for Siemens Wind Power GmbH as head of Sales Service Offshore Germany. Since 2017, Mr. Hakelberg is deputy chair of the works council of Siemens Gamesa Renewable Energy GmbH & Co. KG as well as a member of the group works council of Siemens AG. In 2018 he became a member of the supervisory board of Siemens Gamesa Renewable Management GmbH.

#### *17.3.2.21 Robert Kensbock*

*Robert Kensbock*, born 1971, completed professional training as a technical drawer at Siemens AG from 1989 to 1992. In 1992, he started his professional career at Siemens AG, where he worked in gas turbine engineering and later became competency manager. From 1996 to 2004 and from 2010 he was a member of the works council of Siemens AG in Muelheim an der Ruhr. In 2010, he was appointed as a member of the general works council of Siemens AG, where he assumed the position as deputy chair from 2013 to 2020. In 2013, he also became a member of the supervisory board of Siemens AG, he is expected to resign from this office in connection with the Spin-Off. Since 2020, he is chair of the general works council of Siemens Gas & Power GmbH & Co. KG.

#### *17.3.2.22 Jürgen Kerner*

*Jürgen Kerner*, born 1969, was trained as an information electronics technician at Siemens AG. From 1989 to 1990, he worked as a functional tester at Siemens AG, where he was a member of the works council of Siemens from 1990 to 1995. Between 1995 and 2000, he was a trade union officer at IG Metall Augsburg, 2<sup>nd</sup> representative/manager from 2000 to 2004 and 1<sup>st</sup> representative/manager from 2004 to 2011. Mr. Kerner is an executive member of the executive board of IG Metall, where he has acted as chief treasurer since 2013. From 2018 through 2020 he was a member of the supervisory board of Flender GmbH and from 2017 through 2019 member of the supervisory board of MAN Energy Solutions. Since 2013, Mr. Kerner is vice chairman of the supervisory board of MAN SE and since 2019 vice chairman of the supervisory board of MAN Truck & Bus SE. Since 2009, he is member and vice chairman of the supervisory board of Premium Aerotec GmbH. Since 2012, he is a member of the supervisory board of Siemens AG. Further, Mr. Kerner is a member of the supervisory board of Traton SE since 2019 and a member of the supervisory board of Airbus Operations GmbH since 2013. Since 2019, he is a member of the supervisory board of Traton SE. Since January 2020, he is a member of the supervisory board of thyssenkrupp AG.



*Hagen Reimer*, born 1967, studied education at Bundeswehr University Munich. After a journalist traineeship and a job as a specialist editor, he was a freelance journalist from 2001 to 2009. Since 2009, he is trade union secretary of the executive board of IG Metall. Since 2019, he is a member of the supervisory board of Siemens AG.

It is intended that Mr. Joe Kaeser will become chair of the Supervisory Board, while Prof. Dr. Ralf P. Thomas is expected to head the audit committee. The members of the Supervisory Board can be reached at the Company's business address.

### 17.3.3 Committees

At its discretion, the Supervisory Board may set-up committees which exceed the statutory minimum requirements. The committees' tasks, authorizations and processes are determined by the Supervisory Board and where permissible by law, important powers of the Supervisory Board may also be transferred to the committees. According to current considerations, it is expected that the Supervisory Board will establish the following committees with the following tasks once the Supervisory Board is composed of all members (including Court Appointments of employee representatives):

- *Chairman's Committee* – The Chairman's Committee coordinates the Supervisory Board's work and prepares Supervisory Board meetings. It takes into account the planning of senior manager development. The Chairman's Committee further prepares resolutions of the Supervisory Board on the appointment of Executive Board members and conditions of the respective employment contracts including the remuneration. It submits proposals to the Supervisory Board for determination of the total remuneration of Executive Board members. The Chairman's Committee also has, among others, the following tasks: (i) granting consent to other mandates of members of the Executive Board or any other secondary employment of relevance and granting exemptions from non-competition obligations, (ii) granting loans to members of the Executive Board and the Supervisory Board and their dependents and (iii) granting consent to transactions between the Company and its affiliates on the one hand and a member of the Executive Board or persons related to members of the Executive Board on the other hand.
- *Audit Committee* – The purpose of the Audit Committee is to assist the Supervisory Board in fulfilling its responsibilities to oversee accounting and financial reporting processes. These responsibilities include preparation of the review for correctness and completeness of the Company's annual financial statements, consolidated financial statements and related disclosure as well as supervising the Company's internal control system, risk management and internal audit and compliance functions.
- *Nomination Committee* – The Nomination Committee (*Nominierungsausschuss*) prepares decisions of the Supervisory Board regarding proposals to the general shareholders' meeting for the appointment of shareholder representatives of the Supervisory Board.
- *Innovation and Finance Committee* – The Innovation and Finance Committee meets to discuss Siemens Energy's innovation strategy. It also negotiates and prepares resolutions of the Supervisory Board on the financial situation and resources of the Company as well as on investments in property, plant and equipment and financial measures. In addition, it decides in place of the Supervisory Board on the approval of transactions and measures requiring approval below a certain threshold.
- *Related Party Transaction Committee* – The Related Party Transaction Committee approves related party transactions where and as required under Section 111b paragraph 1 of the German Stock Corporation Act (*Aktiengesetz*).
- *Mediation Committee* – The Mediation Committee exercises the functions set forth under Section 31(3) of the German Co-Determination Act (*Mitbestimmungsgesetz*).

#### **17.3.4 Compensation, Other Benefits**

Pursuant to the current version of the Articles of Association, other than reimbursement of their costs, the members of the Supervisory Board are not entitled to compensation. In the fiscal year ended September 30, 2019, members of the Supervisory Board of Siemens Energy AG did not receive any remuneration because no Supervisory Board existed during that period.

Pursuant to Section 12 of the new version of the Articles of Association that will come into force upon the Spin-Off Completion and completion of the status proceedings, the members of the Supervisory Board of Siemens Energy AG will receive a fixed annual compensation as follows: the base compensation will be € 240,000 for the chair of the Supervisory Board, € 180,000 for each deputy chair of the Supervisory Board and € 120,000 for each of the remaining members. In addition, the chair of the Audit Committee will receive € 120,000 and each other member of the Audit Committee will receive € 60,000. The chair of the Chairman's Committee will receive € 120,000 and each other member of the Chairman's Committee will receive € 60,000. The chair of the Innovation and Finance Committee will receive € 70,000 and each member of the Innovation and Finance Committee will receive € 40,000. If the Supervisory Board establishes a standing committee to consent to related-party transactions, the chair of such committee will receive € 70,000 and each other member of such committee will receive € 40,000.

For participation in Supervisory Board meetings and committee meetings each member receives € 1,500 per meeting but no more than € 3,000 per day in case more than one of such meetings is held on the same day. Members of the Supervisory Board and/or its committees who have held office for less than a full fiscal year receive their compensation on a *pro rata temporis* basis (with parts of months being rounded up to full months).

There are no service agreements between the Company, its subsidiaries and any of its Supervisory Board members under which a Supervisory Board member would receive benefits from the Company or its subsidiaries on termination of his or her service as Supervisory Board member. Any envisaged D&O liability insurance that provides coverage for liability claims arising out of their activities as members of the corporate bodies shall also cover the members of the Supervisory Board of Siemens Energy AG.

#### **17.3.5 Shareholdings of Supervisory Board Members**

None of the above-mentioned current and future members of the Supervisory Board hold any Shares or options on Shares of the Company as of the date of the Prospectus. See "*15 Shareholder Structure*". However, individual members of the Supervisory Board hold 252,692 Siemens AG shares in total, for which 126,341 Shares in Siemens Energy AG will be issued upon the Spin-Off Completion, if the shares are still held on such date.

#### **17.4 Certain Information on the Members of the Executive Board and the Supervisory Board**

During the last five years, no current member of the Executive Board or current or future member of the Supervisory Board (see "*17.3.2 Current and Future Members of the Supervisory Board*") has been convicted of any fraudulent offenses. In addition, in the last five years, no official public incriminations and/or sanctions have been pending or imposed by statutory or regulatory authorities (including professional associations) against a current member of the Executive Board or current or future member of the Supervisory Board. With the exception of Mr. Zwirn, who acted as non-executive director at SunEdison, Inc. whilst it reorganized under Chapter 11 of the U.S. Bankruptcy Code beginning in 2016, no current member of the Executive Board or current or future member of the Supervisory Board, acting in the capacity of a member of a management or supervisory entity or as senior manager, has been associated with any bankruptcies and/or insolvencies, receiverships or liquidations. No current member of the Executive Board or current or future member of the Supervisory Board has ever been deemed by a court to be unfit for membership in a management or supervisory entity of a company or to be unfit to exercise management duties for or manage the business of an issuer during the past five

years. At the date of this Prospectus, no family relationships exist among the members of the Executive Board, among the members of the Supervisory Board or among the members of the Executive Board on the one hand and the members of the Supervisory Board on the other hand.

All current and six future members of the Supervisory Board are at the same time affiliated with Siemens AG, either because they are members of the executive board or the supervisory board of Siemens AG or employees of Siemens, which after the Spin-Off Completion will initially hold an interest of 35.1% in Siemens Energy AG. The interests of Siemens AG and Siemens Energy AG may not always be aligned. This is a potential conflict of interest for the current members of the Supervisory Board as well as for Mr. Joe Kaeser, Prof. Dr. Ralf P. Thomas, Mr. Matthias E. Rebellius, Dr. Andrea Fehrmann, Mr. Jürgen Kerner and Mr. Hagen Reimer in respect of their duty as members of the Supervisory Board to act in the best interests of the Company. However, it should be noted that Supervisory Board members may not act in their own interests or in the interests of persons or companies with whom they have a close relationship if those interests conflict with those of the company or serves to attract business opportunities to such members what would otherwise have gone to the company. Apart from that, there are no conflicts of interest or potential conflicts of interests between the duties of members of the Executive Board and duties of members of the Supervisory Board *vis-à-vis* Siemens Energy AG and their private interests or other obligations.

Beyond the service agreements of the members of the Executive Board, there are no further service or employment agreements between the Company, its subsidiaries, and any of its Executive Board members under which an Executive Board member would receive benefits from the Company or its subsidiaries on termination of his or her service as board member.

## **17.5 Corporate Governance**

The German Corporate Governance Code (*Deutscher Corporate Governance Kodex*) (the “**DCGK**”), in its most recent version of December 16, 2019 and as published in the German Federal Gazette (*Bundesanzeiger*) on March 20, 2020, includes recommendations and suggestions for managing and supervising companies listed on German stock exchanges. It is based on internationally and nationally recognized standards of good, responsible corporate management. The DCGK contains recommendations (“shall provisions”) and suggestions (“should provisions”) for corporate governance in relation to shareholders and the shareholders’ meeting, the executive board and the supervisory board, transparency and accounting as well as auditing of financial statements. While compliance with the recommendations or suggestions of the DCGK is not mandatory, the German Stock Corporation Act (*Aktiengesetz*) requires the management and supervisory boards of a listed company to disclose each year which recommendations were and will be complied with and which recommendations were not or will not be applied and why (so-called “declaration of conformity”). Deviations from the suggestions contained in the DCGK need not be disclosed. The declaration of conformity must be made publicly available on the Company’s website at all times.

Prior to the listing of the Shares on the Frankfurt Stock Exchange, the Company is not subject to the obligation to render a declaration as to compliance with the DCGK. As of the date of this Prospectus, the Company – as a corporation whose shares are not yet listed – does not comply with the recommendations of the DCGK.

The Company will fully meet the obligation as a listed company to submit, publish and provide shareholders with permanent access to disclosure in accordance with Section 161 of the German Stock Corporation Act (*Aktiengesetz*) during the course of the current fiscal year. The Executive Board and Supervisory Board of Siemens Energy AG believe in the objectives of the DCGK to foster a responsible and transparent corporate management and control directed towards achieving a sustained increase in shareholder value.

The Company intends to comply after the listing of the Shares with all recommendations in the DCGK, except for the following:

- Item C.5: According to the DCGK’s recommendation, members of the management board of a listed company shall not have, in aggregate, more than two supervisory board mandates in

non-group listed companies or comparable functions, and shall not accept the chairmanship of a supervisory board in a non-group listed company. It is envisaged that our designated chairman of the Supervisory Board will continue to be a member of the executive board of Siemens AG until February 2021. During this time period, the chair of the Supervisory Board will (i) hold more than two supervisory board mandates and (ii) be a chairman of a supervisory board whilst being a member of the management board of another listed company.

- Item C.10, sentence 1 of the DCGK and Item D.4, sentence 1 of the DCGK: According to the DCGK's recommendation, the chair of the supervisory board and of the audit committee shall be independent. The chair of the Supervisory Board and the chair of the Supervisory Board's audit committee may not fulfill, subject to final assessment by the Supervisory Board, the requirement of independence as they are associated with our shareholder Siemens AG.

## 17.6 Siemens Energy Employees

The following table sets forth the average number of employees (based on headcount) of Siemens Energy for the periods and functions indicated below.

Number of Employees (averages, based on headcount) (by functions, in thousands)	For the Fiscal Year ended September 30,			For the Nine- Month Period ended June 30,
	2019	2018	2017	2020
	(audited)			(unaudited)
Manufacturing and services .....	69	74	76	69
Sales and marketing .....	13	13	14	13
Research and development .....	5	5	5	5
Administration and general services .....	3	3	3	5
<b>Total</b> .....	<b>89</b>	<b>95</b>	<b>97</b>	<b>91</b>

The following table sets forth the average number of employees (based on headcount) of Siemens Energy for the periods and in the regions indicated below.

Number of Employees (averages, based on headcount) (by region, in thousands)	For the Fiscal Year ended September 30,			For the Nine- Month Period ended June 30,
	2019	2018	2017	2020
	(unaudited)			(unaudited)
EMEA .....	59	61	62	60
Americas .....	19	20	22	20
Asia Pacific .....	11	15	13	12
<b>Total</b> .....	<b>89</b>	<b>95</b>	<b>97</b>	<b>91</b>

We have in the past implemented performance plans that led to headcount reductions, see "9.4.10 Integration and Operational Improvement Measures; Special Items". We are continuously monitoring market dynamics and developments and may implement further restructurings to adapt to such developments from time to time, as required.

There has been no material change in the average number of employees in the period from June 30, 2020 until the date of the Prospectus.

### 17.6.1 Gas and Power Employees

During the nine-month period ended June 30, 2020 and the fiscal year 2019, our Gas and Power segment had an average number of employees (based on headcount) of 66 and 65 thousand.

In the fiscal year 2019, the average number of employees (based on headcount) per division was 20 thousand in Transmission, 27 thousand in Generation and 17 thousand in Industrial Applications. The related total average number of employees (based on headcount) in service amounted to 21 thousand. This comprises employees from the service businesses from the divisions Transmission, Generation and Industrial Application as well as Digitalization.

Our Gas and Power segment has in the past implemented several restructuring plans that led to headcount reductions, see “9.4.10 Integration and Operational Improvement Measures; Special Items”.

#### 17.6.1.1 Gas and Power Labor Relations

Some Gas and Power employees are organized in country-specific union organizations. In Germany, Gas and Power employees are organized in the German Metalworker’s Union (*Industriegewerkschaft Metall*). We are a member of various regional employers’ associations. Members of these organizations are subject to the respective collective bargaining agreements.

In certain cases, our employees are represented by employee representatives on the boards of our Group companies. In particular, following the Spin-Off, 50% of the members of the Supervisory Board will be employee representatives.

Our German Gas and Power employees are also represented by works councils. Pursuant to the German Works Constitution Act (*Betriebsverfassungsgesetz*), works councils have numerous rights relating to the notification and co-determination in personnel, social and economic matters. For instance, works councils are required to be notified in advance of any dismissal of an employee, must confirm hiring and relocations of employees. Co-determination rights in social matters are for example related to the establishment of work schedules and rules of conduct.

Our German Gas and Power senior managers are represented by the company spokespersons’ councils (*Sprecherausschüsse für leitende Angestellte*). They have numerous notification and consultation rights regarding personnel and economic matters.

If a European works council is established after the Spin-Off, our employees in member states of the European Union and other contracting states to the agreement on the European Economic Area are represented by it. The European works council has information and consultation rights regarding cross-border matters with impact on employees.

Good relationships with our employees are especially important to us and we believe that our employee relations are positive.

#### 17.6.1.2 Gas and Power Employee Stock Participation Plans

Until Spin-Off Completion, many of our Gas and Power employees have been or will be granted entitlements to Siemens shares under various Siemens employee programs. Following Spin-Off Completion, our employees are no longer eligible to participate in Siemens employee programs. Any outstanding entitlements under these programs will then be compensated in cash (see “17.2.3.5 Treatment of Siemens Entitlements after the Spin-Off Completion”).

Siemens Energy intends to implement employee share programs (to be settled in Shares or in cash) for the Gas and Power employees in certain jurisdictions during the course of the fiscal year ending September 30, 2021. Those share programs are intended to give employees (including managers) the opportunity to participate sustainably in the Group’s success. Accordingly, Siemens Energy plans to implement a matching program (see “17.6.1.2.1 Matching program”), stock awards (see “17.6.1.2.2 Stock awards”) and a jubilee share program (see “17.6.1.2.3 Jubilee share program”). Additionally, managers and employees may participate in one-time Spin-Off incentive programs (see “17.6.1.2.4 Employee Spin-Off incentive”).



#### 17.6.1.2.1 Matching program

Under the matching program, eligible employees (including managers but excluding members of the Executive Board) of Siemens Energy can invest up to five percent of their annual (gross) total target cash compensation in shares of the Company. For each three shares so acquired (the **"Investment Shares"**), the employee receives one matching share in the Company (**"Matching Share"**) or, in exceptional cases, an equivalent payment in cash. As a general rule, the Investment Shares and Matching Shares will be subject to a mandatory blocking period of one year. Employees of a Group company located in Germany may take advantage of tax benefits applicable to employee share investments of up to € 360 per annum. In these cases, participants may choose to invest € 100 or € 260. When investing € 100, participants receive two Matching Shares per Investment Share that is acquired using that investment amount; for a further investment amount of € 160, they receive one Matching Share per share that is acquired using the further investment amount. Shares so acquired will not be subject to a blocking period. These investment amounts will count against the five percent threshold of the annual (gross) total target cash amount mentioned above. For investment amounts exceeding € 260, the general rules detailed above apply.

#### 17.6.1.2.2 Stock awards

Employees holding upper management level positions will receive forfeitable performance-oriented stock commitments. The terms and conditions of these commitments are largely identical with the stock awards granted to members of the Executive Board (see *"17.2.3.1.2 Performance-Based Components"*). Other employees of senior management and further selected employees may receive non-performance-oriented stock awards. These stock awards follow a ratable vesting scheme, i.e., each year the employee receives a number of shares in the Company corresponding to 25% of the initially granted number of stock awards or, in exceptional cases, an equivalent payment in cash. Additionally, stock awards following the described ratable vesting scheme can be granted to employees to honor outstanding performance.

#### 17.6.1.2.3 Jubilee share program

A jubilee share program is intended to be implemented for employees in Germany which provides that eligible employees will receive jubilee shares for their 10th, 25th, 40th and 50th service anniversary.

#### 17.6.1.2.4 Employee Spin-Off incentive and Share Buy Back Programs

##### (1) *Building Siemens Energy Incentive Program*

Under the Building Siemens Energy Incentive Program a low triple digit number of key employees who contributed essentially to the preparation of the Spin-Off were granted a one-time spin-off incentive. The initial value of the incentive consists of a percentage of the beneficiary's base salary at the grant date (**"BSEI Target Amount"**). It consists of two elements: a short-term cash component that corresponds to 25% of the BSEI Target Amount and will be paid following Spin-Off Completion and a long-term equity component which corresponds to 75% of the BSEI Target Amount and is composed of forfeitable stock awards (**"BSEI Stock Awards"**). The number of BSEI Stock Awards will be determined by dividing 75% of the BSEI Target Amount by the volume-weighted average price (**"VWAP"**) of the Shares during the first 120 trading days of after the Listing. Each BSEI Stock Award entitles the holder to one share in the Company or, in exceptional cases, an equivalent payment in cash. The BSEI Stock Awards will be settled after a vesting period of three years starting with Spin-Off Completion. The settlement of the BSEI Stock Awards is subject to the development of the Share price during the first three years following the Listing. The number of BSEI Stock Awards settled can range from a minimum of 33% to a maximum of 300%. The minimum number of Stock Awards will be settled if the VWAP of the Shares during the last 60 trading days of the vesting period is lower than the VWAP during the first 120 trading days after the Listing. The maximum number of Stock Awards will be

settled if the price of the Shares has at least doubled whereas a value cap of 4.75 times the BSEI Target Amount applies. The maximum contribution to the employees under this program is expected to amount to approximately € 100 million.

(2) *All Employee Program, German All Employee Program and 2020 Special Payment*

In certain jurisdictions, similar employee Spin-Off incentive programs will be set up that provide for stock awards on substantially the same terms, but without a short-term cash component (the “**All Employee Program**”). The individual target amount is defined as 3% of the annual (gross) total target cash compensation of each participant as of September 1, 2020 (“**All Employee Program Target Amount**”). The number of shares transferred to each participant is subject to the share price development over a time frame of three years after the Listing. The number of Shares transferred can range from a minimum of 100% to a maximum of 300%. The minimum number of Shares will be transferred if the VWAP of the Shares during the last 60 trading days prior to September 25, 2023 is lower than the VWAP during the first 120 trading days after the Listing. The maximum number of Shares will be settled if the price of the Shares has at least doubled whereas a value cap of 6.0 times the All Employee Program Target Amount applies. The maximum contribution to the employees under this program is expected to amount to approximately € 680 million.

Under the “**German All Employee Program**”, the number of Shares transferrable to the participants at the end of the vesting period ranges from 100% to a maximum of 200%. 100% of Shares will be transferred if the VWAP of the Shares during the last 60 trading days prior to September 25, 2023 is equal to or exceeds 150% of the VWAP during the first 120 trading days after the Listing, while the maximum 200% of Shares will be settled if the price of the Shares has at least doubled. A value cap of 4.0 times the All Employee Program Target Amount applies.

Additionally, employees of the participating German Group companies may also participate in a separate share program (“**2020 Special Payment**”). The program allows these employees to benefit from certain tax rules recently introduced by the German legislator with a view to mitigating COVID-19-related detriments. Participants of the 2020 Special Payment will receive Shares representing a value of 2.6% of their total target cash compensation as of September 1, 2020) but at least € 1,000 on November 26, 2020.

(3) *Share Buy Back Program*

Siemens Energy AG will implement a program to repurchase its own Shares immediately after occurrence of the Listing. The repurchase program is expected to run from September 28, 2020 until March 31, 2021 at the latest. During this period, Shares shall be repurchased for up to € 393 million, but not more than 72,664,519 Shares. The repurchase program will serve to distribute Shares to members of the Executive Board and employees of the Siemens Energy Group (see, for example, “17.2.3.1.2 Performance-Based Components” and “17.6.1.2.4 Employee Spin-Off incentive”). The repurchase of Shares can be stopped, interrupted and continued at any time in accordance with applicable legal requirements. The purchase price per Share paid on the stock exchange (excluding ancillary acquisition costs) may not be more than 10% higher or 20% lower than the price of a Share determined on the relevant trading day by the opening auction in Xetra trading (or in a comparable successor system). Depending on prevailing trading volumes and subject to applicable trading conditions, Siemens Energy AG intends to repurchase a substantial part of the volume at the beginning of the repurchase period.

## **17.6.2 SGRE Employees**

### *17.6.2.1 SGRE Headcount*

During the nine-month period ended June 30, 2020 and the fiscal year 2019, our SGRE segment had an average number of employees (based on headcount) of 25 and 24 thousand, respectively.

Our SGRE segment has in the past implemented several restructuring plans that led to headcount reductions, see “9.4.10 Integration and Operational Improvement Measures; Special Items”.

On the other hand, the acquisition of selected European assets of Senvion (see “12.9.3 Acquisition of Selected European Assets of Senvion”) included the onboarding of close to 2,000 of Senvion’s former employees.

#### 17.6.2.2 SGRE Labor Relations

Labor relations between SGRE and its employees are regulated by the legal regulations of each country and such agreements and arrangements as may have been reached with employees’ representatives. At international level and due to its European footprint, SGRE is currently still part of the Siemens AG European Works Council, where it is playing an active role in providing employees with information and consultation rights. Within that framework it has agreed with its employees’ representatives to establish a specific working group aimed at establishing a closer and more flexible space for social dialogue. SGRE has a working group for the communication and discussion of labor-related topics affecting more than one European country; this working group will continue to be in existence within SGRE after the separation from Siemens, but independently from the Siemens AG European Works Council.

Since November 2019, a renewed and upgraded Global Framework Agreement between SGRE, its labor representatives and IndustriALL Global Union (the “GFA”) is in place. IndustriALL is the global trade union with headquarters in Geneva, Switzerland, that encompasses Gamesa’s (and now SGRE’s) industrial activity. SGRE believes that the new GFA is still the only global agreement of its kind to guarantee labor rights by a company in the renewable energy sector. The GFA Agreement applies to all companies in the SGRE group (including any potential new group entity resulting after a merger, acquisition or restructuring) and to all its employees worldwide during the fulfillment of their functions and in their work, commercial and professional relationships. It contains provisions that strengthen the rights of workers and trade unions, strengthens social, labor and environmental rights already contained in SGRE’s Business Conduct Guidelines issued in 2018 (including the employees’ rights to freedom of association, union membership and collective bargaining), makes health and safety at work, working conditions and equal opportunities key issues for company action, and guarantees implementation and promotes the conditions for a social dialogue at the international level. The GFA will be valid for four years from the date of signature. At the request of either party, negotiations to revise the GFA may be agreed. During the year preceding the end of the GFA’s term, and no later than six months prior to such date, the management of SGRE, the IndustriALL Global Union and the representative union organizations will meet to examine whether the GFA shall be renewed or not.

SGRE is a member of the UN Global Compact, so that its ten Principles and the Global Industrial Union Framework Agreement are binding for SGRE. This means that all of SGRE’s employees are actively covered by a legally binding and freely negotiated collective agreement.

At a national level, the situation varies due to the large number of countries and practical differences among them. Roughly half of SGRE’s employees were covered by collective bargaining agreements at a local level as of the end of the fiscal year 2019.

#### 17.6.2.3 SGRE Incentive and Benefit Plans

In addition to the fix remuneration, SGRE has defined a globally applicable short-term incentive program for about 30% of its total staff. The target structure for this program is composed of 70% overall SGRE performance indicators and 30% individual targets.

SGRE has a long-term incentive plan (the “**Long-Term Incentive Plan**” or the “**Plan**”) in place, originally approved by SGRE’s general shareholders’ meeting on March 23, 2018, which contemplates the delivery of shares of the SGRE S.A. linked to the achievement of certain strategic objectives after measurement periods of three years. This Long-Term Incentive Plan is addressed to a maximum of 300 beneficiaries, including the Chief Executive Officer, senior executives, certain directors and employees of SGRE S.A. and, where appropriate, of subsidiaries of the SGRE group. The Plan has a total duration of five years divided into three independent cycles with a measurement period of three years for each cycle (i.e., 2018-2020, 2019-2021 and 2020-2022). The settlement period of the Plan will fall during the fiscal years 2021 for the first

cycle, 2022 for the second cycle and 2023 for the third cycle. The shares will be delivered within sixty calendar days from the date on which SGRE S.A.'s board of directors prepares the financial statements for the relevant period, in order to determine the degree of achievement of the objectives for each cycle ("**Delivery Date**"). The Plan will end on the Delivery Date for the cycle relating to the first cycle (i.e., following the preparation of the financial statements for the fiscal year ending September 30, 2022). The designation of an individual as a beneficiary of a Plan cycle will not necessarily entitle participation in other Plan cycles. The Plan was amended pursuant to a resolution of SGRE S.A.'s general shareholders' meeting held on March 27, 2019; the amendments apply for the second and third cycles of the Plan. The number of employees entitled to the plan's first cycle is 174, for the second cycle 191 and 183 for the third cycle. The Plan (as amended) may not exceed, in total, the delivery of 7,560,000 shares. SGRE S.A. will allocate treasury shares to cover the Plan or otherwise meet the commitments derived from the Plan with a financial instrument that provides adequate coverage.

Furthermore, certain SGRE employees that have transferred from other Siemens Group entities participate in share-based payment awards implemented by Siemens. In such cases, Siemens delivers the respective shares on behalf of SGRE. Due to the limited extent of participation in these share-based programs, the effect on SGRE's consolidated financial statements for the past three fiscal years is not significant. Any outstanding entitlements under these programs will be settled in cash after the Spin-Off Completion (see "*17.2.3.5 Treatment of Siemens Entitlements after the Spin-Off Completion*").

Moreover, SGRE offers benefits which differ on a local basis and are dependent on each country's regulations and general market practices. Such benefits may include post-employment benefits (pension plans), health, life and disability insurance and others.

SGRE provides post-employment defined benefit plans to almost all of its employees in Germany. Outside Germany, predominantly service gratuities and severance indemnities pursuant to legal requirements or arrangements applicable to the industry are provided by a limited number of SGRE entities in different jurisdictions. SGRE's major plans are funded with assets in specific entities. In accordance with local laws and bilateral agreements with benefit trusts (trust agreements), those plans are managed in the interest of the beneficiaries. SGRE's defined benefit plans cover about 6,000 participants for the fiscal year 2019 (2,800 and 3,000 participants for the fiscal years 2018 and 2017, respectively), which almost only comprises active employees.

In Germany, SGRE provides pension benefits through the plan SGRE "*Beitragsorientierte Siemens Altersversorgung*" (hereinafter, "**SGRE BSAV**"), frozen legacy plans and deferred compensation plans. The majority of SGRE's active employees in Germany participate in the SGRE BSAV. Those benefits are predominantly based on contributions made by SGRE and returns earned on such contributions, subject to a minimum return guaranteed by SGRE. The frozen plans expose the employer to investment risk, interest rate risk and longevity risk. The effects of compensation increases are substantially eliminated. The pension plans are funded via contractual trust arrangements. No legal or regulatory minimum funding requirements apply. SGRE expects to pay employer contributions to the German defined benefit plans in the fiscal year 2020 in the amount of approximately € 4 million. The pension obligations of SGRE vis-à-vis the SGRE BSAV participants shall remain unaffected by the Spin-Off.

SGRE also intends to implement two different share plans: an Employee Share Plan and a Share-Based Recognition Program. Under the Employee Share Plan, an investment will be rewarded with free SGRE S.A. shares (for every three shares acquired, one free share will be granted after a two-year holding period). The Employee Share Plan is currently expected to be implemented by SGRE in November 2020 in selected countries, with no specific limitation on the number of participants. The annual cost to SGRE relating to SGRE's investment for the Employee Share Plan may not exceed € 4 million in the aggregate (reflecting a maximum employee investment totaling € 12 million). The Share-Based Recognition Program aims at rewarding outstanding performance by granting beneficiaries recognition stock awards which will be converted into free SGRE S.A. shares after two years. According to the current plan, the Share-Based Recognition Program could be implemented in September 2020 (with the recognition stock awards under the

plan being granted in October 2020). It is currently envisaged that SGRE S.A. will nominate an estimated number of 100 employees for the Share-Based Recognition Plan, and the selection criteria is expected to be based on SGRE's corporate values. The number of recognition stock awards to be granted to each beneficiary is expected to range from a minimum of 5% to a maximum of 35% of the annual base salary. According to the current plan, the Share-Based Recognition Program will have a duration of two years from the moment of granting the recognition stock awards until the moment when they will be converted into SGRE S.A. shares. The annual cost of the stock awards granted cannot exceed € 1 million per year. Both share plans would need annual SGRE Board of Directors' approval to be implemented in the subsequent year.



## 18 CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

In accordance with IAS 24 “Related Party Disclosures”, transactions with persons or companies which are, *inter alia*, members of the same group as a company or which are in control of, or controlled by a company must be disclosed unless they are already included as consolidated companies in a company’s financial statements. Control exists if a shareholder owns more than one half of the voting rights in a company or, by virtue of an agreement, has the power to control the financial and operating policies of a company’s management. The disclosure requirements under IAS 24 also extend to transactions with associated companies (including joint ventures) as well as transactions with persons who have significant influence on a company’s financial and operating policies, including close family members and intermediate entities. This includes members of the Executive Board and Supervisory Board and close members of their families, as well as those entities over which the members of the Executive Board and Supervisory Board or their close family members are able to exercise a significant influence or in which they hold a significant share of the voting rights.

Set forth below is a summary of such transactions of Siemens Energy with related parties for the fiscal years ended September 30, 2019, 2018 and 2017 as well as for the current fiscal year 2020 up to the date of this Prospectus. Further information, including quantitative amounts, of related party transactions are contained in Note 26 to our Audited Combined Financial Statements and Note 10 to our Unaudited Condensed Combined Interim Financial Statements, which are included in “21 Financial Information” of this Prospectus on page F-2 et seq. Business relationships between companies of the Siemens Energy Group are not included.

### 18.1 Transactions and Relationships with the Siemens Group

Prior to the Spin-Off Completion, Siemens Energy AG is a wholly-owned directly and indirectly held subsidiary of Siemens AG. By and large, Siemens Energy AG has not conducted and will not conduct its own business or operations prior to the Spin-Off Completion, which is why the following discussion focuses on SE Global GmbH & Co. KG and its subsidiaries. Until the Spin-Off Completion, SE Global GmbH & Co. KG also remains a subsidiary of Siemens AG.

As part of the Siemens Group, the Group’s companies had various business relationships with other companies of the Siemens Group in the past and will continue to have significant relationships with the Siemens Group following the Spin-Off Completion.

#### 18.1.1 Ongoing Relationships with the Siemens Group

##### 18.1.1.1 *Relationships with and Services Provided by the Siemens Group to Siemens Energy*

Before the Spin-Off, the Siemens Group and Siemens Energy entered into various agreements, in limited cases also concerning or involving SGRE as a party, mainly covering general administrative and specific technical matters, services and treasury matters provided by Siemens, in particular relating to guarantees, sureties, standby letters of credit and other securities (together “**Securities**”), financing, letters of credit, hedges, procurement, supply, IP rights, real estate, general administration, IT and technical support, including cybersecurity, R&D as well as the “internet of things”. Siemens AG and Siemens Energy strive to maintain a strong partnership, in particular for the first quarters after Spin-Off Completion, with numerous agreements in place governing their ongoing relationship, in particular:

##### 18.1.1.1.1 Agreements in relation to the Carve-Out and the Spin-Off

###### (1) *Master Separation Agreement*

On March 31, 2020, Siemens AG and SE Global GmbH & Co. KG concluded a framework agreement (the “**Master Separation Agreement**”) to address certain consequences arising from the Carve-Out. Pursuant to the Master Separation Agreement, Siemens AG and SE Global GmbH & Co. KG are each jointly and severally liable for the obligations of their respective

subsidiaries under the Carve-Out-related agreements. Consequently, Siemens AG and SE Global GmbH & Co KG are, amongst others, liable for the respective indemnity obligations agreed upon under the local asset transfer agreements ("**LATAs**").

Furthermore, Siemens AG and SE Global GmbH & Co. KG have agreed to indemnify Siemens Energy and Siemens, respectively, from and against any losses, liabilities, damages, costs and expenses arising out of or in connection with the businesses allocated to Siemens or Siemens Energy as part of the Carve-Out if no other specific rule under the respective local asset transfer agreement applies stipulating a different allocation of losses, liabilities, damages, costs and expenses, provided that the respective joint and several liability of Siemens AG and SE Global GmbH & Co. KG under the Carve-Out-related agreements as described above remains unaffected. For the assertion of indemnification claims, a mechanism for the pooling of claims was established at the level of the parties to the Master Separation Agreement.

The Master Separation Agreement also sets out the framework for the financing, cash management and hedging of Siemens Energy Group (without SGRE) and the granting of Securities, including supply chain finance arrangements, for Siemens Energy (without SGRE) until the Spin-Off Completion and for the continuation until expiry, termination and redemption thereof (see "**18.1.1.1.3(1) Securities issued by banks or the Siemens Group**").

The Master Separation Agreement also contains provisions regarding service agreements for a transitional period of generally twelve months after the Spin-Off Completion by providing the framework for such agreements via transitional service terms & conditions. These service agreements may cover, among other things, data separation and migration, real estate and lease agreements, stock-based participation programs, taxes, insurance, certain separation costs and future cooperation. For further information regarding Securities as well as bank and group guarantees, see "**18.1.1.1.3(1) Securities issued by banks or the Siemens Group**".

(2) *Spin-Off and Transfer Agreement (Abspaltungs- und Übernahmevertrag)*

On May 22, 2020, Siemens AG and Siemens Energy AG entered into the Spin-Off and Transfer Agreement which was approved by the shareholders' meetings of Siemens Energy AG and Siemens AG on May 22, 2020 and July 9, 2020, respectively. The Spin-Off and Transfer Agreement is yet to be registered with the commercial registers of Siemens AG and Siemens Energy AG in order to become effective (*i.e.*, the Spin-Off Completion) which is expected to occur on September 25, 2020. The agreement contains, among other things, the mandatory provisions pursuant to the German Transformation Act (*Umwandlungsgesetz*). This includes provisions on the assets to be spun off as well as details of the transfer and consideration to be granted in return, including the allotment ratio of 2:1, *i.e.*, two Siemens AG shares entitle to one Siemens Energy AG share. Further, the Spin-Off and Transfer Agreement describes special rights, benefits and consequences of the Spin-Off for employees and their representative bodies. The Spin-Off and Transfer Agreement further provides that Joe Kaeser shall act as chair of the Supervisory Board, while Prof. Dr. Ralf P. Thomas is expected to head the audit committee. It contains a number of annexes, such as: (i) the contribution agreement to create the Siemens Energy AG shares remaining with Siemens (see "**5.2.3 The Capital Increases Against Contribution in Kind**"), (ii) the rules applicable under stock entitlements, (iii) the Group Separation Agreement (as defined below), (iv) the Deconsolidation Agreement (as defined below) and (v) the Articles of Association of Siemens Energy AG and capital-related authorizations.

(3) *Group Separation Agreement (Konzerntrennungsvertrag)*

On May 22, 2020, Siemens AG and Siemens Energy AG entered into a group separation agreement (*Konzerntrennungsvertrag*) (the "**Group Separation Agreement**") which governs the legal relations between Siemens AG and Siemens Energy AG for the period after the Spin-Off Completion.

The main elements of the Group Separation Agreement are:

- The parties shall indemnify each other and the companies within the relevant other party's group against any statutory or non-contractual liability with respect to liabilities that arose prior to the Spin-Off Completion and that are attributable to the other parties' business.
- In the context of the Listing, the parties agreed to take out a prospectus liability insurance. Any liability not covered by the prospectus liability insurance (*i.e.*, if and to the extent no insurance exists or no adequate compensation can be obtained for the respective damages) shall be split between Siemens AG and Siemens Energy AG at a ratio of 0.45 to 0.55.
- Siemens Energy AG is obligated to provide any information required by Siemens AG to satisfy the requirements under IFRS with regard to its shareholding in Siemens Energy AG. This also applies outside of the regular reporting of Siemens Energy AG to Siemens AG, in particular for the purpose of timely responses to questions of the German Financial Reporting Enforcement Panel (*Deutsche Prüfstelle für Rechnungslegung*). Siemens Energy AG must also provide information with regard to expected earnings per share which Siemens AG requires for its own financial reporting. Siemens AG shall reimburse Siemens Energy AG for any external costs incurred by preparing the information. Furthermore, Siemens AG has undertaken to only publish information that directly, indirectly or by inference refers to the results of Siemens Energy AG after Siemens Energy AG has published those results or with consent of Siemens Energy AG. Siemens AG is obligated to provide information required by Siemens Energy AG with regard to Siemens AG's role as shareholder, in particular information on related party-transactions.
- Siemens Energy AG shall procure that certain assets contributed to SE Global GmbH & Co. KG are recognized at their tax book values and that the required application with the competent tax office is filed in time. If Siemens Energy AG violates these obligations and taxes are imposed on Siemens AG or SBI GmbH, both of which hold shares in the Company, or their loss carry forwards for corporate income and trade tax purposes are reduced, Siemens Energy AG shall compensate Siemens AG or SBI GmbH. SBI GmbH has also contributed a limited partnership interest (*Kommanditanteil*) in SE Global GmbH & Co. KG to Siemens Energy AG in return for being granted shares in Siemens Energy AG. In this regard, Siemens Energy AG is obligated to recognize this partnership interest at tax book value and file the required application with the competent tax office in time. If these obligations are violated, Siemens Energy AG is liable to Siemens AG or SBI GmbH for taxes imposed on them or their loss carry forwards for corporate income tax purposes are reduced. The Group Separation Agreement further contains provisions in relation to shares held by Siemens AG or SBI GmbH that are subject to a lock-up period (*sperrfristbehaftete Anteile*) for tax purposes in connection with the separation of the Siemens Energy business. If a contribution gain (*Einbringungsgewinn*) is assessed, the tax consequences at the level of Siemens AG and SBI GmbH together with the trade tax arising at the level of SE Global GmbH & Co. KG may result in a total cash-out of up to a medium three digit million euro amount. Such tax cash-out may be compensated only partially by corresponding tax benefits, for which the cash effect may only arise over time. In case Siemens Energy AG caused such assessment of the contribution gain (*e.g.*, by violating the obligation to procure that Siemens Energy entities apply for tax book values or by triggering an event pursuant to section 22 (1) sentence 6 of the German Transformation Tax Act (*Umwandlungssteuergesetz*)), Siemens Energy AG shall compensate Siemens AG or SBI GmbH for the resulting tax consequences. In case such contribution gain is caused by Siemens AG or SBI GmbH, Siemens Energy AG may have a compensation claim against Siemens AG for trade tax or the reduction of trade tax loss carry-forwards resulting therefrom, whereas such claim is generally reduced by potential tax benefits arising for Siemens Energy AG and/or SE Global GmbH & Co. KG in case of a recognition of an increase amount in accordance with section 23 (2) of the German Transformation Tax Act (*Umwandlungssteuergesetz*) ("step-up"). To the extent that the potential step-up benefit exceeds the amount, which Siemens AG would have to pay to Siemens Energy AG without the deduction of the step-up benefit, Siemens Energy AG is obliged to pay to Siemens AG an amount equal to this difference, even though

the step-up benefit may not have materialized in a cash effect yet but would only materialize over time. Finally, the parties of the Group Separation Agreement (*Konzerntrennungsvertrag*) shall cooperate with regard to tax matters and in case one party does not comply with its cooperation obligations, it shall indemnify the other party, i.e., if Siemens Energy AG is not compliant it has to indemnify Siemens AG or the affected Siemens Group entity.

- Furthermore, the Group Separation Agreement specifies a mechanism for dispute resolution and certain confidentiality standards regarding the Group Separation Agreement and its performance, including the sharing of information pursuant to the Group Separation Agreement.

(4) *Deconsolidation Agreement (Entherrschungsvertrag)*

On May 22, 2020, Siemens AG and its subsidiary SBI GmbH entered into a deconsolidation agreement (*Entherrschungsvertrag*) with Siemens Energy AG (the “**Deconsolidation Agreement**”). Under the Deconsolidation Agreement Siemens AG and SBI GmbH have undertaken *vis-à-vis* the Company to restrict the exercise of their voting rights, including voting rights held by other Siemens Group companies at any time, in the Company to a level ensuring that Siemens is not able or deemed to be able to exercise any controlling influence on the Company and/or Siemens Energy Group companies after the Spin-Off Completion. The Deconsolidation Agreement provides three main elements for this purpose:

- Siemens AG and SBI undertake that they shall restrict the exercise of voting rights from Shares held by them in any shareholders’ meeting of the Company on the resolution of certain agenda items to an extent that shall ensure that such votes (together with votes from Shares held by affiliated companies and certain other related parties such as Siemens Pension-Trust e.V.) can no longer carry a vote on its own. This applies to resolutions of the shareholders’ meeting of the Company on the (i) appointment and removal of members of the Supervisory Board, (ii) certain management measures that are brought before the shareholders’ meeting of the Company, (iii) discharge (*Entlastung*) of members of the Executive Board and Supervisory Board and votes of no confidence (*Vertrauensentzug*) with regard to members of the Executive Board, (iv) remuneration of members of the Supervisory Board and remuneration system for members of the Executive Board (including reductions permissible in exceptional circumstances under the German Stock Corporation Act (*Aktiengesetz*) and (v) adoption of the annual financial statements (*Jahresabschlüsse*), if exceptionally the shareholders’ meeting resolves on such approval.
- Siemens undertakes to ensure that no more than three shareholder representatives who are dependent on Siemens AG are members of the Supervisory Board at the same time. The Deconsolidation Agreement contains undertakings of Siemens to achieve this goal as well as criteria for the assessment of dependence. For purposes of the Deconsolidation Agreement, membership in the supervisory board of Siemens AG alone does not preclude independence.
- For the (re)election or removal of one member of the Supervisory Board (so-called “Special Supervisory Board Member” – *besonderes Aufsichtsratsmitglied*) who must be independent from Siemens AG, Siemens shall exercise only a further reduced number of voting rights compared to the general restriction on the exercise of voting rights at shareholders’ meetings described above. For resolutions on other independent Supervisory Board members the general undertaking with regard to the restriction of voting rights applies.

In addition, the Deconsolidation Agreement contains rules for the transferability of shares in the Company within the Siemens Group, the right of other shareholders of the Company to request compliance with the Deconsolidation Agreement as well as concluding provisions, in particular on the term, modalities of termination of the agreement and standard final provisions.

The Deconsolidation Agreement takes effect as of the Spin-Off Completion and has an initial term until the end of the fifth annual shareholders’ meeting after the first shareholders’ meeting of the Company following the Spin-Off Completion at which an election of shareholder representatives to the Supervisory Board was on the agenda. Prior to the end of that term, no

ordinary termination is possible. Thereafter, the Deconsolidation Agreement shall be extended for revolving periods leading up to the end of each fifth annual shareholders' meeting following thereafter, unless terminated by any party prior to its expiry. The Deconsolidation Agreement can be terminated for good cause, in particular at any time by any party if a sale of shares in the Company by Siemens (including SBI GmbH) results in Siemens holding less than 15% of the shares in the Company at the time of termination. Any termination is subject to merger control clearance under competition law in certain jurisdictions specified in the Deconsolidation Agreement or if requested by either party.

(5) *Agreements with regard to Siemens Energy's Gas and Power Business in Algeria, Greece, Indonesia and Pakistan*

Mainly due to complex carve-out situations, local law restrictions or timing reasons, in particular in Algeria, Greece, Indonesia and Pakistan, Siemens retained the gas and power business (for India, see "18.1.1.1(6) *Agreements Related to the Conduct of Siemens Energy's Gas and Power Business in India*"), which is carried out by local Siemens Group companies (each a "**Local Siemens Distributor**"). In these and certain other countries, Siemens Energy's gas and power business is carried out under agency and distributorship agreements that were concluded between SE Global GmbH & Co. KG and the respective Local Siemens Distributor (each an "**Agency and Distributorship Agreement**"). The Agency and Distributorship Agreements were concluded under framework agreements made between Siemens AG, SE Global GmbH & Co. KG and the respective Local Siemens Distributor or between Siemens AG and SE Global GmbH & Co. KG (each a "**Distributor Framework Agreement**"). Under the Agency and Distributorship Agreements, SE Global GmbH & Co. KG appoints the respective Local Siemens Distributor, subject to certain exceptions, for the sale of products, systems and services relating to the gas and power business of Siemens Energy (the "**Contractual Products**") and the Local Siemens Distributor shall advertise, promote, mediate and sell the Contractual Products. The Agency and Distributorship Agreements also govern, among other things, the use of the "Siemens Energy" trademark, the cooperation with Siemens Energy Group companies, the training of personnel, the maintenance of an adequate sale force and a fee to be paid by Siemens Energy to the Local Siemens Distributor. The territorial scopes of the Agency and Distributorship Agreements for Algeria, Indonesia and Pakistan in general cover only the respective countries, with certain specified legacy projects that may be completed outside such respective countries. In Greece, the territorial scope also covers Cyprus (with the exception of the area administered by Turkish Cypriots north of the United Nations Buffer Zone), Albania and North Macedonia. The right to sell the Contractual Products is generally exclusive for Algeria, Indonesia and Pakistan, with certain exceptions applying under the Agency and Distributorship Agreements, and generally non-exclusive for Greece. Under all Agency and Distributorship Agreements, Siemens Energy retains the right to directly sell certain Contractual Products.

After termination of the Distributor Framework Agreements, which may occur in connection with a termination of the associated Agency and Distributorship Agreement, Siemens Energy is obligated to acquire the gas and power business of the Local Siemens Distributor at fair market value.

(6) *Agreements Related to the Conduct of Siemens Energy's Gas and Power Business in India*

In India, business activities of Siemens Energy's Gas and Power segment (with the exception of the activities of Dresser-Rand India Private Limited which manufactures compressors and is mainly active in the oil & gas business) shall continue to be carried out by the local Siemens company Siemens India under an agency and distributorship agreement entered into between SE Global GmbH & Co. KG and Siemens India on March 30, 2020 (the "**Agency and Distributorship Agreement India**"). With regard to the gas and power business, Siemens India does not only act as an agent and distributor but also as a manufacturer of certain gas and power products and renders R&D and engineering services. To facilitate such activities, SE Global GmbH & Co. KG and Siemens India have entered into an umbrella replacement agreement on March 30, 2020, which essentially provides that various existing technical transfer and license agreements, R&D frame agreements, and other agreements concerning the delivery of goods and provision of services,



shall be continued beyond the date of the Spin-Off. Furthermore, Siemens India continues to carry out activities of various Siemens' segments such as "Digital Industries", "Mobility" and "Smart Infrastructure", in which Siemens Energy shall participate through its shareholding. Siemens India does not pursue business activities of Siemens Energy's SGRE segment which is carried out by local SGRE companies.

Siemens India is a listed company in which Siemens Group holds approximately 51% of the shares and Siemens Energy holds (as of June 30, 2020) 24% of the shares since May 19, 2020, which were acquired by a subsidiary of Siemens Energy from Siemens AG under a share transfer agreement dated March 30, 2020.

On March 30, 2020, Siemens AG and SE Global GmbH & Co. KG concluded (i) a shareholders' agreement governing their relationship as shareholders in Siemens India (the "**Shareholders' Agreement India**") and (ii) principles for cooperation with respect to the business activities of Siemens India and Siemens Energy in India (the "**Principles for Cooperation India**"), annexed to the Shareholders' Agreement India.

(aa) *Agency and Distributorship Agreement India*

The Agency and Distributorship Agreement India governs the cooperation between Siemens India and SE Global GmbH & Co. KG in the marketing and sale of certain products, solutions and services of Siemens Energy (excluding SGRE). The Agency and Distributorship Agreement India has the following main elements:

- Under the Agency and Distributorship Agreement India, Siemens India shall act as sole agent of Siemens Energy for the sale of the Gas and Power portfolio (with the exception of products and services offered in India by Dresser-Rand India Private Limited), including Transmission, Generation and Industrial Applications products, integrated systems, solutions and services, as further agreed in the Principles for Cooperation India (see "18.1.1.1(6)(bb) *Principles for Cooperation India*" below) (the "**Contractual Products India**") in India, Nepal, Sri Lanka, Bhutan and the Maldives (the "**Contractual Territory India**"), with the exception of certain sales rights under pre-existing agency agreements. Siemens India's right to sell the Contractual Products India in India is exclusive.

Siemens India shall use its best efforts to advertise, promote, mediate and sell the Contractual Products India in the Contractual Territory India. It shall maintain an adequate and efficient sales force, sufficient stock of Contractual Products India, set-up maintenance workshop facilities and showrooms and provide adequate technical services for maintenance and repair under a separate agreement. For these purposes, Siemens India may also use the trademark "Siemens Energy" and other relevant trademarks.

- The parties shall cooperate regarding the business with Contractual Products India, including with respect to product monitoring and safety standards, and comply with local legal requirements, including anticorruption laws and export control regulations.

The Agency and Distributorship Agreement India has an initial term of three years, beginning on March 31, 2020. Thereafter, the agreement is automatically extended for further terms of one year each unless terminated by either party with six months' written notice. The Agency and Distributorship Agreement India may also be terminated by the non-defaulting party subject to unsuccessful remediation in case of events that are beyond a party's reasonable control, including but not limited to earthquakes or other natural disasters, and that hinder such party's performance for at least six months, severe infringements of the agreement, non-performance of payment obligations or in case Siemens India infringes on certain collaboration and compliance covenants. However, in the Shareholders' Agreement India, Siemens AG and SE Global GmbH & Co. KG have undertaken to extend and not terminate the Agency and Distributorship Agreement India until the Indian Gas and Power business has been transferred to Siemens Energy in accordance with the mechanism specified in the Shareholders' Agreement India.

(bb) *Principles for Cooperation India*

Under the Principles for Cooperation India, Siemens AG and SE Global GmbH & Co. KG agreed, among other things, to the following: the compressor business of Siemens Energy's subsidiary Dresser-Rand India Private Limited shall remain unaffected by the Agency and Distributorship Agreement India and Siemens India may not venture into Dresser-Rand India Private Limited's business areas without prior written consent. Furthermore, SE Global GmbH & Co. KG shall purchase products, solutions and services, including R&D and engineering services, from Siemens India in accordance with annual volume targets. If these targets are missed by more than a certain threshold, Siemens India shall receive compensation that shall be calculated by reference to the relevant missed annual volume targets as further detailed in the Principles for Cooperation India. Furthermore, in order to facilitate their cooperation, the parties have entered into and may in the future enter into agreements under which the Group provides technology and know-how, technical support, access to IT infrastructure as well as support in respect of bid qualification and project execution.

(cc) *Shareholders' Agreement India*

Under the Shareholders' Agreement India, Siemens Group and Siemens Energy Group shall coordinate their actions with respect to the exercise of their shareholder rights. SE Global GmbH & Co. KG shall procure that Siemens Energy in certain matters votes alongside Siemens AG. However, with regard to certain reserved matters relating to the Gas and Power business of Siemens India, both parties have undertaken to exercise their voting rights only consensually. If no agreement can be reached, both parties shall refrain from voting on such matters. The Shareholders' Agreement India also regulates the transferability of the shareholdings of Siemens and Siemens Energy.

Under the Shareholders' Agreement India, Siemens has the option to purchase the shares held by Siemens Energy in Siemens India if SE Global GmbH & Co. KG is in material breach of the Shareholders' Agreement India; this also extends to Siemens terminating the Agency and Distributorship Agreement India or certain existing technical assistance and license agreements for cause if Siemens Energy has set such cause. Siemens Energy has the option to sell its shares in Siemens India to Siemens if Siemens AG is in material breach of the Shareholders' Agreement India and this also extends to Siemens Energy terminating the Agency and Distributorship Agreement India or certain technical assistance and license agreements for cause if Siemens has set such cause. Both these options (the "**Transfer Options India**") are subject to further conditions and certain remediation measures. The Shareholders' Agreement India may be terminated by either party (i) if another shareholder holds more than 25% in Siemens Energy or (ii) at any time after May 19, 2023.

In the event of either a termination of the Shareholders' Agreement India or an exercise of either of the Transfer Options India, the business activities attributable to Siemens and Siemens Energy in India shall be separated. The separation shall, subject to a final agreement between Siemens AG and Siemens Energy, the respective governmental and corporate approvals and the then applicable rules and regulations, including tax laws and takeover regulations, be carried out by transferring the gas and power business of Siemens India into a subsidiary of Siemens India, which shall become a listed company.

After that, Siemens and Siemens Energy shall transfer their respective shareholdings in Siemens India and the new listed company at respective fair market values, as further specified in the Shareholders' Agreement India.

Under the Shareholders' Agreement India, the parties shall also indemnify each other against any adverse tax consequences and brokerage fees arising in connection with the separation of the Siemens and Siemens Energy business activities in India. Siemens Energy shall also indemnify Siemens against adverse tax consequences if the Shareholders' Agreement India is terminated after a change of control event. In the event of a regular termination at any time after May 19, 2023, the terminating party shall indemnify the other party against indemnifiable taxes.

In all other countries in which the respective local Siemens Energy business was not conducted in a separate legal entity, the relevant local Siemens Energy business was separated from the other Siemens business in general as of March 31, 2020 (Local Carve-Outs). The separations were largely implemented by formation of new local legal entities to which the local Siemens Energy business was transferred either through corporate or transformation law measures under local law (e.g., through spin-offs) or based on purchase agreements (carve-outs). Certain carve-outs may be accompanied by additional follow-up measures, such as the registration of branches, to make the respective local businesses fully operational. In a classic carve-out, generally Siemens would be held liable for obligations or otherwise affected by consequences arising from former activities that are attributable to Siemens Energy. It has therefore been agreed in each case that the respective local Siemens Energy company will indemnify Siemens from any such liability.

In other countries, Siemens' businesses pertaining to Siemens Energy's gas and power business were separated by means of a so-called "reverse carve-out" (shares in companies in relation to Siemens' local business were transferred to Siemens Energy, with the local Siemens business being carved-out into a Siemens Group company) and transferred under LATAs. These LATAs were entered into between the respective local transferring company of the Siemens Group, as transferor of the assets, and the respective local acquiring company of the Siemens Group for each country as transferee (see "5.2.2 Rest of World Carve-Out"). The transfers were carried out in the form of sales, contributions in kind, demergers or similar methods or contractual relationships under local law of the countries in which the transferred businesses are located. The shares in the local Siemens Energy Group companies, which, following the execution of the LATAs, basically only hold the respective local Siemens Energy business, were transferred to Siemens Gas and Power Holding B.V. by selling the shares in the local Siemens Energy Group company on the basis of purchase agreements (Local Share Transfer Agreements, "LSTAs"). In some cases, the respective local Siemens Energy Group company was already formed and funded for the acquisition of the respective local Siemens Energy business. In other cases, certain local Siemens Energy businesses, especially the local Siemens Energy business in the United States, were not separated by way of a local Carve-Out; instead the shares in the already existing local Siemens Energy Group companies were contributed into or transferred to SE Global GmbH & Co. KG or Siemens Gas and Power Holding B.V., and, in some of these cases, minor business activities not related to the Siemens Energy business were agreed to be wound down.

Depending on the relevant jurisdiction, the business transferred pursuant to the LATAs included the transfer (or assumption of) tangible assets, IP, contracts, liabilities, real estate, leases or real estate-related services, employee relationships and related liabilities, litigations, permits and all other relevant assets. The consideration for the transfers was in most cases based on a valuation of an independent auditor or on internal valuations.

As a consequence, in reverse carve-out situations, Siemens Energy may be held liable for obligations, or may be affected by other consequences from earlier activities that are attributable to the local remaining Siemens business and thus, the LATAs specify that the Siemens Group shall indemnify Siemens Energy against any liabilities arising out of or in connection with the transferred businesses, with the exception of tax liabilities pertaining to periods until carve-out effective date, that must generally be borne by the company upon which they are imposed. These rules apply in reverse to classic carve-outs, i.e., Siemens Energy is then obligated to indemnify Siemens with the aforementioned exception for tax liabilities. The LATAs also expressly regulate the allocation of potential liabilities relating to litigation cases pending as of the effective date of the relevant LATA that were attributable to the transferred business. With respect to pending litigation, the general principle of the LATAs is that each party shall be put into the economic position it would assume if the pending litigation had been transferred. In certain countries, such as Brazil, where a reverse carve-out took place, this principle also applies under the relevant LATAs with respect to litigation arising in connection with the businesses carved out into a Siemens Group company (see "12.8 Legal and Administrative Proceedings").

Under the LATAs, none of the transferring Siemens Group companies made any representation or warranty, express or implied, or assumed any responsibility or liability for, or as to, the status of the acquired business or any part thereof.

A separate local asset transfer agreement in relation to the so-called "T3000 business" (business of development and maintenance of power plant control systems) has been concluded between Siemens AG and SE Global GmbH & Co KG on March 31, 2020, which becomes effective on August 1, 2020. Under this agreement, certain tangible assets, contracts, including all receivables and liabilities, employees and IP rights owned by Siemens AG relating to T3000 business have been transferred to SE Global GmbH & Co KG. Siemens AG received certain back-licenses in relation to the transferred IP rights and improvements and modifications of inventions underlying the IP rights made by Siemens Energy that allow Siemens AG to continue development of T3000 technology and its use in its own solutions. However, it does not allow Siemens AG to provide maintenance of certain power plants using the T3000 technology in unmodified form or to use or market T3000 solution in unmodified form. In addition the same parties have entered into a related long term services agreement. Further related agreements, e.g., a supply agreement and a cooperation agreement, will have been concluded or should be concluded until the end of September 2020. These agreements predominantly govern the supply of certain T3000 related products by Siemens AG to Siemens Energy as well as certain forms of support by Siemens Energy to Siemens AG in relation to hardware and software products.

Furthermore, the Siemens operations IT as well as controlling and finance units were transferred as of August 1, 2020 as well. Conversely, there was a retransfer from SE Global GmbH & Co. KG to Siemens AG of an operating unit in the area of operational project logistics as of August 1, 2020.

For risks relating to erroneous transfers of assets or liabilities or failures to transfer assets or liabilities, see *"3.5.7 We are exposed to risks arising from indemnities which we have granted to Siemens in connection with our separation from Siemens. In addition, as part of this separation, assets or liabilities may have been incorrectly allocated, which may require us to transfer certain assets to or assume further liabilities from Siemens."* Furthermore, we may agree with Siemens on the transfer of further assets and liabilities in the future.

(8) *German Contribution Agreement*

On December 20, 2019, Siemens AG and SE Global GmbH & Co. KG concluded a contribution agreement agreeing the details of the Germany Carve-Out (the **"German Contribution Agreement"**). Under the German Contribution Agreement, Siemens AG transferred all assets directly held by Siemens AG and attributable to Siemens' German Gas and Power business to SE Global GmbH & Co. KG, except for real estate (see *"18.1.1.1(10) Transfer of Real Estate"*) and certain newly created central departments for Siemens Energy (the **"German GP Business"**). The asset transfers became effective on January 1, 2020 and as consideration, Siemens AG's limited partner interest (*Kommanditanteil*) in SE Global GmbH & Co. KG was increased.

In particular, the following transfers were regulated by the German Contribution Agreement:

- Tangible assets (including loose plant, machinery, equipment, tools, vehicles, assets under construction), IT hardware and other tangible IT systems (excluding software), raw materials and supplies, spare parts, works in progress, finished goods and merchandise, including any related rights, title and interest, all books of accounts and other files, records and documents were transferred to SE Global GmbH & Co. KG.
- Siemens AG transferred shares in legal entities directly held by it and allocated to the German GP Business to SE Global GmbH & Co. KG as well as a shareholding of approximately 30% in SGRE S.A. Among other shareholdings, Siemens also transferred its minority interests of 35% in each of Voith Hydro Holding GmbH & Co. KG and its general partner (*Komplementär*) Voith Hydro Holding Verwaltungs GmbH, which is active in the field of power generation and offers components for various hydro power plants and the associated service business, and its minority shareholding of 49% in EthosEnergy Group Limited, which is a joint venture formed in 2014 with John Wood Group PLC providing services for rotating equipment such as gas

turbines and using IP and tool licenses for its business that belong to the Siemens Energy business.

- Employment relationships with approximately 26,000 employees were transferred to SE Global GmbH & Co. KG which also assumed pension liabilities relating to such employees. Siemens Energy has set up a CTA that acts as pension trust (GP Trust e.V.). In connection herewith, the CTA has been funded with assets that had a fair value of approximately € 915 million as of January 2, 2020 to the account of GP Trust e.V. as pension trustee. In addition, assets for the deferred compensation plan with a fair value of approximately € 101 million as of December 31, 2019 were transferred on March 24, 2020 (already accounted for as plan assets at SE Global GmbH & Co. KG as of German carve-out date) (for further information on Siemens Energy's pension obligations, see "9.9.6.2 Pensions and Similar Obligations").
- The following IP rights that were owned by Siemens AG were transferred by it to SE Global GmbH & Co. KG: (i) patents for which the Gas and Power business had incurred the majority of costs, (ii) trademarks exclusively used by the Gas and Power business and funded by the Gas and Power business, provided that they do not contain any Siemens designations, (iii) know-how and software in object code format predominantly used and software in source code format predominantly financed by the Gas and Power business, (iv) domains predominantly used by the Gas and Power business and (v) copyrights in relation to the transferred tangible assets, patents, know-how, software and domains. In relation to the transferred patents, know-how, software and copyrights, SE Global GmbH & Co. KG granted non-exclusive, worldwide, perpetual, irrevocable, fully-paid-up use rights to Siemens AG to conduct any activities in the defined current business field of Siemens AG and its affiliates. Under certain circumstances, the license is transferrable and sub-licensable. In relation to patents, know-how, software and copyrights that are owned by Siemens AG and were not transferred to SE Global GmbH & Co. KG but which are used by the Gas and Power business, Siemens AG granted SE Global GmbH & Co. KG non-exclusive, worldwide, perpetual, irrevocable and fully-paid-up use rights to conduct any activities in the defined current business field of the Gas and Power business as it has been conducted on October 1, 2019. IP rights that protect products or services that are part of the portfolio of the remaining Siemens Group which have been purchased by the Gas and Power business prior to the effective date of the carve-out are neither transferred nor licensed to SE Global GmbH & Co. KG. SE Global GmbH & Co. KG may continue to purchase such products or services from Siemens AG and its affiliates. With regard to certain technologies, products, services and related IP, the parties agreed to find separate case specific solutions which may deviate from the German Contribution Agreement, e.g., in relation to Siemens AG's remote service platform cRSP by means of a service and a development service agreement.
- Furthermore, Siemens AG transferred all permits, including export licenses and customs authorizations, required to carry out the German GP Business to SE Global GmbH & Co. KG as well as permanent establishments.

Under the German Contribution Agreement, SE Global GmbH & Co. KG also assumed liabilities under transferred contracts that required, as the case may be, the counterparty's consent prior to any transfer and other liabilities. Among the assumed liabilities are liabilities in connection with the repair or replacement of defective goods or with remedy of services and for damages caused by sold products or rendered services, liabilities for infringement of third party's IP rights, and liabilities in relation to security granted over assets transferred to SE Global GmbH & Co. KG. In cases where the counterparty's consent, albeit necessary for the transfer obligations, could not be obtained, Siemens AG and SE Global GmbH & Co. KG have agreed to be put in the same economic position as if the respective obligations had been transferred.

Under the German Contribution Agreement, SE Global GmbH & Co. KG has undertaken *vis-à-vis* Siemens AG to upon request use commercially reasonable efforts to procure that SGRE discharges Securities granted by Siemens Group companies and has assumed joint and several liability towards Siemens AG for SGRE's payment obligations arising in connection with such Securities, in particular for the payment of due security fees, interest, expenses and other costs.



Furthermore, the German Contribution Agreement regulates the allocation of potential liabilities relating to litigation cases pending as of the effective date of the German Contribution Agreement that were attributable to the German GP Business (the “**Pending Litigation**”). The German Contribution Agreement provides that each party shall be put into the economic position it would assume if the Pending Litigation had been transferred.

In connection with a contract for the construction of the “Olkiluoto 3” nuclear power plant in Finland for Teollisuuden Voima Oyj (TVO), Siemens AG will continue to be externally liable vis-à-vis TVO and Siemens AG’s consortium partners. Due to a significant delay of the project, TVO will likely raise delay claims against the consortium or may pursue termination of the contract, potentially triggering additional significant claims from TVO. As between Siemens AG and Siemens Energy, Siemens Energy will be responsible for the execution of the project. Siemens AG has agreed to cover certain potential claims of TVO, to the extent these claims exceed € 83 million. However, in certain cases Siemens Energy may have to first satisfy such claims vis-à-vis TVO and may only be able to obtain relief from Siemens AG following legal proceedings against Siemens AG’s consortium partners. As a result, Siemens Energy may not be able to obtain the aforementioned relief in time or in full, which could have a significant financial impact on Siemens Energy. Apart from the foregoing, Siemens Energy will be entitled to all benefits and bear all risks associated with the project execution and Siemens AG’s position as a party to the consortium agreement, including risks related to delays or non-completion of the project. Any of these risks, if they materialize, may result in substantial losses.

Furthermore and with exception to the Olkiluoto 3 project, the German Contribution Agreement provides that SE Global GmbH & Co. KG shall indemnify Siemens against any liabilities arising out of or in connection with, the transferred German GP Business.

Under the German Contribution Agreement, Siemens AG made no representation or warranty, express or implied, or assumed any responsibility or liability for, or as to, the status of the business acquired by SE Global GmbH & Co. KG or any part thereof.

(9) *Siemens France Holding S.A.S. participation in Siemens Gas and Power Holding B.V.*

The local Siemens Energy Group company in France was transferred to Siemens Gas and Power Holding B.V. by way of a contribution. In return, the transferring French company remaining in the Siemens Group, Siemens France Holding S.A.S., received a 1.7% share in Siemens Gas and Power Holding B.V. in which the respective local Siemens Energy business of a large number of countries was bundled. This shareholding in Siemens Gas and Power Holding B.V. is expected to continue at least until June 2022. After this date, Siemens France Holding S.A.S. has the right to sell its shares to SE Global GmbH & Co. KG under a shareholders’ agreement.

(10) *Transfer of Real Estate*

The ownership of real property in Germany attributable to the German GP Business was not subject to the German Contribution Agreement because this real property had already been bundled in Siemens Gas and Power Real Estate GmbH & Co. KG (“**GP Real Estate GmbH & Co. KG**”). Under a sale and transfer agreement dated March 27, 2020 (the “**GP Real Estate STA**”), Siemens AG sold to a wholly-owned subsidiary of SE Global GmbH & Co. KG (the “**Purchaser**”) a partial partnership interest (*Teil-Kommanditanteil*) representing 89% of the fixed capital (*Festkapital*) of GP Real Estate GmbH & Co. KG as well as all of the shares in the sole general partner (*Komplementär*) of GP Real Estate GmbH & Co. KG. With respect to Siemens AG’s remaining partnership interest (*Kommanditanteil*) of 11% in GP Real Estate GmbH & Co. KG, Siemens AG was granted an option to sell such remaining partnership interest (*Kommanditanteil*) to the Purchaser. The sale option is exercisable at any time until April 21, 2022. If the sale option lapses, the Purchaser may at any time beginning on April 21, 2023 exercise an option to acquire such remaining partnership interest (*Kommanditanteil*) under the GP Real Estate STA. Under each option right, the purchase price shall correspond to the fair market value and is to be determined by a neutral expert on the basis of predetermined valuation criteria.

#### 18.1.1.1.2 Cooperation Agreements

##### (1) *Strategic Alliance Agreement*

On March 31, 2020, Siemens AG and SE Global GmbH & Co. KG entered into a framework agreement on the establishment of a future global strategic alliance (the “**Strategic Alliance Agreement**”). With the strategic partnership, the parties aim to increase the competitiveness of their complementary business portfolio and spur innovation to the benefit of each party’s customers to the extent permissible under antitrust and competition laws, by cooperating in various fields comprising *inter alia* R&D, cybersecurity and key customer management. The parties may identify further areas of cooperation in the future. The Strategic Alliance Agreement encompasses four separate agreements that contain further and more specific provisions on the parties’ cooperation in certain areas:

- *Service Agreement for MDB Data Center & Telecommunications Key Account Management* – On March 27/30, 2020, Siemens AG, Siemens Schweiz AG and SE Global GmbH & Co. KG entered into an agreement under which Siemens AG and Siemens Schweiz AG render services to SE Global GmbH & Co. KG in the field of key customer management (market development board (MDB) data center & telecommunications key account management). These services comprise, *inter alia*, (i) support in developing an integrated global market and customer strategy and (ii) the establishment and maintenance of top executive customer contacts. Further, the parties may opt for local sales collaboration in their respective regions, for instance in common regional account management or joint bids, under separate contracts. The service agreement for MDB Data Center & Telecommunications Key Account Management includes templates for the conclusion of such contracts. The remuneration for the services mainly depends on the order intake from key customers. The agreement provides for fixed terms until May 31, 2021 or May 31, 2022 for the various services.
- *Agreement on Collaboration in the Field of Cybersecurity* – On April 27, 2020, Siemens AG, SGRE S.A., Siemens Healthineers AG and SE Global GmbH & Co. KG entered into an agreement on the further collaboration in the field of cybersecurity. Under the agreement, the parties shall establish, to the extent permitted by law, a joint cybersecurity board with representatives of all parties to exchange and cooperate on cybersecurity issues (with Siemens AG representing Siemens Energy in the “Charter of Trust”). The agreement is concluded for an indefinite period of time and either party may terminate it at the end of a fiscal year by giving three months’ notice. The cooperation does not involve any monetary compensation
- *Platform Cooperation Agreement* – On March 30/31, 2020, Siemens AG and SE Global GmbH & Co. KG entered into an agreement in which, among others, SE Global GmbH & Co. KG undertakes to consider the use of “MindSphere” (Siemens’ cloud-based open operating system) in combination with its products and services. Furthermore, under the agreement the parties set up a so-called “Platform Cooperation Committee” which shall identify ways for combining the products and services of the parties in order to eventually enhance both parties’ business. In addition, with regard to IP rights and know-how resulting from any collaboration considered in the agreement, the parties agree that such rights shall generally be owned by Siemens AG. However, the agreement further stipulates that with regard to jointly developed applications, the parties will agree on a case-by-case basis who shall own the corresponding IP rights and know-how. The data rights as regards the content in the database always reside with the respective customer. Any applications solely developed by Siemens Energy based on “MindSphere” (including IP rights and know-how) shall be owned by Siemens Energy. The agreement expressly stipulates that the term and termination rights of the Strategic Alliance Agreement apply.
- *R&D Cooperation Agreement regarding R&D Activities in the field of Company Core Technologies* – On March 31, 2020, Siemens AG and SE Global GmbH & Co. KG entered into an agreement on the further collaboration in the area of R&D for company core technologies. In the agreement, the parties agree on the basis of further cooperation in the field of certain technologies that have been identified as company core technologies. A steering committee composed of members of both parties may define certain R&D projects in which the parties

shall collaborate. For such projects, the parties undertake to perform certain R&D services at their own expense and, under certain circumstances, to grant the other party a license to the contributed prior knowledge and the research results achieved in the respective contractually defined business areas. The agreement states that each party shall own all right, title and interest in and to its results solely developed by such party irrespective of whether such party had access to background of the other party. If the results were jointly developed, they shall be jointly owned by Siemens AG and Siemens Energy. The R&D cooperation agreement has a fixed term until May 31, 2022. Thereafter, the agreement can be terminated by either party to the end of the then current fiscal year by giving one month's notice and in subsequent fiscal years by giving eight months' notice to the end of the respective current fiscal year. If not terminated, the agreement respectively extends for another fiscal year.

The Strategic Alliance Agreement also states the parties' intention to continue their supply relationships, to enter into new framework supply agreements and grant each other the status of preferred suppliers. In this context, the Strategic Alliance Agreement further provides that, without prejudice to later specific agreements, Siemens AG and SE Global GmbH & Co. KG will, in economically relevant cases, grant each other the opportunity to submit an initial competitive and market-driven offer for up to 75% of the respective procurement volume for a supply or service put out to tender and, if necessary, an improved offer in the event of a better third-party offer (so-called "last call").

The Strategic Alliance Agreement has a fixed term until September 30, 2024 and thereafter is automatically extended for periods of one year each, unless terminated by either party on giving three months' written notice.

## *(2) R&D Framework Agreement*

On March 27, 2020, Siemens AG and SE Global GmbH & Co. KG entered into a R&D framework agreement ("**R&D Framework Agreement**") that governs all individual agreements between the parties or its affiliates which have adopted its terms, for the performance of R&D projects and services by Siemens AG for SE Global GmbH & Co. KG in return for remuneration.

SE Global GmbH & Co. KG shall become the owner of the development results. SE Global GmbH & Co. KG grants to Siemens AG with a non-exclusive, royalty-free license to use development results as well as background or sideground know-how and patents of SE Global GmbH & Co. KG needed by Siemens AG when using the developed results licensed to Siemens AG within the defined Siemens AG business field. The remuneration of Siemens AG shall generally be based on a fixed hourly rate that has been primarily based on costs of the services.

The agreement has a fixed initial term until May 31, 2022. The agreement shall automatically be extended for periods of one year each, unless terminated by either party on giving six months' written notice.

## *(3) IP-related cooperation and license agreements*

In relation to certain technological topics, Siemens and SE Global GmbH & Co. KG entered into certain agreements governing the cooperation and licensing that may also include certain restrictions on sublicensing, in the field of IP rights. For example, on March 30, 2020 Siemens AG and SE Global GmbH & Co. KG entered into an agreement on order developments stipulating that certain agreements for development orders previously entered into by specific Siemens AG units, one of which has been transferred to SE Global GmbH & Co. KG in the course of the Carve-Out, will be continued by Siemens AG and SE Global GmbH & Co. KG. On March 27, 2020, Siemens and SE Global GmbH & Co. KG entered into a technology transfer and license agreement and a joint IP agreement concerning vacuum interrupters. Siemens and SE Global GmbH & Co. KG also entered into contracts governing insulation systems or the trademark "Micalastic".

With effect as of March 30, 2020, Siemens AG and SE Global GmbH & Co. KG entered into a framework development agreement mainly in the field of signal processing of low power instrument transformer sensors for protection and metering applications which shall govern individual development agreements between the parties for the development of know-how and

IP rights by Siemens AG for SE Global GmbH & Co. KG against remuneration. SE Global GmbH & Co. KG shall become the owner of the development results. The agreement has a fixed term until May 31, 2023, unless its term is extended.

#### 18.1.1.1.3 Financing and Treasury

Until the Spin-Off Completion, Siemens Group companies will continue to cooperate with Siemens Energy in a variety of financing and treasury fields, such as factoring, financing and leasing, debt, commercial and equity financing, the provision of software for the management of currency risks or other treasury related services. Following the Spin-Off, Siemens Group companies will generally not provide financing or finance and treasury services to Siemens Energy, with the exception of certain IT-tools, or in relation to the preferred financing agreement (see "*18.1.1.1.3(2) Preferred Financing Agreement*"), and Siemens and Siemens Energy will continue to be bound by guarantee facility agreements (see "*18.1.1.1.3(3) Guarantee Facility Agreement(s)*").

##### (1) *Securities issued by banks or the Siemens Group*

Letters of support and other securities provided by Siemens AG in favor of banks, insurance companies and other financial institutions which have granted loans or provided other financing products (loans, Securities, documentary letters of credit, derivatives) to the Siemens Energy Group companies are intended to be replaced by Siemens Energy AG after the Spin-Off Completion.

Under the Master Separation Agreement, Siemens AG and SE Global GmbH & Co. KG agreed that the direct or indirect issuance or extension of Securities for the obligations of Siemens Energy Group companies (other than SGRE) shall be performed in accordance with past practice until the completion of the Spin-Off. In general, the issuance and extension of Securities is done through Siemens AG and certain other Siemens Group companies as well as through guarantee and surety lines of Siemens AG, other Siemens Group companies or Siemens Energy Group companies (other than SGRE) with banks and insurance companies. However, the respective Siemens Energy Group company is liable *vis-à-vis* the relevant Siemens Group company for any obligation in relation to the Securities. SE Global GmbH & Co. KG agreed with Siemens AG to be jointly and severally liable for such obligations. This applies to the following Securities:

- Siemens AG has issued letters of support and other securities for local credit, guarantee, surety and documentary letter of credit lines as well as currency, interest and commodity price hedging transactions of Siemens Energy Group companies (with the exception of SGRE) for the benefit of banks and insurance companies as well as other financial institutions. As of June 30, 2020, credit, guarantee, surety and documentary letter of credit lines as well as currency, interest and commodity price hedging transactions in the amount of approximately € 7 billion were secured through letters of support or other Securities of Siemens AG. Not included are transactions that Siemens AG conducted itself or through its own lines.
- Moreover, Siemens Group companies or instructed banks and insurance companies have issued, in some cases for a long-term or unlimited period, Securities to suppliers, customers and business partners and joint ventures of Siemens Energy Group companies to secure the fulfilment of contractual obligations. For the benefit of Siemens Energy Group companies (with the exception of SGRE) the volume is approximately € 23.7 billion as of June 30, 2020. This amount was calculated on the assumption that the amount of liability under accessory parent company guarantees, to the extent that these are unlimited, correspond in general to the value of the secured delivery or service agreement recognized for its term. Following the Spin-Off Completion, the initial value of the secured delivery or service agreement shall be reduced linearly over the planned term of such agreement, resulting in a corresponding reduction of the accessory liability amount of the respective parent company guarantee and the calculation of the fees owed in relation to a parent company guarantee for its provision shall be based on such reduced amount, unless a differing risk assessment and increased amount of liability is justified (such amount a "**Risk-Adequate Liability Amount**").

Under the Master Separation Agreement, SE Global GmbH & Co. KG shall use commercially reasonable efforts to procure that Siemens Group companies are discharged from the above-mentioned Securities. Until such discharge, SE Global GmbH & Co. KG, starting six months after Spin-Off Completion, shall report quarterly to Siemens AG on the measures undertaken to achieve such discharge. To procure the discharges, the following actions are planned:

- Siemens Energy companies shall use reasonable endeavors to establish own lines for the provision of Securities with banks and insurance companies. These may initially be secured by a letter of support or other Securities provided by Siemens AG or other Siemens Group companies and shall be discharged and replaced with a letter of support or other Securities granted by Siemens Energy AG after the Spin-Off Completion. Until such letters of support are replaced, Siemens Energy shall pay a fee to Siemens. Letters of support provided by Siemens AG shall terminate on April 30, 2021, at the latest. The fees for the fiscal year 2021 shall amount to approximately € 1 million if there is no early replacement. In principle, outstanding Securities shall not be amended or extended after the Spin-Off Completion; in particular, no amendment or extension shall be made that would increase the risk for Siemens Group companies. Until expiration or discharge of the Securities, Siemens Energy companies shall pay the agreed fees. Payment obligations towards Siemens AG and other Siemens Group companies are secured by SE Global GmbH & Co. KG. For the fiscal year 2021, fees for such Securities are estimated to amount to € 29 million (without fees for Securities provided in favor of SGRE). For the fiscal years thereafter, continuous reductions of such amount are expected due to the expiration and/or discharge of such Securities or because of the above-mentioned linear depreciation of the guaranteed values over their term.
- It is further intended, to the extent commercially reasonable, to transfer the Securities issued by banks or insurance companies securing Siemens Energy businesses under Siemens Group lines to lines of Siemens Energy companies at the latest after the Spin-Off.

To the extent Siemens Group companies have themselves issued or shall issue Securities, Siemens Energy shall endeavor to agree with the beneficiaries that the beneficiaries will, at a later time and under certain conditions, accept a replacement of Securities by Siemens Energy AG or other Siemens Energy Group companies or banks on lines of Siemens Energy and discharge Siemens Group companies from their liabilities. Siemens Energy Group companies are generally obligated to use commercially reasonable efforts to procure the discharge of Securities granted by Siemens Group companies.

Since the discharge of Securities usually requires the consent of the beneficiaries, and, as the case may be, of banks and insurance companies, it can be assumed that a large part of the Securities portfolio shall continue to exist after the Spin-Off Completion until the end of the term of the secured liabilities.

To the extent that Siemens Energy Group companies have issued or instructed Securities for the benefit of the remaining Siemens business, which is relevant for the separation of the Siemens and Siemens Energy business by means of reverse carve-outs, Siemens AG or other Siemens Group companies are obligated to and shall discharge these Securities or shall issue replacement Securities. Siemens shall continue to pay fees until the discharge. Siemens AG shall be jointly and severally liable for the due performance of any such obligations of the Siemens Group Companies. This discharge also normally requires the consent of the beneficiary.

Moreover, Siemens Group companies have concluded guarantee facility agreements with SGRE for the provision of Securities. The volume of these Securities amounted to approximately € 17.9 billion as of June 30, 2020 (on the basis of Risk-Adequate Liability Amounts). SGRE pays fees for the provision of Securities to Siemens Group companies and is liable for all expenses, costs and, in particular, for the fulfillment of payment obligations under the Securities.

Under the German Contribution Agreement, SE Global GmbH & Co. KG has assumed the obligation to use commercially reasonable efforts to procure that SGRE discharges such Securities and has assumed joint and several liability for SGRE's obligations, inter alia for the payment of due Security fees, expenses and other costs.



(2) *Preferred Financing Agreement*

On March 31, 2020, SE Global GmbH & Co. KG and Siemens AG entered into a preferred financing agreement (the “**Preferred Financing Agreement**”) which becomes effective as of the Spin-Off Completion. It governs the non-exclusive cooperation in the areas of debt and commercial financing (in particular leasing) as well as equity financing of Gas and Power customers and their projects (including power plant projects) at arm’s length. Debt financing comprises the provision of debt capital via standard market debt financing structures. Standard finance leasing structures can also be the subject of cooperation. In general, no recourse to Siemens Energy Group companies shall be made in connection with debt financing and finance lease structures.

The following framework conditions were agreed for equity financing (in particular for project companies):

- For equity financing in the first five years of the term of the Preferred Financing Agreement, Siemens AG has agreed to make available an investment volume of up to € 300 million *per annum*. For the following five-year period, the parties agreed that any sales revenue from the equity portfolio of assets acquired within the first five years under the Preferred Financing Agreement, but at least € 500 million, shall be available for new equity investments under the Preferred Financing Agreement. For equity financing, Siemens AG’s individual investment decision follows a portfolio approach which takes into account new and existing investments.
- In addition, equity financings up to a total volume of € 210 million may be made in extraordinary cases by Siemens AG via a recourse model, subject to full recourse to SE Global GmbH & Co. KG or Siemens Energy AG. In such cases, profits and losses resulting from the investments shall be borne by SE Global GmbH & Co. KG or Siemens Energy AG. Siemens AG bears the risk that recourse to SE Global GmbH & Co. KG or Siemens Energy AG may fail.

Services under the Preferred Financing Agreement shall be provided by SFS and its associated financing companies including Siemens Bank GmbH.

The Preferred Financing Agreement has a fixed term until September 30, 2030. However, either party may prematurely terminate the Preferred Financing Agreement, among other reasons, if (i) Siemens directly or indirectly holds less than 25% of the shares and/or voting rights in the Company (excluding shares directly or indirectly held by Siemens Pension-Trust e.V. and/or any other entity holding or managing plan assets under or in connection with Siemens Group’s benefit plans) or (ii) another shareholder of the Company, either individually or acting in concert with others, holds 25% or more of the shares and/or voting rights in the Company or exercises control over the Company, in both cases, (i) and (ii), with a phase-out period of 36 months from the receipt of an effective termination notice. In the case of a termination pursuant to item (i), however, the receipt of a termination notice during the first three years of the term of the Preferred Financing Agreement results in the 36-month phase notice period commencing on the third anniversary of the Spin-Off Completion. Either party may also, subject to certain further conditions, inter alia, terminate the Preferred Financing Agreement if the other party has failed in the performance of any material obligations or the respective other party becomes insolvent or an application to open insolvency proceedings is filed and not dismissed.

(3) *Guarantee Facility Agreement(s)*

The relevant Siemens companies and Siemens Energy companies have concluded guarantee facility agreements in all countries where Securities for the obligations of Siemens Energy Group companies (other than SGRE) are existing on the date of the facility agreement and/or are being issued, extended, renewed or amended until and excluding the Spin-Off Completion. The guarantee facility agreements relate to Securities that have been issued by Siemens companies or that Siemens companies have instructed under their guarantee facility agreements with banks or insurance companies. In countries where a reverse-carve out took place, similar guarantee facility agreements have been or will be entered into on a vice versa basis with exchanged roles of Siemens companies (requesting a guarantee) and Siemens Energy companies (providing the guarantee). Siemens may provide corporate Securities after Spin-Off Completion for contracts relating to the Siemens Energy business that could not be transferred to Siemens Energy. It is

intended to individually agree that the terms and conditions of the guarantee facility agreements, relating to classical carve-outs and reverse carve-outs, mentioned in this paragraph will apply.

(4) *Lease Agreements, Purchase of Receivables*

Certain Siemens Energy Group companies have in the past entered into and continue to enter into lease agreements with SFS. The Siemens Energy Group companies act as lessee. The lease agreements mostly focus on operating leasing. Such agreements are rent-like lease agreements with relatively long terms of usually one to ten years covering mobile assets, in particular various logistics, production and test equipment. Generally, there is no ordinary right of termination. Siemens Energy Group companies also entered into finance lease agreements that cover movable assets and typically have terms between two and eight years with no ordinary right of termination. Siemens Energy Group companies have in the past entered into and may continue to enter into purchase agreements for receivables with SFS, where the Siemens Energy Group companies act as sellers of receivables to finance themselves. The receivables sold are from the companies' operating business. The purchased receivables usually have a remaining term of up to three and a half years.

(5) *Cash Management; Hedging*

The system of intercompany clearing accounts and cash management (including cash pooling) between the Siemens Energy Group and the Siemens Group shall be terminated in connection with the Spin-Off Completion. Therefore, the balances from the cash management system between Siemens AG and SE Global GmbH & Co. KG existing at that time will be settled via external bank accounts. SE Global GmbH & Co. KG shall operate its own cash management system for the Siemens Energy Group (without SGRE) on the basis of a clearing account star (*Verrechnungskontenstern*) set up as part of the Carve-Out. The cash management is governed by the following agreements:

- Siemens AG maintains internal clearing accounts for its affiliated companies (without SGRE) to settle payment claims and payment obligations of the affiliated Siemens Group companies that arise from the provision of goods and services, the settlement of hedges and other treasury transactions between Siemens companies. Under an agency agreement and its amendment agreement existing between Siemens AG and SE Global GmbH & Co. KG, Siemens AG instructs SE Global GmbH & Co. KG, as the central treasury unit of Siemens Energy, to establish a clearing account star (*Verrechnungskontenstern*) for the Siemens Energy Group companies (without SGRE) starting as of January 1, 2020 and to maintain clearing accounts for the Siemens Energy Group companies (without SGRE). The agreement shall end upon Spin-Off Completion.
- The balance transfer agreements were concluded between (i) Siemens AG and (ii), as the case may be other treasury companies of the Siemens Group which like Siemens AG maintain clearing accounts for Siemens Energy companies, (iii) SE Global GmbH & Co. KG and (iv) the respective Siemens Energy companies. The purpose of the balance transfer agreements was to transfer balances on the clearing accounts of the Siemens Group to SE Global GmbH & Co. KG as the treasury unit and owner of the clearing account star (*Verrechnungskontenstern*) for the Siemens Energy Group companies (without SGRE).

At the latest upon Spin-Off Completion, the Siemens Energy Group will independently manage its currency, interest rate and commodity price risks and shall independently enter into respective hedging derivatives (*Währung-, Zins- und Rohstoffpreissicherungsderivate*). The currency, interest rate and commodity price hedging transactions concluded by individual Siemens Energy Group companies with Siemens Group companies shall be terminated or novated in connection with the Spin-Off unless an individual Siemens Energy Group company and the respective Siemens Group company counterpart conclude an agreement stipulating that hedging transactions, the expiry date of which falls within a twelve-month period after the Spin-Off Completion, are neither terminated nor novated. In case of a termination, the market values of the derivative transactions need to be settled between the relevant parties. For more information, see

*"3.5.2 We may face difficulties in satisfying certain treasury and finance requirements as well as performing certain services and functions that historically were provided by the Siemens Group."*

(6) *Evonik Marl VI and VII agreements with Siemens Finance & Leasing GmbH*

Siemens Finance & Leasing GmbH ("**SF&L**") entered into several agreements with SE Global GmbH & Co. KG in connection with providing finance leasing to our customer Evonik in the context of financing the erection by us of the Evonik Marl VI and VII power plants. Each finance lease structure includes an accession agreement governing the entry as principal of SF&L into the EPC contract with SE Global GmbH & Co. KG instead of Evonik Operations GmbH, a transfer agreement (*Ausübungsüberlassung*) concerning the limited personal encumbrance (*beschränkte persönliche Dienstbarkeit*) granted by Evonik Real Estate GmbH & Co. KG to SF&L, a utilization agreement (*Verwertungsvereinbarung*) between SE Global GmbH & Co. KG, SF&L, the security trustee, Evonik Real Estate GmbH & Co. KG and Evonik Operations GmbH and guarantees by Siemens AG were or are to be provided under each EPC contract.

#### 18.1.1.1.4 Trademark and Name Use (Sub-)License Agreement with Siemens Energy

On March 31, 2020, Siemens AG and SE Global GmbH & Co. KG entered into a trademark and name use (sub-) license agreement (the "**SE TLA**") that shall enter into force with the Spin-Off Completion. After the Spin-Off has taken effect, the SE TLA may be transferred to Siemens Energy AG with the approval of Siemens AG which may not be unreasonably withheld.

Under the SE TLA, Siemens AG grants SE Global GmbH & Co. KG the exclusive right to, among other things, use the combined designation "Siemens Energy" in the company name, internet and e-mail domains and the trademarks "SIEMENS Energy" as corporate mark and as product mark (the "**SE Mark**") as well as the non-exclusive right to use certain "Si-" product marks (the "**SE Licensed Designations**"). The right to use the SE Licensed Designations is granted for the business field in which the Siemens segment Gas and Power was active as of October 1, 2019 or which were defined in the business mandate of this segment at that time (including certain products and services that were the subject of R&D activities ongoing at that time) with the exception of the business area of SGRE (the "**SE Current Field**").

Siemens AG shall also neither use nor otherwise license the "Siemens Energy" trademark outside of the SE Current Field. SE TLA does not, however, prevent Siemens AG from operating under the trademark "Siemens" with or without further additions (with the exception of the addition "Energy") in the SE Current Field or future business areas of SE Global GmbH & Co. KG.

For the duration of the SE TLA, SE Global GmbH & Co. KG is obligated to use the designation "Siemens Energy" as the company name and the trademark "Siemens Energy" in the SE Current Field at all application levels (company and product trademark). Businesses conducted under third-party trademarks (e.g., "Guascor" or "Trench") at the time of the conclusion of the SE TLA shall continue to be managed separately. With respect to the business managed under "Dresser-Rand", SE Global GmbH & Co. KG is free to either continue to manage this business separately or to convert it to "Siemens Energy". In the event that SE Global GmbH & Co. KG, within the SE Current Field, acquires a business from a third party or forms a joint venture over which it has control, then SE Global GmbH & Co. KG may decide, in its own discretion, whether the newly acquired business shall use the "Siemens Energy" trademark under the conditions set forth above or whether the business shall be conducted within a separate company without the use of the designation "Siemens Energy".

To the extent that SE Global GmbH & Co. KG engages in new business areas outside of the SE Current Field that do not overlap with Siemens' business fields at the time, either through organic growth or acquisitions, the parties to the SE TLA, upon the request of SE Global GmbH & Co. KG, shall discuss an expansion in good faith, the consent to which Siemens AG may not unreasonably withhold, subject to detailed provisions which set forth the conditions under which Siemens AG may provide its consent for the expansion of the business fields under the SE TLA. However, in case of an overlap with Siemens business fields no expansion shall be granted. If Siemens AG does not permit the use of the trademark, SE Global GmbH & Co. KG may only

operate in the new business area through a separate company which is not entitled to use the name and trademark "Siemens Energy".

SE Global GmbH & Co. KG is entitled and (with the exception of the above-mentioned business conducted under third-party trademarks) obligated to grant a sublicense to affiliated companies, including Siemens Energy AG, for the use of the "Siemens Energy" trademark in accordance with the provisions of the SE TLA and to ensure that they are obligated to use the designation "Siemens Energy" in the SE Current Field.

SE Global GmbH & Co. KG shall pay a margin-based license fee for the use of the "Siemens Energy" trademark. This license fee depends on the EBITA margin of Siemens Energy (excluding SGRE) as adjusted for certain special items as set forth in the SE TLA ("**TLA Specific EBITA Margin**") and ranges between 0.3% (if the TLA Specific EBITA Margin is less than or equal to 6.5%) and 1.2% (if the TLA Specific EBITA Margin is equal to or greater than 9%) of revenue (excluding sales tax) generated with products and services under the "Siemens Energy" trademark or, until the transition to the "Siemens Energy" trademark, under the "Siemens" trademark. Based on a projection as of June 30, 2020, the license fee to be paid by SE Global GmbH & Co. KG for fiscal year 2020 would amount to a mid-double-digit million euro figure. The adequacy of the license fee shall be reviewed at regular intervals.

The SE TLA has a fixed initial term of ten years and automatically extends by further 3-year revolving term unless terminated by either party. Siemens AG may terminate the SE TLA with immediate effect, subject to staggered transition periods, upon the occurrence of certain termination events including the following:

- (i) Siemens AG (directly or indirectly) holds less than 25% of the shares and/or voting rights in the Company (excluding shares directly or indirectly held by Siemens Pension-Trust e.V. or any other entity holding or managing plan assets under or in connection with Siemens Group's benefit plans) and provided that such termination may become effective earliest on September 25, 2023;
- (ii) a substantial competitor of Siemens Group holds more than 15% of the shares and/or voting rights in the Company;
- (iii) a sovereign wealth fund or a financial investor holds more than 25% of the shares and/or voting rights in the Company;
- (iv) another person holds more than 25% of the shares and/or voting rights in the Company; or
- (v) SE Global GmbH & Co. KG is no longer an affiliated company of the Company or the Company no longer carries the designation "Siemens" in its company name;
- (vi) if SE Global GmbH & Co. KG fails to establish and maintain certain best industry practices as defined in the SE TLA (such as the obligation to establish and maintain a compliance system in line with industry standards).

Moreover, either party may terminate the SE TLA with immediate effect subject to staggered transition periods, (i) if the other party has committed a material breach, which upon the completion of the escalation process defined in the SE TLA could not be remedied or (ii) if, either party has a legitimate reason to believe that the reputation of "Siemens" is materially adversely affected by the actions of the other party or a third party and the agreed crisis and remediation plan could not be successfully completed.

The SE TLA does not provide for a termination right of SE Global GmbH & Co. KG for the case that the SGRE TLA is terminated. For the planned discontinuation of the use of the Dresser-Rand brand, which may lead to additional trademark fees towards Siemens AG, see "*14.1 Formation, Incorporation, Commercial Register, Name*".

#### 18.1.1.1.5 Real Estate Lease Agreements

Lease agreements for production, manufacturing, storage, office and other commercial spaces have been concluded between Siemens Group companies (as landlords) and Siemens Energy

Group companies (as tenants) at arm's length conditions and shall continue to exist after the Spin-Off Completion. This applies to a total area of approximately 500,000 square meters in approximately 250 properties worldwide. The total rental expenses of Siemens Energy Group, including operating and ancillary costs as well as the related services under lease agreements with Siemens Group companies, amount to approximately € 107 million annually. It is expected that the figures for fiscal year 2020 will be slightly higher due to additional spaces for further transferred employees from central functions. The most important agreements relate to sites in Germany (in particular located in Berlin and Erlangen).

Furthermore, lease-back agreements have been concluded between Siemens Group companies (as tenants) and Siemens Energy companies (as landlords) for parts of commercial properties transferred to Siemens Energy companies at arm's length conditions. These lease-back agreements shall also remain in effect after the Spin-Off becomes effective. This relates to a total area of approximately 50,000 square meters worldwide. The total rental expenses of Siemens Group under these lease-back agreements amount to an estimated € 7 million in the fiscal year 2020.

Additionally, there are approximately 350,000 square meters in approximately 25 leased locations worldwide (mostly in Germany) where the respective Landlord has not yet given its consent to the lease transfer, *i.e.*, such contracts currently remain with Siemens Group companies that continue to lease to Siemens Energy Group companies. The annual rental costs amount to approximately € 25 million, excluding operating and ancillary costs, which are settled directly with third party service providers. Negotiations on the respective transfers will continue in the near future.

#### 18.1.1.1.6 Services

Siemens Group provided Siemens Energy with services relating to human resources, real estate, IT, IP, legal, compliance, procurement, export control and customs, treasury and corporate finance, trademark licensing, finance services (including the provision of guarantees and other forms of security and hedging transactions) and other areas. Siemens Energy was part of the cash pooling and cash management system, group funding, global insurance cover, bank guarantee and pension management of Siemens Group.

After the Carve-Out of the Siemens Energy business and the Spin-Off Completion, by way of agreement SE Global GmbH & Co. KG and other companies of Siemens Energy Group shall continue to receive certain services from Siemens Group for a transitional period until Siemens Energy Group has successfully established its own departments and functions (each a "TSA"). By way of separate agreement certain services shall be provided on a long-term basis to Siemens Energy Group via outsourcing (each an "LSA"). The agreements are conditional upon the Spin-Off Completion. With some exceptions, they have terms between twelve and 36 months. In total, Siemens and Siemens Energy have concluded more than 350 TSAs and more than 1,000 LSAs. The expected total contract volumes over the entire term of the contracts are approximately € 280 million for TSAs and approximately € 1.2 billion for LSAs. The TSAs predominantly cover services provided by Siemens' internal information technology department. All TSAs are governed by the same terms and conditions which provide for certain termination rights such as termination for cause or if it becomes unlawful for the service provider to perform its obligations. As regards the LSAs, approximately 20 are global master agreements concluded by the central functions in Germany on behalf of Siemens Energy globally. Of the remaining LSAs, around 600 are local adoption agreements based on the global master agreements and the remaining over 400 are independent agreements for specific local country service requirements, for example real estate rental contracts and guarantee facility agreements. The LSAs address a wealth of topics, including human resources and accounting, rating, purchasing, sales & marketing support as well as project & transformation management, IT, the "internet of things", IP, communications, R&D and cybersecurity, patent management and joint purchasing. A significant portion of the pension assets in Germany are managed by Siemens Fonds Invest GmbH, which is a 100% (indirect) subsidiary of Siemens AG. For more information on the insurance of Siemens Energy under Siemens policies until September 30, 2021, see



*"12.3.13 Insurance"*. Siemens also provides services to Siemens Energy under software as a service contracts governing the treasury related IT software "finavigate" and "CURRIMA". For some topics Siemens Energy may also provide services, among other things in the area of IT, to Siemens AG by means of so called reverse service agreements.

Siemens AG and SE Global GmbH & Co. KG agreed on a general volume discount for service contracts. For certain specified worldwide services, Siemens AG shall grant a mid double digit percentage discount on the agreed prices in the first year after the Spin-Off Completion (*i.e.*, presumably until September 25, 2021), a low double digit percentage discount in the second and third year, thereafter no further discounts shall be granted. The respective discounts shall be applied in favor of SE Global GmbH & Co. KG and shall be offset against services purchased by SE Global GmbH & Co. KG. The above-mentioned contract volumes do not yet include volume discounts. Finally, upon termination of some of the service agreements, a total of approximately 115 job positions, of which around 40 are located in Germany, shall transfer to Siemens Energy.

#### 18.1.1.1.7 Dual Mandates and Similar Relations

As of the date of the Prospectus, all members of the Supervisory Board are employees of Siemens. Following completion of the Spin-Off, Mr. Joe Kaeser and Prof. Dr. Ralf P. Thomas, who are also serving on the executive board of Siemens AG, and Mr. Matthias E. Rebellius, who is an employee of Siemens, shall be members of the Supervisory Board. Furthermore, Dr. Andrea Fehrmann, Mr. Jürgen Kerner and Mr. Hagen Reimer are expected to remain members of the supervisory board of Siemens AG following Spin-Off Completion.

#### 18.1.1.2 Relationships with and Services Provided by the Siemens Group to SGRE

Before the Spin-Off, the relationship between SGRE and the Siemens Group was governed by numerous agreements which covered general administrative and specific technical matters and services provided by Siemens, in particular relating to trademark, IP rights, real estate, general administration, human resources, customer financing, IT and technical support. The agreements below relate to the relationship between SGRE and the Siemens Group only. SGRE and Siemens Group continue to have various agreements in place governing their ongoing contractual relationship, in particular:

##### 18.1.1.2.1 Strategic Supply Agreement SGRE

On March 31, 2017, Gamesa and Siemens Wind HoldCo S.L., as predecessor companies of SGRE SA, together with Siemens AG, entered into a strategic supply agreement with Siemens AG in the course of the merger of SGRE with the wind power business of Siemens AG (the **"Merger"**). Under this supply agreement, SGRE agreed to purchase from the Siemens Group (as strategic supplier) specified products and services relating to, in particular, specified gearboxes, segments and other products and services, under individual purchase orders or offers, including certain volume commitments by SGRE for gearboxes and segments. In addition, the agreement entitles Siemens to provide first quotes (so-called "first calls") and in certain cases another quote later in the contracting process (so-called "last calls"), for all or part of SGRE's external demand for products and services that are within the agreement's scope, all within certain timeframes and subject to conditions and exceptions and including competitiveness mechanisms. Only that portion of the agreement relating to the supply of transformers was transferred to SE Global GmbH & Co. KG with effect as of January 1, 2020 and has been renegotiated between SE Global GmbH & Co. KG and SGRE S.A. The remaining portion of the agreement remains largely in place and has been updated by an extension and amendment agreement between SGRE S.A. and Siemens AG concluded on May 20, 2020 for the time after the Spin-Off. Pursuant to such amendment, the agreement remains effective for four years as of the Spin-Off Completion and shall be extended by further consecutive periods of one year unless terminated by either party giving six-months prior written notice.

#### 18.1.1.2.2 Three Party Frame Contract / Collaboration Agreement SGRE

On February 4, 2020, Siemens AG, SGRE S.A. and Iberdrola S.A. concluded a collaboration agreement (the **"Three Party Frame Contract"**) that was extended on July 9, 2020 until February 4, 2021, in order to promote the use of onshore and offshore wind energy as well as improve the distribution grid and generally to promote the use of renewable energy. In particular the parties' objectives under the Three Party Frame Contract are to expand their current business relationships, collaborate in developing projects as well as operating and servicing activities, and to exploit certain specific commercial opportunities. The contract aims to support turnover for SGRE and Siemens over the next three to 15 years in exchange for preferential pricing based on payment terms to be agreed separately and based on general terms and conditions. The Three Party Frame Contract shall be governed by a steering committee consisting of three members (one appointed by each of the parties) that supervises the negotiations among the parties regarding potential projects and execution of specific agreements. For such potential projects, Iberdrola, as a customer of Siemens and SGRE, granted both companies exclusive negotiation rights.

#### 18.1.1.2.3 Financing and Treasury for SGRE

Until the Spin-Off Completion, Siemens AG will continue to cooperate with SGRE in a selected number of financing and treasury fields, such as by maintaining a preferred financing relationship for customer and sales related financing, leasing or treasury IT-services, and the hedging of certain commodity and currency risk exposure. Following the Spin-Off, Siemens AG will generally not provide financing, hedging or finance and treasury services to SGRE, with the exception of treasury IT-services and the preferred financing agreement SGRE and Siemens AG will continue to fulfill its obligations under already existing Securities.

##### (1) *Preferred Financing Agreement SGRE*

On March 31, 2017, Gamesa and Siemens Wind HoldCo S.L., as predecessor companies of SGRE entered into a preferred finance agreement with Siemens AG in the course of the Merger. This agreement sets up a preferred financing relationship whereby Siemens AG finances (through its financing entities) SGRE's clients' projects on a preferred basis and Siemens' financial services division becomes the preferred financing partner of SGRE clients. This agreement will expire upon the Spin-Off Completion and will be replaced by a new preferred financing agreement between SGRE S.A. and Siemens AG (**"New Preferred Financing Agreement SGRE"**), entered into on August 7/13, 2020, effective as of the Spin-Off Completion.

The New Preferred Financing Agreement SGRE comprises a commitment by Siemens to offer, subject to certain conditions, SFS Financing through its Financing Entities to SGRE's clients as a first priority partner with regard to SGRE's clients' projects through the provisions of equity financing limited to the maximum amount of € 200 million per fiscal year for a period of five years until September 30, 2025 as well as debt and commercial finance for projects. The New Preferred Financing Agreement SGRE shall become effective as of the Spin-Off Completion and shall remain effective until September 30, 2030, subject to certain termination rights. Such termination rights include, among others, a termination (i) by either party in case of a material uncured default under the agreement or material deterioration of the financial condition of the other party, (ii) by Siemens AG, with written notice within three months' after the occurrence of certain events, including for example (a) Siemens AG, directly or indirectly, (excluding shares directly or indirectly held by Siemens Pension-Trust e.V. or any other entity holding or managing plan assets under or in connection with Siemens Group's benefit plans) holding less than 25% of the share capital and/or voting rights of Siemens Energy AG, whereby it has been agreed that the termination notice shall not occur earlier than the third anniversary of the date the agreement came into force, (b) one or more shareholders of Siemens Energy AG, alone or acting in concert with others, being attributed 25% or more of the share capital and/or voting rights of, or exercise(s) control over, Siemens Energy AG or (c) SGRE S.A. ceasing to be a subsidiary of Siemens Energy AG (in which case the termination shall have immediate effect), in the cases mentioned under (a) and (b) above, any termination shall be effective 36 months after the receipt of an

effective notice of termination, or (iii) by SGRE, if Siemens AG materially changes its investment principles set out in the agreement, with no less than 60 days' notice, unless such changes are withdrawn or the parties reach an agreement with regard to the changed investments principles.

(2) *Agreements Relating to Guarantees SGRE*

On April 2, 2017, Siemens AG on the one side and Gamesa (later renamed SGRE) and its subsidiaries on the other side entered into several guarantee facility agreements for existing Securities (the **"Guarantee Facility Agreements for Existing Guarantees SGRE"**) in connection with the Merger Agreement, as defined below. Under the Guarantee Facility Agreements for Existing Guarantees SGRE, Siemens AG (or a subsidiary of Siemens AG as issuer of a guarantee), as lender, and SGRE (or the SGRE group company that instructed the issuance of the existing guarantee), as borrower, agreed on the terms and conditions for guarantees that existed on and were issued, extended, renewed or amended until and excluding the effective date of the Merger (*i.e.*, April 3, 2017).

Also on April 2, 2017 and in connection with the Merger Agreement, Siemens AG and Gamesa entered into a guarantee facility agreement for new parent company guarantees and guarantees approved according to a special internal approval process established within the Siemens Group relating to M&A transactions ("aLoA guarantees") (the **"New Parent Company Guarantee Facility Agreement"**). Under the New Parent Guarantee Facility Agreement, Siemens AG provided SGRE with a guarantee facility in the maximum overall nominal amount of € 7.5 billion (the **"Facility"**) for the new offshore business unit of SGRE, subject to specified maximum annual thresholds. The Facility only applies to certain guarantees and the aforementioned limit also covers guarantees that Siemens issued on a voluntary basis.

The New Parent Company Guarantee Facility Agreement (or any part thereof) became available as from, but excluding the date on which the Merger became effective and remains in effect until the day of the termination of the Facility or respective part thereof in accordance with the terms and conditions of the New Parent Guarantee Facility Agreement, but shall in any event end on December 31, 2020. Any part of the Facility unused at the end of the availability period will be automatically cancelled. Siemens AG or the relevant subsidiary of Siemens AG that provided the guarantee may cancel the unutilized part of the overall maximum facility amount with immediate effect by providing notice to SGRE upon the occurrence of certain cancellation events, including certain events of default and change of control, which occurs if Siemens AG ceases to control SGRE, as defined in the agreement. As defined in the New Parent Guarantee Facility Agreement, upon the Spin-Off Completion Siemens AG will cease to have control over SGRE.

On May 20, 2020, Siemens AG and SGRE S.A. entered into an amendment agreement to the Guarantee Facility Agreements for Existing Guarantees SGRE and to the New Parent Company Guarantee Facility Agreement each with effect as of the Spin-Off Completion (the **"Amendment Agreement to the Guarantee Facility Agreements"**). The parties agreed that, upon the Spin-Off Completion and only as long as (i) SE Global GmbH & Co. KG's joint and several liability for SGRE's and its subsidiaries' obligations in connection with the concerned guarantees is legally valid, binding and enforceable and (ii) no third party directly or indirectly acquires control (as defined in the Amendment Agreement to the Guarantee Facility Agreements) of SGRE (the **"Fee Reduction Period"**), the previously agreed fees that would be applicable in a spin-off scenario in accordance with the relevant terms and conditions, shall be reduced. The adapted fees take into account the joint and several liability of SE Global GmbH & Co. KG and are calculated on the basis of the relevant Risk-Adequate Liability Amount, if applicable. In addition, after expiration of the Fee Reduction Period and subject to further conditions, SGRE and the concerned subsidiaries may deduct a certain portion of the fee payments provided by them to SE Global GmbH & Co. KG in respect of the latter's joint and several liability from the payment of guarantee fees to Siemens.

For a description of further direct and indirect Securities provided in connection with guarantee facility agreements entered into among Siemens AG and numerous SGRE companies, for which SE Global GmbH & Co. KG has assumed the obligation to use commercially reasonable efforts to

procure a discharge of such Securities, while at the same assuming joint and several liability towards Siemens AG for SGRE's payment obligations, see "18.1.1.1.3(1) *Securities issued by banks or the Siemens Group*".

(3) *Agreements Relating to Technical Guarantees SGRE*

In 2017 and 2018, Siemens Gamesa Renewable Energy, Inc. issued payment undertakings in favor of the Siemens Group related to several repowering projects in the United States involving tax equity investment from the Siemens Group.

(4) *Lease Agreements SGRE*

SGRE group companies have in the past and may continue to conclude finance and operating lease agreements with SFS. The *finance leases* are used to finance the SGRE group companies, which are lessees in these leases. These finance leases relate to movable assets, in particular various logistics and production equipment and have a term of between three and nine years. In some cases, the agreements provide for an ordinary right of termination. *Operating leases* have been and may continue to be concluded between SGRE group companies and SFS. The operating leases are leases with short terms to maturity similar to rental agreements. The SGRE group companies act as lessees. The operating leases are for mobile equipment, in particular various logistics and production equipment and usually have a term of between one and five years. Some of the agreements provide for an ordinary right of termination.

(5) *Hedging Transactions under ISDA Master Agreements SGRE*

In connection with the Merger, certain companies of the Siemens Group entered into ISDA master agreements with certain SGRE group companies. Under these ISDA master agreements, the respective parties entered into currency and commodity price hedging derivatives that include certain representations, events of default and termination events. Additionally, these agreements include a termination right for the respective member of the Siemens Group upon the Spin-Off becoming effective, unless the agreements are novated or it is otherwise agreed between the relevant parties. In case of a termination, the market values of the derivative transactions need to be settled between the relevant parties. For more information, see "3.5.2 *We may face difficulties in satisfying certain treasury and finance requirements as well as performing certain services and functions that historically were provided by the Siemens Group.*" and "18.1.2.4.3 *Hedging*". SGRE and the Siemens Group companies may conclude agreements stipulating that hedging transactions, the expiry date of which falls within a twelve-month period after the Spin-Off Completion, are neither terminated nor novated. Since April 1, 2020, SGRE is entering into derivative positions exclusively with external trading partners while the existing hedges entered into with Siemens are still with Siemens.

18.1.1.2.4 Trademark License Agreement with SGRE

SGRE S.A. as licensee concluded a trademark and name use (sub-)license agreement with Siemens AG as licensor on May 20, 2020 (the "**SGRE TLA**"), which will replace an existing agreement with SGRE S.A. with effect as of Spin-Off Completion. Under the SGRE TLA, Siemens AG continues to grant SGRE the right to, among other things, exclusively use the combined designation "Siemens Gamesa" as part of its company name, internet and e-mail domains, and the trademark "Siemens Gamesa" for new products, as well as the "SIEMENS" trademark for existing products of the former Siemens wind power business (the "**SGRE Licensed Designations**"). Under the SGRE TLA, the right to use the SGRE Licensed Designations is generally limited to business fields in which SGRE was active prior to its formation in April 2017 but excludes certain Gamesa Electric and Gamesa Energy Transmission products and services (the "**SGRE Permitted Activities**"). If SGRE enters into business fields outside of the SGRE Permitted Activities, it may request Siemens AG to expand the scope, the consent to such request shall not be unreasonably withheld. However, if such request is denied, SGRE must enter business fields outside the SGRE Permitted Activities through a separate legal entity that does not have the right to use the SGRE Licensed Designations.

The SGRE TLA has an initial term of ten years and extends automatically unless terminated by either party can be extended. Siemens AG has the right to terminate the SGRE TLA with immediate effect subject to staggered transition periods and with prior notice in a number of instances, such as, if (i) the SE TLA is terminated, (ii) Siemens Energy loses control over SGRE S.A., (iii) SGRE S.A. stops using the designation “Siemens” as part of its company name, (iv) Siemens has a legitimate reason to believe that the reputation of “Siemens” is materially adversely affected, even where this is due to a situation beyond SGRE’s control, (v) SGRE fails to establish and maintain certain best industry practices defined in the SGRE TLA, or (vi) SGRE materially breaches the SGRE TLA and such breach is not remedied. No license fee is payable under the SGRE TLA.

#### 18.1.1.2.5 IP Separation Specification Agreement SGRE

In connection with the Merger, Siemens AG and Siemens Wind Power A/S (a subsidiary of the later SGRE S.A.), on behalf of Siemens’ wind power business, agreed on (i) a separation of the IP based on functional specifications, (ii) the granting of certain royalty free licenses by Siemens AG to Siemens Wind Power A/S relating to certain products and vice versa and (iii) certain principles relating to joint development activities and strategic cooperation that would grant both parties exclusivity for a period of three years after the start of serial production of a particular type of product.

#### 18.1.1.2.6 Real Estate Lease Agreements SGRE

Rental agreements mainly for office use have been concluded between Siemens Group companies (as landlords) and SGRE group companies (as tenants) at arm’s length conditions and shall continue to exist after the Spin-Off Completion. As of June 30, 2020, this applies to a total area of approximately 15,000 square meters in approximately 35 properties worldwide. The total rental expenses of SGRE, including operating and ancillary costs as well as the related services in the fiscal year 2020 under rental agreements with Siemens Group companies, amount to approximately € 6 million.

#### 18.1.1.2.7 Umbrella Agreement SGRE

On May 20, 2020, SGRE, Siemens AG and SE Global GmbH & Co. KG entered into an “umbrella agreement” regarding the execution of certain agreements to be entered into governing the companies’ relationship after the Spin-Off. Once the agreements covered by the umbrella agreement have all been approved and signed, mostly on May 20, 2020, the umbrella agreement has no further effect after the Spin-Off Completion.

#### 18.1.1.2.8 Services

SGRE received service related support from Siemens, mostly for human resources, certain treasury related services, risk management, IT, corporate technology, manufacturing, procurement, accounting, controlling and tax. After the Spin-Off Completion, SGRE will continue to receive certain services from Siemens Group, mostly for transitional periods. These other service agreements address a wealth of topics, including among others, human resources, administration of IP rights, manufacturing services or rating services, in particular:

##### (1) *Transitional Service Agreements and other Service Agreements SGRE*

The Siemens Group has in the past and will continue to provide largely for transitional periods certain services to SGRE in the form of transitional services, including, among others, IT, tax services, human resources, and to a very limited extent treasury related IT-services (treasury software “finavigate” that might be used not only for a transitional period).

For example, pursuant to transitional service agreements entered into by Siemens AG and Siemens Wind Power GmbH & Co. KG, later renamed as Siemens Gamesa Renewable Energy GmbH & Co. KG (a subsidiary of SGRE S.A.) with effect as of December 1, 2016, Siemens AG agreed to provide certain services including accounting, IT, human resources or tax services, for a



service charge to be calculated as further detailed in the agreement, whereby the scope of the services and associated service charges may be modified from time to time by written agreement among the parties. The agreement contemplates a possible extension of its effectiveness after Siemens Gamesa Renewable Energy GmbH & Co. KG, as service recipient, ceases to be a subsidiary of Siemens AG. Among other termination grounds (e.g., termination for or without cause), the agreement contemplates a termination right for Siemens AG in the event of a second change of control. The transitional service agreements were extended and will end on March 2021 by virtue of an amendment agreement to the Merger Agreement.

With effect as of August 1, 2019, SGRE S.A. and Siemens AG entered into a service agreement under which Siemens AG agreed to provide SGRE S.A. with certain risk and internal control (“RIC”) services for a flat annual fee. The agreement expires automatically in November 30, 2020 but the parties intend to prolong the agreement for another year.

(2) *External Services Agreement Regarding Procurement Agreement with SGRE*

With effect as of August 1, 2018, SGRE and Siemens AG entered into an external service agreement (subsequently amended) by which Siemens provides procurement services enabling SGRE to benefit from a collective bargaining power in the pooling of such procurement services. The scope of the procurement services, as further detailed in the agreement, encompasses targets (e.g., saving targets) as well as service charges. Siemens AG’s compensation under the agreement varies depending on the type of service, some are subject to a fixed compensation with monthly installments and others are based on usage. The compensation may be adjusted in case the actual savings and certain specified synergies fall below the joint estimation set forth in the agreement. The agreement serves as a framework agreement to specify the terms and conditions for the provision of procurement services by Siemens AG to SGRE S.A. and its affiliates, but the rendering of services are regulated in specific adoption agreements.

(3) *Service Agreement on the Administration of IP-Related Matters SGRE*

With effect as of January 1, 2019, SGRE and Siemens AG entered into a framework service agreement for the administration of IP rights. The agreement has an initial fixed term until September 30, 2020 and shall thereafter be extended by subsequent further periods of one fiscal year each, unless terminated with six-months’ prior notice. Under the agreement, Siemens AG shall provide SGRE with services such as IP administrative services carried out by Siemens AG staff using Siemens AG’s internal IP systems and shall provide SGRE with access to and the ability to use its IP management systems and tools. The scope of services and service charges shall be reviewed until, at the latest, February 28 of each year. The agreement contemplates a procedure for potential remedial actions on the part of Siemens AG as service provider and contains certain provisions limiting Siemens AG’s liability in connection with the agreement. Pursuant to the agreement, among other termination causes, Siemens AG may terminate the agreement in whole or in part, with immediate effect upon giving written notice to SGRE, in case SGRE becomes a subsidiary of any other company than Siemens AG.

18.1.1.2.9 Agreements that will be terminated upon the Spin-Off Completion

There are a number of agreements that will be terminated upon the Spin-Off Completion, as Siemens shall then cease to be a shareholder of SGRE. SGRE and Siemens Energy have entered into similar agreements that shall take effect after the Spin-Off becomes effective and this relationship will no longer constitute a related party transaction for Siemens Energy, in particular:

- *Framework Agreement SGRE* – On May 4, 2017, SGRE S.A. and Siemens AG signed a framework agreement regarding certain information rights and obligations and related matters concerning their relationship. For example, the agreement dealt with the provision of certain business, financial, operational and organizational information to Siemens AG to allow Siemens AG to manage and evaluate its investment in SGRE, prepare its consolidated financial statements and comply with Siemens AG’s reporting and capital markets-related obligations. On May 20, 2020, SGRE S.A. and Siemens Energy AG have entered into a similar agreement that takes effect after the Spin-Off Completion.

- *Framework Service Agreement SGRE* – On December 27, 2018 and January 15/19, 2019, SFS and SGRE S.A. entered into a framework service agreement. In this agreement, SFS undertook to provide certain services to SGRE S.A. for a contractually defined fee, in particular accounting and controlling services with regard to the worldwide pension landscape of SGRE S.A. The Framework Service Agreement was terminated as per September 30, 2020.
- *Strategic Alliance Agreement SGRE* – On June 17, 2016, Gamesa and Siemens AG entered into a strategic alliance agreement (the “**Strategic Alliance Agreement SGRE**”) with the aim of generating additional volumes of business for both parties as well as establishing general cooperation in various areas. The Strategic Alliance Agreement SGRE sets up various relationships between the parties which are further specified in separate implementation agreements. For example, it establishes Siemens AG as strategic supplier of SGRE in the supply of certain products and services related to the wind power business, as further specified in a strategic supply agreement (see “18.1.1.2.1 *Strategic Supply Agreement SGRE*”) as well as a preferred financing relationship between Siemens AG and SGRE (see “18.1.1.2.3(1) *Preferred Financing Agreement SGRE*”), both of which will be continued with Siemens AG after the Spin-Off Completion. However, the Strategic Alliance Agreement SGRE was transferred to SE Global GmbH & Co. KG in connection with the Carve-Out implemented as a preparation for the Spin-Off with effect as of January 1, 2020. A new agreement has since been concluded by SE Global GmbH & Co. KG and SGRE S.A. on May 20, 2020 for the time after the Spin-Off.
- *Key Account Management Agreement SGRE* – On March 31, 2017, Gamesa and Siemens Wind HoldCo S.L., as predecessor companies of SGRE, together with Siemens AG, entered into a service agreement for key account management pursuant to which Siemens AG agrees to render to SGRE support services in the field of management of key customers. The agreement was transferred to SE Global GmbH & Co. KG with effect as of January 1, 2020. In connection with the Carve-Out the parties have negotiated a new key account management agreement with new terms for the time after the Spin-Off Completion.
- *Regional Support Agreement SGRE* – On March 31, 2017, Gamesa and Siemens Wind HoldCo S.L., as predecessor companies of SGRE, entered into a regional support agreement with Siemens AG pursuant to which the parties agreed to cooperate in the marketing and sale of SGRE’s products. Upon termination of the agreement, any regional agreements concluded between SGRE and a Siemens subsidiary also terminate. The agreement was transferred to SE Global GmbH & Co. KG with effect as of January 1, 2020 in connection with the Carve-Out and a new agreement has been concluded by SE Global GmbH & Co. KG and SGRE S.A. on May 20, 2020 for the time after the Spin-Off.
- *External IT Service Agreement SGRE* – On March 14, 2019 Siemens AG and Siemens Gamesa Renewable Energy A/S, Brande, Denmark (“**SGRE A/S**”), a subsidiary of SGRE S.A., signed an external service agreement for the provision of software licenses and software license-related services by the Siemens Group to SGRE A/S and any other SGRE group companies. Under the agreement, SGRE A/S procures licenses from the Siemens Group for the main software requirements relating to SGRE A/S’s business, using the combined user volumes of Siemens AG and its affiliates. A new external IT service agreement for IT software licenses and related software license services that replaces this agreement has been entered into between Siemens Gamesa Renewable Energy A/S and SE Global GmbH & Co. KG on May 20, 2020 for the time after the Spin-Off.
- *Netting and Settlement of Group-Internal Receivables and Payables SGRE* – On December 15, 2017, Siemens AG and SGRE entered into a netting and settlement agreement relating to group-internal receivables and payables for goods and services. While SGRE established its own cash management system for its associated companies, SGRE directly or on behalf of its associated companies is entitled under the agreement to participate in the intercompany clearing procedure provided by Siemens AG. A new agreement on netting and settlement of Siemens Energy group-internal receivables and payables for goods and services was concluded between SE Global GmbH & Co. KG and SGRE on May 20, 2020 for the time after the Spin-Off. For more information on these accounts, including the agreements in this respect for the time after the Spin-Off Completion, see “18.1.2.4.6(3) *Clearing Accounts*”.

The following agreement will terminate upon the Spin-Off Completion without SGRE and Siemens Energy entering into a similar agreement:

- *Offshore Grid Connection Agreement SGRE* – On March 31, 2017, Gamesa and Siemens Wind HoldCo S.L., as predecessor companies of SGRE entered into an offshore grid connection agreement with Siemens AG to strengthen their trading and partnership relationships. The agreement was transferred from Siemens AG to SE Global GmbH & Co. KG in connection with the Carve-Out with effect as of January 1, 2020. Siemens Energy AG and SGRE S.A. have decided not to renew the offshore grid connection agreement.

#### 18.1.2 Relationships with the Siemens Group in the Past

The Siemens Energy Group received various services from the Siemens Group in the past, including treasury, financing, finance services and global insurance coverage of the Siemens Group, and we have conducted other business with the Siemens Group as described in more detail below. Sales of goods and services and other income as well as purchases of goods and services and other expense from transactions with the Siemens Group in the fiscal years 2019, 2018 and 2017 are set forth in the following table.

	Sales of goods and services and other income			Purchases of goods and services and other expense		
	For the Fiscal Year ended September 30,			For the Fiscal Year ended September 30,		
	2019	2018	2017	2019	2018	2017
	(audited)					
	(in € million)					
Siemens Group (excluding Siemens Energy Group) .....	381	404	379	2,801	2,879	3,104

The table below sets forth the sales of goods and services and other income and purchases of goods and services and other expense in the relationship with the Siemens Group in the nine-month periods ended June 30, 2020 and June 30, 2019, respectively:

Sales of goods and services and other income		Purchases of goods and services and other expense	
For the Nine-Month Period ended June 30,		For the Nine-Month Period ended June 30,	
2020	2019	2020	2019
(unaudited)			
(in € million)			
439	241	1,625	2,052

##### 18.1.2.1 Other Expenses from Siemens Group

Siemens Group provided Siemens Energy with central corporate services, such as tax and legal, IT, corporate communications, HR, accounting, financial services and treasury for an amount of € 697 million as of June 30, 2020 (nine months ended June 30, 2019: € 913 million) and € 1,238 million in the fiscal year 2019 (fiscal year 2018: € 1,328 million and fiscal year 2017: € 1,352 million). This amount also includes the brand fee paid by Siemens Energy for the use of the Siemens brand.

##### 18.1.2.2 Share-Based Payments

Siemens Energy's employees allocated to the Gas and Power segment participate in share-based payment awards implemented by Siemens AG. Siemens AG delivered the respective shares on behalf of Siemens Energy and was reimbursed by Siemens Energy.

Certain employees of SGRE that were transferred from other Siemens Group entities in connection with the merger between Gamesa and Siemens Wind HoldCo S.L. participate in share-based payment awards implemented by the Siemens Group. Siemens AG delivers the respective shares on behalf of SGRE. The extent of participation in the share-based programs is limited.

#### 18.1.2.3 Insurance

Siemens Energy's Gas and Power segment was insured by the global insurance policies of Siemens Group. Furthermore, there were additional contracts for individual insurance services between companies of Siemens Energy's Gas and Power segment and Siemens Group, the costs for which were borne by Siemens Energy.

At the end of September 2017, SGRE, then belonging to the Siemens Group, adhered with effect from October 1, 2017 to a global stand-alone insurance program including all-risk property damage insurance policies, civil liability insurance policies, transport, chartering of ships and all-risk construction insurance policies. In addition, VVK Versicherungsvermittlungs- und Verkehrskontor GmbH acted as insurance broker and service provider for the global insurance program, also on behalf of SGRE. This arrangement ended on September 30, 2019. For a description of SGRE's current insurance, see "12.4.8 Insurance".

#### 18.1.2.4 Receivables from and Payables to Siemens Group

As of the dates indicated below, Siemens Energy's receivables from and payables to Siemens Group were as follows:

	Receivables			Payables		
	As of September 30,			As of September 30,		
	2019	2018	2017	2019	2018	2017
	(audited)			(audited)		
	(in € million)			(in € million)		
Siemens Group (excluding Siemens Energy Group) . .	3,405	5,141	6,324	4,568	8,534	8,581
therein: from financing activities . . . . .	3,361	5,107	6,297	4,535	8,494	8,519
other items . . . . .	44	34	27	33	40	62

The table below sets forth Siemens Energy's receivables from and payables to Siemens Group as of June 30, 2020:

	Receivables	Payables
	As of June 30,	As of June 30,
	2020	2020
	(unaudited)	
	(in € million)	
Siemens Group (excluding Siemens Energy Group) . . . . .	3,894	979
therein: from financing activities . . . . .	2,885	862
other items . . . . .	1,009	117

#### 18.1.2.4.1 Financing Activities

Siemens Energy (excluding SGRE) was included in the Siemens Group cash pooling and cash management. Siemens Energy (excluding SGRE) invested excess short-term liquidity with the Siemens Group and was granted financing its operating activities by the Siemens Group.

Siemens Group provided loan financings to Siemens Energy (without SGRE). Among others, Siemens provided the Dresser-Rand Loans to Siemens Energy's subsidiary Dresser Rand Group Inc. to finance the acquisition of Dresser-Rand. In February 2020, the last outstanding loan of the Dresser-Rand Loans was terminated early and repaid in an amount of € 1,571 million.

Siemens Energy has short-term receivables from Siemens Group amounting to € 322 million as of September 30, 2019 (September 30, 2018: € 2,220 million and September 30, 2017: € 2,678 million). The decrease in the fiscal year 2019 relates mainly to the partial repayment of the Dresser Rand Group Inc.'s loans mentioned above.

As of June 30, 2020, Siemens Energy has receivables from intercompany clearing towards Siemens Group amounting to € 262 million (September 30, 2019: € 3,004 million).

#### 18.1.2.4.2 Leasing

Siemens Energy has entered into leasing transactions with Siemens Real Estate mainly relating to office buildings. As of June 30, 2020, the carrying amount of right-of-use assets and lease liabilities recognized for leases between Siemens Real Estate and Siemens Energy amounted to € 323 million and € 337 million, respectively. As of September 30, 2019, the future payment obligations under non-cancellable operating leases were € 567 million (September 30, 2018: € 622 million and September 30, 2017: € 651 million).

Furthermore, Siemens Energy has entered into leasing transactions with Siemens Group including transactions relating to IT equipment and car leasing.

#### 18.1.2.4.3 Hedging

The hedging activities of Siemens Energy's Gas and Power segment were mainly performed by the corporate treasury of Siemens AG and other designated Siemens Group companies. The consideration was based on market rates. The related receivables and payables were included in the line item other current financial assets and other current financial liabilities in the Combined Statements of Financial Position.

SGRE's hedging activities were partially performed through Siemens AG and Siemens Capital Company LLC on an arm's length basis. In this regard, Siemens AG and Siemens Capital Company LLC concluded currency and commodity price hedging derivatives with SGRE. The consideration was based on market rates. These derivatives will be terminated or novated with banks or financial institutions in connection with the Spin-Off Completion. In case of a termination, the market values of the derivatives need to be settled between the relevant parties. Since April 1, 2020, SGRE concludes new derivatives only with banks or financial institutions.

In March 2019, SGRE S. A. issued a parent company guarantee in the amount of € 360 million to the Siemens Group regarding the hedging services provided by Siemens to certain SGRE subsidiaries amounting to approximately 3% of the then outstanding hedging volume.

#### 18.1.2.4.4 Guarantees

Siemens Group issued letters of support (other than to SGRE) and securities on instruction of Siemens Energy for Siemens Energy's business (including SGRE). The guarantees relating to Siemens Energy including SGRE that were issued by Siemens Group amount to € 50,210 million as of June 30, 2020 and € 48,943 million as of September 30, 2019 (September 30, 2018: € 48,331 million and September 30, 2017: € 48,679 million).

For information on certain guarantees granted by Siemens AG or other companies of the Siemens Group to SGRE group companies, see "18.1.1.2.3(2) Agreements Relating to Guarantees SGRE" and "18.1.1.1.3(1) Securities issued by banks or the Siemens Group".

#### 18.1.2.4.5 Pension Schemes

In most countries Siemens Energy participated in Siemens Group pension plans and trusts. For further details, see Note 14 to our Audited Combined Financial Statements.



#### 18.1.2.4.6 Transactions between the Siemens Group and SGRE

##### (1) *Merger Agreement*

On June 17, 2016, Gamesa and Siemens AG signed a binding merger agreement (the “**Merger Agreement**”) whereby both parties agreed on the terms and conditions pursuant to which Gamesa and Siemens’ wind power business (as defined in the agreement) would be combined by way of statutory merger by absorption of Siemens Wind HoldCo S.L (as absorbed entity) by and into Gamesa (as absorbing entity), with the dissolution without liquidation of the former and the *en bloc* transfer of all of its assets and liabilities to the latter, which would acquire by universal succession all of the rights and obligations of Siemens Wind HoldCo S.L. On March 17, 2017, the parties signed an addendum to the Merger Agreement regarding, among other issues, the process for the identification and agreement of services provided prior to the Merger’s effective date on the basis of transitional service contracts or other contracts by any company of the Siemens Group to the SGRE S.A. subsidiaries that prior to the Merger belonged to Siemens’ wind power business materially in the same form as prior to the Merger.

The Merger had its effective date on April 3, 2017. Pursuant to the Merger Agreement, Siemens AG acquired 59% of the shares in Gamesa in exchange for 100% of its wind power business and paid an extraordinary merger dividend of approximately € 999 million in cash which was distributed to the Gamesa shareholders (without Siemens AG) following the completion of the merger. The consideration transferred by Siemens AG equaled 59% of Gamesa’s market capitalization at closing of the merger and amounted to € 3,669 million. In connection with the merger, many other agreements were entered into, including the Strategic Alliance Agreement SGRE (see “18.1.1.2.9 Agreements that will be terminated upon the Spin-Off Completion”) and further agreements entered into thereunder.

##### (2) *Platform Cooperation Agreement*

On March 31, 2017, Siemens AG and Gamesa, which was subsequently renamed SGRE, entered into a cooperation agreement entitled “Platform Cooperation Agreement”. Under this agreement, the parties set up a specific committee made up of nominees of both parties to ensure that each party identified suitable personnel to investigate, identify and agree ways to enhance the parties’ business in areas in which SGRE’s products and services can be combined with certain Siemens services regarding data analysis using solutions and platforms operated by Siemens, such as “MindSphere” (Siemens’ cloud-based “internet of things” open operating system) or other platform solutions to achieve a marketable high-value product or service or where a cooperation can be beneficial for both parties’ business, among other tasks. The identified joint development team acts as a central point of contact between the parties for supporting the organization of joint bid teams in cases where a commercial opportunity that would benefit both parties is identified and for developing other joint collaboration projects. Moreover, the parties agreed that any IP rights and know-how resulting from any collaboration under the agreement shall be owned by the Siemens Group, and that the scope of SGRE’s use rights and any royalty payments shall be agreed and specified in relevant individual agreements. However, any applications solely developed by SGRE based on “MindSphere” shall be owned by SGRE, and applications jointly developed by SGRE and Siemens based on “MindSphere” and other specified jointly-developed IP rights and know-how shall be regulated on a case-by-case basis. The agreement had an initial term of three years from the date of closing of the Merger (i.e., until April 3, 2020) and was subject to certain extension periods unless terminated on six-months prior notice by either party. The agreement was terminated by SGRE S.A., with effect as of April 3, 2020 and has not been replaced by a similar agreement as of the date of this Prospectus. There are no remaining collaborations, activities or projects that survived the termination

##### (3) *Clearing Accounts*

In order to simplify and consolidate the settlement of payment claims relating to the provision of goods and services between the Siemens Group and SGRE, clearing accounts in different

currencies were created at the level of Siemens AG and SGRE S.A. The respective balances on these clearing accounts are due with a term of 60 or 90 days and must be settled in accordance with the netting and settlement agreement entered into between Siemens AG and SGRE. With Spin-Off Completion, this process shall be terminated and future balances shall be settled in accordance with terms and conditions of the relevant supply and service agreements, *i.e.*, directly between the companies concerned.

## 18.2 Transactions and Relationships with Associates, Joint Ventures and their Affiliates

Siemens Energy has relationships with Siemens Group joint ventures and associates and has its own joint ventures and associates generally on arm's length terms. Sales of goods and services and other income as well as purchases of goods and services and other expense to and from our associates and joint ventures as well as to and from associates and joint ventures of the Siemens Group in the fiscal years 2019, 2018 and 2017 are set forth in the following table:

	Sales of goods and services and other income			Purchases of goods and services and other expense		
	For the Fiscal Year ended September 30,			For the Fiscal Year ended September 30,		
	2019	2018	2017	2019	2018	2017
	(audited) (in € million)					
Siemens Group joint ventures .....	408	277	933	3	1	—
Siemens Group associates .....	163	176	427	2	3	1
Siemens Energy joint ventures .....	68	61	69	104	118	107
Siemens Energy associates .....	128	131	81	153	145	109
<b>Total .....</b>	<b>767</b>	<b>645</b>	<b>1,510</b>	<b>262</b>	<b>267</b>	<b>217</b>

Our receivables against and liabilities to our associates and joint ventures as well as against and to associates and joint ventures of the Siemens Group as of September 30, 2019, 2018 and 2017 are set forth in the following table:

	Receivables			Liabilities		
	As of September 30,			As of September 30,		
	2019	2018	2017	2019	2018	2017
	(audited) (in € million)					
Siemens Group joint ventures .....	91	77	42	125	81	55
Siemens Group associates .....	12	12	11	111	132	128
Siemens Energy joint ventures .....	13	12	8	11	17	10
Siemens Energy associates .....	1	—	—	89	59	23
<b>Total .....</b>	<b>117</b>	<b>101</b>	<b>60</b>	<b>337</b>	<b>289</b>	<b>216</b>

The table below sets forth the sales of goods and services and other income and purchases of goods and services and other expense in the relationship with our associates and joint ventures as well as with associates and joint ventures of the Siemens Group in the nine-month periods ended June 30, 2020 and June 30, 2019:

	Sales of goods and services and other income		Purchases of goods and services and other expense	
	For the Nine-Month Period ended June 30,		For the Nine-Month Period ended June 30,	
	2020	2019	2020	2019
	(unaudited) (in € million)			
Siemens Group joint ventures .....	224	321	3	1
Siemens Group associates .....	69	147	1	2
Siemens Energy joint ventures .....	51	53	78	75
Siemens Energy associates .....	51	81	115	109
<b>Total .....</b>	<b>395</b>	<b>602</b>	<b>196</b>	<b>187</b>

Siemens Energy's receivables from and payables to associates and joint ventures as well as to and from associates and joint ventures of the Siemens Group as of June 30, 2020 and as of June 30, 2019 were as follows:

	Receivables		Liabilities	
	As of June 30,	As of September 30,	As of June 30,	As of September 30,
	2020	2019	2019	2019
	(unaudited) (in € million)	(audited) (in € million)	(unaudited) (in € million)	(audited) (in € million)
Siemens Group joint ventures .....	93	91	124	125
Siemens Group associates .....	3	12	73	111
Siemens Energy joint ventures .....	15	13	13	11
Siemens Energy associates .....	4	1	18	89
<b>Total .....</b>	<b>115</b>	<b>117</b>	<b>228</b>	<b>337</b>

In addition, Siemens Energy issued guarantees for Siemens Group entities and its own joint ventures amounting to € 391 million as of June 30, 2020 and € 144 million as of September 30, 2019 (September 30, 2018: € 135 million and September 30, 2017: € 133 million).

### 18.3 Relationships with Members of the Executive Board and Supervisory Board

For an overview regarding the compensation, shareholding and share-based compensation of the members of the Executive Board and Supervisory Board, see "17.2.3 Compensation, Other Benefits" and "17.2.4 Shareholdings of Executive Board Members and Share Ownership Obligation", "17.3.4 Compensation, Other Benefits", "17.3.5 Shareholdings of Supervisory Board Members".

## 19 TAXATION OF SHAREHOLDERS IN GERMANY

*The tax laws of any jurisdiction with authority to impose taxes on the Company's shareholders and the tax laws of the Company's country of incorporation (i.e., Germany) may have an impact on the income received from the Shares.*

*The following section presents a number of key German taxation principles which generally are or can be relevant to the acquisition, holding or transfer of shares both by a shareholder (an individual, a partnership or corporation) that has a tax domicile in Germany (that is, whose place of residence, habitual abode, registered office or place of management is in Germany) and by a shareholder without a tax domicile in Germany. However, it does not address the tax consequences for the shareholders of Siemens AG that arise in connection with the Spin-Off. The information is not exhaustive and does not constitute a definitive explanation of all possible aspects of taxation that could be relevant for shareholders. The information is based on the tax laws in force in Germany as of the date of the Prospectus (and their interpretation by administrative directives and courts) as well as typical provisions of double taxation treaties that Germany has concluded with other countries. Tax law can change – sometimes retrospectively. Moreover, it cannot be ruled out that the German tax authorities or courts may consider an alternative interpretation or application to be correct that differs from the one described in this section.*

*This section cannot serve as a substitute for tailored tax advice to individual shareholders. Shareholders are therefore advised to consult their tax advisers regarding the tax implications of the acquisition, holding or transfer of shares and regarding the procedures to be followed to achieve a possible reimbursement of German withholding tax (Kapitalertragsteuer). Only such advisers are in a position to take the specific tax-relevant circumstances of individual shareholders into due account.*

### 19.1 Income Tax Implications of the Holding, Sale and Transfer of Shares

In terms of the taxation of shareholders of the Company, a distinction must be made between taxation in connection with the holding of shares ("19.2 Taxation of Dividends") and taxation in connection with the sale of shares ("19.3 Taxation of Capital Gains") and taxation in connection with the gratuitous transfer of shares ("19.5 Inheritance and Gift Tax").

### 19.2 Taxation of Dividends

#### 19.2.1 Withholding Tax

As a general rule, dividends distributed to the shareholder are subject to a withholding tax (Kapitalertragsteuer) of 25.0% and a solidarity surcharge of 5.5% thereon (i.e., 26.375% in total plus church tax, if applicable). This, however, will not apply if and to the extent that dividend payments are funded from the Company's contribution account for tax purposes (steuerliches Einlagekonto; § 27 Körperschaftsteuergesetz, "KStG"); in this case no withholding tax will be withheld. However, these payments will reduce the acquisition costs of the shares and may, consequently, result in or increase a taxable gain upon the disposal of the shares (see below at "19.3 Taxation of Capital Gains"). The assessment basis for the withholding tax is the dividend approved by the general shareholders' meeting.

If shares – as it is the case with the shares in the Company – are admitted for collective custody by a central securities depository (Wertpapiersammelbank) pursuant to Section 5 German Act on Securities Accounts (Depotgesetz) and are entrusted to such bank for collective custody (Sammelverwahrung) in Germany, the withholding tax is withheld and passed on for the account of the shareholders (i) by the domestic credit or financial services institution (inländisches Kredit- oder Finanzdienstleistungsinstitut) (including domestic branches of such foreign enterprises), by the domestic securities trading company (inländisches Wertpapierhandelsunternehmen) or by the domestic securities trading bank (inländische Wertpapierhandelsbank) which keeps or administers the shares and disburses or credits the dividends to the shareholder or disburses the

dividends to a foreign agent, (ii) by the central securities depository (*Wertpapiersammelbank*) to which the shares were entrusted for collective custody if the dividends are disbursed to a foreign agent by such central securities depository (*Wertpapiersammelbank*) or (iii) by the Company itself if and to the extent shares held in collective custody (*Sammelverwahrung*) by the central securities depository (*Wertpapiersammelbank*) are treated as so-called "*abgesetzte Bestände*" (stock being held separately) (hereinafter in all cases, the "**Dividend Paying Agent**"). Aside from the case of stock being held separately, the Company does not assume any responsibility for the withholding of the withholding tax.

In general, the withholding tax must be withheld without regard as to whether and to what extent the dividend is exempt from (corporate) income tax at the level of the shareholder and whether the shareholder is domiciled in Germany or abroad.

However, withholding tax on dividends distributed to a company domiciled in another EU Member State within the meaning of Article 2 of the Council Directive 2011/96/EU of November 30, 2011, as amended ("**Parent-Subsidiary Directive**"), may be refunded upon application and subject to further conditions. This also applies to dividends distributed to a permanent establishment of such a parent company in another EU Member State or to a parent company that is subject to unlimited tax liability in Germany, provided that the participation in the Company is actually part of such permanent establishment's business assets. Further requirements for the refund of withholding tax under the Parent-Subsidiary Directive are that the shareholder has directly held at least 10.0% of the Company's registered share capital continuously for one year and that a respective application is filed with the German Federal Central Tax Office (*Bundeszentralamt für Steuern, Hauptdienstszitz Bonn-Beuel, An der Kuppe 1, D-53225 Bonn, Germany*). If, in the case of a holding of at least 10.0% of the Company's registered share capital, shares held in collective custody (*Sammelverwahrung*) by the German central securities depository (*Wertpapiersammelbank*) Clearstream Banking AG are treated as so-called "*abgesetzte Bestände*" (stock being held separately), the German tax authorities will not object when the main paying agent (*Hauptzahlstelle*) of the Company upon presentation of a valid exemption certificate (*Freistellungsbescheinigung*) and of a proof that this stock has been held separately, disburses the dividend without deducting withholding tax. An exemption certificate can be granted upon application (using official application forms) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*) (at the above address).

With respect to distributions made to shareholders not tax resident in Germany, the withholding tax may be at least partially refunded in accordance with an applicable double taxation treaty Germany has entered into with the respective shareholder's country of residence if the shares neither form part of the assets of a permanent establishment or a fixed place of business in Germany, nor form part of business assets for which a permanent representative in Germany has been appointed. The withholding tax refund is generally granted by the German Federal Central Tax Office (at the above address) upon application in such a manner that the difference between the total amount withheld, including the solidarity surcharge, and the reduced withholding tax actually owed under the relevant double taxation treaty (generally 15.0%) is refunded by the German Federal Central Tax Office. A refund is not required if the Federal Central Tax Office has, upon application on the officially prescribed form, issued an exemption certificate (*Freistellungsbescheinigung*) which documents that the prerequisites for the application of the reduced withholding tax rates have been met. Dividends covered by the exemption certificate of the shareholder are then only subject to the reduced withholding tax rates stipulated in the exemption certificate.

Forms for the reimbursement and the exemption from the withholding at source procedure are available at the German Federal Central Tax Office (at the above address or online at <https://www.bzst.de>).

If dividends are distributed to corporations subject to non-resident taxation in Germany, i.e., corporations with no registered office or place of management in Germany and if the shares neither belong to the assets of a permanent establishment or fixed place of business in Germany nor are part of business assets for which a permanent representative in Germany has been



appointed, two-fifths of the tax withheld at the source can generally be refunded even if not all of the prerequisites for a refund under the Parent-Subsidiary Directive or an applicable double taxation treaty are fulfilled. The relevant application forms are available at the German Federal Central Tax Office (at the above address).

The aforementioned possibilities for an exemption from or a refund of withholding tax depend on certain other conditions being met (particularly the fulfillment of so-called "substance requirements" – *Substanzerfordernisse*).

Pursuant to a special rule, the aforementioned withholding tax reliefs as well as the credit of withholding tax described in the section "*19.2.2 Taxation of Dividends of Shareholders with a Tax Domicile in Germany*" below for shares held as non-business and as business assets will only be granted if the shareholder (i) has been the economic owner of the shares for a continuous period of at least 45 days during the period starting 45 days prior to the date when the dividend becomes due and ending 45 days after such date (the "**Minimum Holding Period**" (*Mindesthaltedauer*)), (ii) has been exposed (if taking into account claims of the shareholder from transactions reducing the risk of changes of the market value of the shares and corresponding claims of related parties of the shareholder) to at least 70.0% of the risk resulting from a decrease-in-value of the shares continuously during the Minimum Holding Period (the minimum change-in-value risk (*Mindestwertänderungsrisiko*)) and (iii) is not obliged to forward (*vergüten*) these dividends, directly or indirectly, in total or to more than 50.0% to another person.

In the event that a shareholder tax resident in Germany does not meet the aforementioned three requirements, three fifths of the withholding tax levied on the dividends (*i.e.*, 15.0% of the dividends) is not creditable, but may, upon application, be deducted when determining the shareholder's taxable income in an assessment procedure. Shareholders who do not meet the requirements but who have, nevertheless, not suffered a withholding tax deduction on the dividends (for example, due to the presentation of a non-assessment certificate) or have already obtained a refund of the taxes withheld, are obliged to notify their competent tax office thereof and to make the payment of an amount corresponding to the amount which would otherwise be withheld; pursuant to the law regarding tax incentives for electric mobility and the amendment of further tax regulations (*Gesetz zur weiteren steuerlichen Förderung der Elektromobilität und zur Änderung weiterer steuerlicher Vorschriften*) that came into force on December 18, 2019, this amount will be equal to 15.0% of the dividends from January 1, 2019 onwards. The special rule on the restriction of withholding tax credit does not apply to a shareholder if either (i) his or her amount of dividend income on shares (including shares of the Company) and certain profit participation rights (*Genussrechte*) does not exceed an amount of € 20,000 in a given tax assessment period or if (ii) he or she has been, upon actual receipt of the dividend, the economic owner of the shares for a continuous period of at least one year, whereby shares of the shareholder acquired first are deemed to be sold first (first in – first out).

In the event that a shareholder not tax resident in Germany does not meet the aforementioned three requirements, a refund of the withholding tax pursuant to a double taxation treaty is not available. This restriction only applies if (i) the applicable double taxation treaty provides for a tax reduction leading to an applicable tax rate of less than 15.0%, (ii) the shareholder is not a corporation that directly holds at least a participation of 10.0% of the equity capital of the Company and is subject to tax on its income and profits in its state of residence without being exempt and (iii) the shareholder has not been, upon actual receipt of the dividend, the economic owner of the shares for a continuous period of at least one year, whereby shares of the shareholder acquired first are deemed to be sold first (first in – first out).

The Dividend Paying Agent which keeps or administrates the shares and pays or credits the capital income is required to create so-called "pots for offsetting losses" (*Verlustverrechnungstöpfe*) to allow for negative capital income to be set off against current and future positive capital income. A set off of negative capital income at one Dividend Paying Agent against positive capital income at another Dividend Paying Agent is only possible in the course of the income tax assessment at the level of the respective shareholder. In such case the relevant shareholder has to apply for a certificate confirming the amount of losses not offset with the

Dividend Paying Agent where the pot for offsetting losses exists. The application is irrevocable and must reach the Dividend Paying Agent until December 15 of the respective year, as otherwise the losses will be carried forward by the respective Dividend Paying Agent to the following year.

Withholding tax will not be withheld by a Dividend Paying Agent if the shareholder provides such Dividend Paying Agent with an application for exemption (*Freistellungsauftrag*) to the extent such shareholder's capital income does not exceed the annual lump-sum deduction (*Sparer-Pauschbetrag*) of € 801 (€ 1,602 for married couples and registered partners jointly assessed) as outlined on the application for exemption. Furthermore, no withholding tax will be levied if the shareholder provides the Dividend Paying Agent with a non-assessment certificate (*Nichtveranlagungsbescheinigung*) to be applied for with the competent tax office.

## **19.2.2 Taxation of Dividends of Shareholders with a Tax Domicile in Germany**

This section applies to shareholders with a tax domicile in Germany (*i.e.*, persons whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany).

### *19.2.2.1 Shares Held as Non-Business Assets*

Dividends distributed to shareholders with a tax domicile in Germany whose shares are held as non-business assets form part of their taxable capital investment income, which is subject to a special uniform income tax rate of 25.0% plus solidarity surcharge of 5.5% thereon (*i.e.*, 26.375% in total plus church tax, if applicable). The income tax owed for this dividend income is generally satisfied by the withholding tax withheld by the Dividend Paying Agent (flat-rate withholding tax (*Abgeltungsteuer*)). Income-related expenses cannot be deducted from the shareholder's capital investment income (including dividends), except for an annual lump-sum deduction (*Sparer-Pauschbetrag*) of € 801 (€ 1,602 for married couples and registered partners jointly assessed). However, the shareholder may request that his capital investment income (including dividends) along with his other taxable income be subject to a progressive income tax rate (instead of the uniform tax rate for capital investment income) if this results in a lower tax burden. In this case, income-related expenses cannot be deducted from the capital investment income, except for the aforementioned annual lump-sum deduction.

If the withholding tax deduction does not satisfy (*abgelten*) the tax liability of the shareholder, the withholding tax will generally be credited against the progressive income tax and any excess amount will be refunded if the requirements of the special rule on the restriction of withholding tax credit (see above "*19.2.1 Withholding Tax*") are fulfilled.

Exceptions from the flat-rate withholding tax also apply upon application for shareholders who have a shareholding of at least 25.0% in the Company and for shareholders who have a shareholding of at least 1.0% in the Company and are able to entrepreneurially influence the business activities of the company through a professional work for the Company. In this situation, the tax treatment described below at "*19.2.2.2.2 Sole Proprietors*") applies.

For taxpayers, subject to church tax, such tax will be withheld by way of an automated procedure and remitted to the religious community levying the tax. Church tax withheld at source may not be deducted as a special expense (*Sonderausgabe*) in the course of the tax assessment, but the Dividend Paying Agent may reduce the standard withholding tax rate (including the solidarity surcharge of 26.375%) by the church tax to be withheld on the dividends. Where shareholders have lodged a timely written objection with the German Federal Central Tax Office (*Bundeszentralamt für Steuern* (at the above address)) (so-called "blocking notice" – *Sperrvermerk*) as regards the automated retrieval of data on their religious affiliation, church tax will not be automatically deducted. In this case, a shareholder subject to church tax is obliged to declare the dividends in his income tax return. The church tax on the dividends is then levied by way of a tax assessment.

Shareholders who are subject to German tax residents' taxation and hold their shares as non-business assets may be paid the dividends without deduction of withholding tax if certain

prerequisites are met, in particular, if the shareholder has provided a non-assessment certificate (*Nichtveranlagungs-Bescheinigung*) or an exemption instruction (*Freistellungsauftrag*) and the exempt amount indicated therein has not yet been exhausted.

As an exemption, dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) and are paid to shareholders with a tax domicile in Germany whose shares are held as non-business assets, do – contrary to the above – not form part of the shareholder's taxable income but reduce the acquisition costs for the underlying shares. This results in a higher capital gain in the event of the shares' disposal (see below at "19.3 Taxation of Capital Gains"). However, this will not apply if (i) the shareholder or, in the event of a gratuitous transfer, its legal predecessor, or, if the shares have been gratuitously transferred several times in succession, one of his legal predecessors at any point during the five years preceding the (deemed, as the case may be,) disposal directly or indirectly held at least 1.0% of the share capital of the Company (a "**Qualified Holding**") and (ii) the dividend payment funded from the Company's contribution account for tax purposes exceeds the actual acquisition costs of the shares. In such a case of a Qualified Holding, a dividend payment funded from the Company's contribution account for tax purposes is deemed a sale of the shares and is taxable as a capital gain if and to the extent the dividend payment funded from the Company's contribution account for tax purposes exceeds the acquisition costs of the shares. In this case the taxation corresponds with the description in the section "19.3.1.1 Shares Held as Non-Business Assets" made with regard to shareholders maintaining a Qualified Holding.

#### 19.2.2.2 Shares Held as Business Assets

Dividends from shares held as business assets of a shareholder with a tax domicile in Germany are not subject to the flat-rate withholding tax. However, dividends are generally subject to the withholding tax on capital investment income of 25.0% plus 5.5% solidarity surcharge thereon, resulting in an aggregate tax rate of 26.375%, plus church tax for individuals, if applicable. The withholding tax (including the solidarity surcharge and church tax, if applicable) withheld and paid by the Dividend Paying Agent will generally be credited against the shareholder's income or corporate income tax liability (including the solidarity surcharge and church tax, if applicable) or refunded in the amount of any excess if the requirements of the special rule on the restriction of withholding tax credit (see above "19.2.1 Withholding Tax") are fulfilled. The taxation depends on whether the shareholder is a corporation, a sole proprietor or a partnership (co-entrepreneurship).

Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) and are paid to shareholders with a tax domicile in Germany whose shares are held as business assets, are generally fully tax-exempt in the hands of such shareholder but reduce the acquisition costs for the underlying shares. To the extent the dividend payments funded from the Company's contribution account for tax purposes exceed the actual acquisition costs of the shares, a taxable capital gain occurs. The taxation of such gain corresponds with the description in the section "19.3.1.2 Shares Held as Business Assets" made with regard to shareholders whose shares are held as business assets.

##### 19.2.2.2.1 Corporations

If the shareholder is a corporation with a tax domicile in Germany, the dividends are in general effectively 95.0% exempt from corporate income tax and the solidarity surcharge. 5.0% of the dividends are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge) at a total tax rate of 15.825%. Business expenses actually incurred in direct relation to the dividends may be deducted. However, dividends are not exempt from corporate income tax (including solidarity surcharge thereon), if the shareholder only holds a direct participation of less than 10.0% in the Company's registered share capital at the beginning of the calendar year ("**Portfolio Participation**" – *Streubesitzbeteiligung*). Participations of at least 10.0% acquired during a calendar year are deemed to have been acquired at the beginning of the calendar year. Participations which a shareholder holds through

a partnership (including those that are co-entrepreneurships (*Mitunternehmerschaften*)) are attributable to the shareholder only on a *pro rata* basis at the ratio of the interest share of the shareholder in the assets of the relevant partnership.

Dividends (after deducting business expenses economically related to the dividends) are subject to trade tax in the full amount, unless the shareholder held at least 15.0% of the Company's registered share capital at the beginning of the relevant tax assessment period. In the latter case, the dividends are not subject to trade tax; however, trade tax is levied on the amount considered to be a non-deductible business expense (amounting to 5.0% of the dividend). Trade tax depends on the municipal trade tax multiplier applied by the relevant municipal authority.

Special rules apply to dividends received by companies active in the financial and insurance sectors, as well as pension funds (see below "*19.4 Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds*").

#### 19.2.2.2.2 Sole Proprietors

If the shares are held as business assets by a sole proprietor with a tax domicile in Germany, only 60.0% of the dividends are subject to a progressive income tax (plus the solidarity surcharge) at a total tax rate of up to approximately 47.5%, known as the partial income method (*Teileinkünfteverfahren*). The partial income method does not apply with respect to church tax (if applicable). Only 60.0% of the business expenses economically related to the dividends are tax-deductible. If the shares belong to a domestic permanent establishment in Germany of a business operation of the shareholder, the dividend income (after deducting business expenses economically related thereto) is not only subject to income tax but is also fully subject to trade tax, unless the shareholder held at least 15.0% of the Company's registered share capital at the beginning of the relevant tax assessment period. In this latter case, the net amount of dividends, *i.e.*, after deducting directly related expenses, is exempt from trade tax. As a rule, trade tax can be credited against the shareholder's personal income tax, either in full or in part, by means of a lump-sum tax credit method, depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

#### 19.2.2.2.3 Partnerships

If the shareholder is a partnership with a tax domicile in Germany, the income or corporate income tax, as the case may be, and the solidarity surcharge are not levied at the level of the partnership but at the level of the respective partner. The taxation for every partner depends on whether the partner is a corporation or an individual. If the partner is a corporation, the dividends contained in the profit share of the shareholder will be taxed in accordance with the principles applicable for corporations (see "*19.2.2.2.1 Corporations*" above). If the partner is an individual, the taxation is in line with the principles described for sole proprietors (see "*19.2.2.2.2 Sole Proprietors*" above). Upon application and subject to further conditions, an individual as a partner can have his personal income tax rate lowered for earnings not withdrawn from the partnership.

In addition, the dividends are generally subject to trade tax in the full amount at the level of a commercial or deemed commercial partnership if the shares are attributed to a German permanent establishment of the partnership. If a partner of the partnership is an individual, the portion of the trade tax paid by the partnership pertaining to his profit share will generally be credited, either in full or in part, against his personal income tax by means of a lump-sum method – depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer. If the partnership held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period, the dividends (after deduction of business expenses economically related thereto) should generally not be subject to trade tax. In this case, trade tax should, however, be levied on 5% of the dividends to the extent they are attributable to the profit share of a corporate partner to whom at least 10% of the shares in the Company are attributable on a look-through basis, since this portion of the dividends should be deemed to be non-deductible business expenses. The remaining portion of

the dividend income attributable to partners other than such specific corporate partners (which includes individual partners and should, according to a literal reading of the law, also include corporate partners to whom, on a look-through basis, only Portfolio Participations are attributable) should not be subject to trade tax. Due to a lack of case law and administrative guidance, the exact application of the rules for the taxation of dividends from Portfolio Participations (see “19.2.2.2.1 Corporations” above) is, however, unclear. Shareholders are strongly recommended to consult their tax advisers.

### **19.2.3 Taxation of Dividends of Shareholders with a Non-German Tax Domicile**

Shareholders without a tax domicile in Germany, whose shares are attributable to a German permanent establishment or fixed place of business or are part of business assets for which a permanent representative in Germany has been appointed, are liable for tax in Germany on their dividend income. In this respect the provisions outlined above for shareholders with a tax domicile in Germany whose shares are held as business assets apply accordingly (see “19.2.2.2 Shares Held as Business Assets”). The withholding tax (including the solidarity surcharge) withheld and passed on will generally be credited against the income or corporate income tax liability or refunded in the amount of any excess if the requirements of the special rule on the restriction of withholding tax credit (see above “19.2.1 Withholding Tax”) are fulfilled.

In all other cases, any tax liability in Germany for dividends received by shareholders resident outside of Germany will be discharged through the withholding of the withholding tax by the Dividend Paying Agent. A refund or exemption is granted only as discussed under “19.2.1 Withholding Tax” above.

Dividend payments that are funded from the Company’s contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) are generally not subject to German taxation.

## **19.3 Taxation of Capital Gains**

### **19.3.1 Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany**

This section applies to shareholders with a tax domicile in Germany (*i.e.*, persons whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany).

#### *19.3.1.1 Shares Held as Non-Business Assets*

Gains on the disposal of shares acquired after December 31, 2008 by a shareholder with a tax domicile in Germany and held as non-business assets are generally – regardless of the holding period – subject to a uniform tax rate on capital investment income in Germany (25.0% plus the solidarity surcharge of 5.5% thereon, *i.e.*, 26.375% in total plus any church tax, if applicable).

The taxable capital gain is equal to the difference between (a) the proceeds of the disposal and (b) the acquisition costs of the shares plus the expenses related directly and materially to the disposal. Dividend payments that are funded from the Company’s contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) reduce the original acquisition costs; if dividend payments that are funded from the Company’s contribution account for tax purposes exceed the acquisition costs, negative acquisition costs – which can increase a capital gain – can arise in case of shareholders, whose shares are held as non-business assets and do not qualify as a Qualified Holding.

Only an annual lump-sum deduction of € 801 (€ 1,602 for married couples and registered partners jointly assessed) may be deducted from the entire capital investments income. It is generally not possible to deduct income-related expenses in connection with capital gains, except for the expenses directly related in substance to the disposal which can be deducted when calculating the capital gains. Losses from the disposal of shares may only be offset against profits from capital investments arising from the disposal of the Company’s shares or other shares in stock corporations during the same assessment period or in future assessment periods.



Furthermore, in case of a derecognition or transfer of worthless shares (or other capital assets), the utilization of such loss is further restricted and can only be offset up to the amount of € 10,000 per calendar year.

If the shares are held in custody or administered by a domestic credit or financial services institution, domestic securities trading company or a domestic securities trading bank, including domestic branches of foreign credit institutions or financial service institutions, or if such an office executes the disposal of the shares and pays out or credits the capital gains (each a **“Domestic Paying Agent”**), the tax on the capital gains will generally be satisfied by the Domestic Paying Agent withholding the withholding tax on investment income in the amount of 26.375% (including the solidarity surcharge) on the capital gain and transferring it to the tax authority for the account of the seller. If the shares were held in custody or administered by the respective Domestic Paying Agent continuously after acquisition, the amount of tax withheld is generally based on the difference between the proceeds from the sale, after deducting expenses directly related to the sale, and the amount paid to acquire the shares. However, the withholding tax rate of 25.0% plus the 5.5% solidarity surcharge thereon and any church tax (if applicable), will be applied to 30.0% of the gross sales proceeds if the shares were not administered by the same custodian bank since acquisition and the original cost of the shares cannot be verified or such verification is not admissible. In this case, the shareholder is entitled to, and in case the actual gain is higher than 30% of the gross proceeds must, verify the original costs of the shares in his or her annual income tax return.

The church tax deduction for capital gains is performed by way of standardized tax withholding procedure by the Domestic Paying Agent withholding such tax. The principles outlined above for church tax on dividend income (see *“19.2.2.1 Shares Held as Non-Business Assets”* above) apply accordingly.

The shareholder can apply for his total capital investment income, together with his other taxable income, to be subject to a progressive income tax rate as opposed to the uniform tax rate on investment income, if this results in a lower tax liability. In this case, the withholding tax is credited against the progressive income tax and any resulting excess amount will be refunded. Limitations on offsetting losses are applicable. Further, income-related expenses are non-deductible, except for the annual lump-sum deduction.

Shareholders who are subject to German residents’ taxation and hold their shares as non-business assets may realize capital gains without deduction of tax on capital investment income and solidarity surcharge if certain prerequisites are met, particularly if the shareholder has provided a non-assessment certificate (*Nichtveranlagungs-Bescheinigung*) or an exemption instruction (*Freistellungsauftrag*) and the exempt amount indicated therein has not yet been exhausted.

If the withholding tax or, if applicable, the church tax on capital gains is not withheld by a Domestic Paying Agent, the shareholder is required to declare the capital gains in his income tax return. The income tax and any applicable church tax on the capital gains will then be collected by way of assessment.

In case of a Qualified Holding, the capital gain deriving from the disposal of the shares is not subject to the flat-rate withholding tax, but to the progressive income tax regime. In this case the partial income method applies to gains on the disposal of shares, which means that only 60.0% of the capital gains are subject to tax and only 60.0% of the losses on the disposal and expenses economically related thereto are tax deductible. Even though withholding tax is withheld by a Domestic Paying Agent in the case of a Qualified Holding, this does not satisfy the tax liability of the shareholder. Consequently, a shareholder must declare his capital gains in his income tax returns. The withholding tax (including the solidarity surcharge and church tax, if applicable) withheld and paid will be credited against the shareholder’s income tax liability on his tax assessment (including the solidarity surcharge and any church tax if applicable) or refunded in the amount of any excess.

#### 19.3.1.2 Shares Held as Business Assets

Gains on the sale of shares held as business assets of a shareholder with a tax domicile in Germany are not subject to a uniform withholding tax. Withholding tax may only be withheld if the shares are kept with a Domestic Paying Agent. Subject to certain prerequisites, the tax on capital investment income withheld and remitted to the tax authorities will be imputed towards the shareholder's income tax liability and any excess amount paid will be refunded. Subject to certain requirements, however, the Domestic Paying Agent may refrain from deducting tax on capital investment income if (i) the shareholder is a corporation subject to German residents taxation, an association of individuals or an estate or (ii) the shares form part of the business assets of a business operation in Germany and the shareholders declare such to the Domestic Paying Agent in the officially prescribed form. Should the Domestic Paying Agent nonetheless have withheld tax on capital investment income, the tax withheld and remitted to the tax authorities (including solidarity surcharge, and church tax, if applicable) will be credited against the shareholder's personal income tax or corporate income tax liability and any excess amount paid will be refunded.

The taxation of the capital gains depends on whether the shareholder is a corporation, a sole proprietor or a partnership (co-entrepreneurship). Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) reduce the original acquisition costs. In the event of disposal, a higher taxable capital gain can arise therefrom. If the dividend payments exceed the shares' book value for tax purposes, a taxable capital gain can arise.

##### 19.3.1.2.1 Corporations

If the shareholder is a corporation with a tax domicile in Germany, the gains on the disposal of shares are, in general, effectively 95.0% exempt from corporate income tax (including the solidarity surcharge) and trade tax, regardless of the size of the participation and the holding period. 5.0% of the gains are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge) at a tax rate amounting to 15.825% and trade tax (depending on the municipal trade tax multiplier applied by the respective municipal authority). As a rule, losses on disposals and other profit reductions in connection with shares (for example, from a write-down) cannot be deducted as business expenses.

Special rules apply to capital gains realized by companies active in the financial and insurance sectors, as well as pension funds (see below "*19.4 Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds*").

##### 19.3.1.2.2 Sole Proprietors

If the shares are held as business assets by a sole proprietor with a tax domicile in Germany, only 60.0% of the gains on the disposal of the shares are subject to a progressive income tax (plus the solidarity surcharge) at a total tax rate of up to approximately 47.5% (partial-income method). Only 60.0% of the losses on the disposal and expenses economically related thereto are tax deductible. The partial income method does not apply with respect to church tax (if applicable). If the shares belong to a German permanent establishment of a business operation of the sole proprietor, 60.0% of the gains of the disposal of the shares are, in addition, subject to trade tax.

Trade tax can be credited towards the shareholder's personal income tax, either in full or in part, by means of a lump-sum tax credit method – depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

##### 19.3.1.2.3 Partnerships

If the shareholder is a partnership with a tax domicile in Germany, the income or corporate income tax is not levied at the level of the partnership but at the level of the respective partners. The taxation depends on whether the partner is a corporation or an individual. If the partner is a corporation, the gains on the disposal of the shares as contained in the profit share of the

partner will be taxed in accordance with the principles applicable for corporations (see "19.3.1.2.1 Corporations" above). For capital gains in the profit share of a partner that is an individual, the principles outlined above for sole proprietors apply accordingly (partial-income method, see above under "19.3.1.2.2 Sole Proprietors"). Upon application and subject to further conditions, an individual as a partner can obtain a reduction of his personal income tax rate for earnings not withdrawn from the partnership.

In addition, gains on the disposal of shares are subject to trade tax at the level of a commercial or deemed commercial partnership, if the shares are attributed to a domestic permanent establishment of a business operation of the partnership: Generally, 60.0% of the gain as far as the shares are attributable to the profit share of an individual as the partner of the partnership, and, currently, 5.0% as far as the shares are attributable to the profit share of a corporation as the partner of the partnership. Losses on disposals and other profit reductions in connection with the shares are currently not considered for the purposes of trade tax if they are attributable to the profit share of a corporation, and are taken into account at 60.0% in the context of general limitations if they are attributable to the profit share of an individual.

If the partner of the partnership is an individual, the portion of the trade tax paid by the partnership attributable to his profit share will generally be credited, either in full or in part, against his personal income tax by means of a lump-sum method – depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

### **19.3.2 Taxation of Capital Gains of Shareholders with a Non-German Tax Domicile**

Capital gains derived from the disposal of shares by shareholders with no tax domicile in Germany are only subject to German tax if the selling shareholder has a Qualified Holding in the Company or the shares belong to a domestic permanent establishment or fixed place of business or are part of business assets for which a permanent representative in Germany has been appointed.

Pursuant to a decision of the German Federal Fiscal Court (*Bundesfinanzhof*) dated May 31, 2017 (Federal Tax Gazette (*Bundessteuerblatt*), part II of 2018, p. 144), in case of a Qualified Holding, the capital gain on the disposal of shares is not subject to German taxation if the shareholder is a corporation which is not tax resident in Germany and neither maintains a permanent establishment nor has appointed a permanent representative in Germany.

If the shareholder is a private individual, only 60.0% of the gains on the disposal of the shares are subject to progressive income tax plus the solidarity surcharge thereon and church tax, if applicable. However, most double taxation treaties provide for a partial or full relief from German taxation and assign the right of taxation to the shareholder's country of residence. Where a Domestic Paying Agent is involved, withholding tax on capital gains is generally levied at a rate of 25.0% (plus 5.5% solidarity surcharge thereon, resulting in an aggregate withholding tax rate of 26.375%). However, if (i) the shares are not held through a permanent establishment or fixed place of business or as business assets for which a permanent representative is appointed in Germany and (ii) a Domestic Paying Agent is involved, then, pursuant to a tax decree issued by the German Federal Ministry of Finance (*Bundesministerium der Finanzen*) on January 18, 2016, the Domestic Paying Agent will in general not be required to withhold the tax on capital investment income (plus solidarity surcharge thereon). In the case of a Qualified Holding, the capital gains must be declared in a tax return and will be taxed via an assessment procedure if no exemption under a double taxation treaty or under domestic law applies.

With regard to gains or losses on the disposal of shares belonging to a domestic permanent establishment or fixed place of business, or which are part of business assets for which a permanent representative in Germany has been appointed, the above-mentioned provisions pertaining to shareholders with a tax domicile in Germany whose shares are business assets apply accordingly (see "19.3.1.2 Shares Held as Business Assets"). The Domestic Paying Agent can refrain from deducting the withholding tax if the shareholder declares to the Domestic Paying Agent on the officially prescribed form that the shares form part of domestic business assets and certain other requirements are met.

## 19.4 Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds

If credit institutions (*Kreditinstitute*) or financial services institutions (*Finanzdienstleistungsinstitute*) hold or sell shares that are allocable to their trading portfolio (*Handelsbestand*) pursuant to Section 340e para. 3 of the German Corporate Code (*Handelsgesetzbuch*), they will neither be able to benefit from the partial income method nor be entitled to the effective 95.0% exemption from corporate income tax plus the solidarity surcharge and any applicable trade tax. Thus, dividend income and capital gains are fully taxable. The same applies to shares acquired by financial institutions in the meaning of the German Banking Act (*Kreditwesengesetz*) held in the majority by credit institutions or financial services institutions and where the shares are to be allocated to the current assets (*Umlaufvermögen*) as of the date of acquisition. The preceding sentence applies accordingly for shares held in a permanent establishment in Germany by financial institutions, financial service institutions and financial institutions tax resident in another EU Member State or in other signatory states of the Treaty on the EEA.

Likewise, the tax exemption described earlier afforded to corporations for dividend income and capital gains from the sale of shares does not apply to shares that qualify as a capital investment in the case of life insurance and health insurance companies, or those which are held by pension funds.

However, an exemption to the foregoing, and thus a 95.0% effective tax exemption, applies to dividends obtained by the aforementioned companies, to which the Parent-Subsidiary Directive applies. In addition, applicable double taxation treaties might provide further relief from German tax, subject to certain prerequisites, e.g., substance requirements and holding periods, being met.

## 19.5 Inheritance and Gift Tax

The transfer of shares to another person by way of inheritance or gift is generally subject to German inheritance or gift tax if:

- (i) the place of residence, habitual abode, place of management or registered office of the decedent, the donor, the heir, the donee or another acquirer is, at the time of the asset transfer, in Germany, or such person, as a German national, has prior to the transfer not spent more than generally five consecutive years outside of Germany without maintaining a place of residence in Germany;
- (ii) the decedent's or donor's shares belonged to business assets for which there had been a permanent establishment in Germany or a permanent representative had been appointed; or
- (iii) the decedent or the donor, at the time of the succession or gift, held a direct or indirect interest of at least 10.0% of the Company's share capital either alone or jointly with other related parties.

The small number of double taxation treaties in respect of inheritance and gift tax which Germany has concluded to date usually provide for German inheritance or gift tax only to be levied in the cases under (i) and, subject to certain restrictions, in the cases under (ii). Special provisions apply to certain German nationals living outside of Germany and to former German nationals.

## 19.6 Abolishment of Solidarity Surcharge

On December 13, 2019, the law regarding a significant reduction of the solidarity surcharge (*Gesetz zur Rückführung des Solidaritätszuschlags 1995*) came into force. Even though, this new law has no impact on the solidarity surcharge levied in addition to the withholding tax, it can affect the solidarity surcharge levied on the income tax liability which the withholding tax is credited against, as the case may be. According to this new law the threshold as of which solidarity surcharge is levied will be significantly increased, so that the solidarity surcharge shall

be abolished in full for approximately 90% of the German taxpayers and partly for a further 6.5% of German taxpayers. The new rules apply as of 2021. Shareholders are advised to monitor further future developments.

## 19.7 Other Taxes

No German capital transfer taxes, value-added-tax, stamp duties or similar taxes are currently levied on the purchase or disposal or other forms of transfer of the shares. However, an entrepreneur may opt to subject disposals of shares, which are in principle exempt from value-added-tax, to value-added-tax if the sale is made to another entrepreneur for the entrepreneur's business. Wealth tax is currently not levied in Germany.

On February 14, 2013, the EU Commission adopted a proposal for a Council Directive (the "**Draft Directive**") on a common financial transaction tax ("**FTT**") to be implemented in Austria, Belgium, France, Germany, Greece, Italy, Portugal, Spain, Slovakia, and Slovenia (the "**Participating Member States**"). Estonia has stated in 2015 that it will not participate in implementing the proposed FTT.

The Draft Directive has a very broad scope and could, if introduced, apply to certain dealings in the shares (including secondary market transactions) in certain circumstances. The Draft Directive focused on levying a FTT on financial transactions (as defined in the Draft Directive), including the purchase, sale and exchange of financial instruments. Under the Draft Directive, the rate of the FTT would not be lower than 0.1% (0.01% for derivatives), generally based on the amount of the paid or owed consideration or in case of derivatives, the notional amount referred to in the derivatives contract at the time of the financial transaction. The issuance and subscription of shares should, however, be exempt.

Since the date of the publication of the Draft Directive, discussions have taken place between the Participating Member States. According to a statement of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*) dated May 25, 2020, the work on the legal framework for the FTT is well advanced and shall be finalized in the second half of the calendar year 2020. The FTT is expected to be modelled on the existing French FTT legislation. Consequently, the FTT is expected to apply to the acquisition of shares in domestic companies with a market capitalization of more than € 1 billion and at a rate of 0.2%.

Nevertheless, the FTT remains subject to negotiation between the Participating Member States and was (and most probably will be) the subject of legal challenge. It may still be altered prior to its adoption. Moreover, once any directive has been adopted, it will need to be implemented into the respective domestic laws of the participating member states, and the domestic provisions implementing the directive might deviate from the directive itself. Finally, additional EU member states may decide to participate in or to dismiss the implementation.

Prospective holders of the Shares are advised to monitor future developments closely and should consult their own tax advisers in relation to the consequences of the FTT.



## 20 Certain U.S. Federal Income Tax Considerations

The following is a description of certain U.S. federal income tax consequences to the U.S. Holders described below of the Spin-Off and of owning and disposing of New Shares, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a particular person. This discussion does not address U.S. state, local and non-U.S. tax consequences. This discussion applies only to U.S. Holders that, for U.S. federal income tax purposes, hold Siemens AG shares or ADRs as capital assets, and (in the case of U.S. Holders of Siemens AG's shares receiving New Shares in the Spin-Off) will hold the New Shares as capital assets. In addition, this discussion does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including alternative minimum tax consequences, the Medicare contribution tax on net investment income and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities that use a mark-to-market method of tax accounting;
- persons holding Siemens AG shares, ADRs or Shares as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to such securities;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, "individual retirement accounts" or "Roth IRAs";
- persons whose Siemens AG shares, ADR or Shares constitute a Qualified Holding (as defined in "19 Taxation of Shareholders in Germany");
- persons that own or are deemed to own ten percent or more of Siemens AG or the Company's stock by vote or value; or
- persons holding Siemens AG shares, ADRs or Shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Siemens AG shares, ADRs or New Shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding any such securities and partners in such partnerships should consult their tax advisers as to the U.S. federal income tax consequences of the Spin-Off and of receiving, holding and disposing of the New Shares.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, judicial decisions, final, temporary and proposed U.S. Treasury regulations, and the income tax treaty between Germany and the United States (the "**Treaty**"), all as of the date hereof, any of which is subject to change, possibly with retroactive effect.

A "**U.S. Holder**" is a person that for U.S. federal income tax purposes is a beneficial owner of Siemens AG shares or ADRs and:

- a citizen or individual resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of the Spin-Off and of receiving, owning and disposing of New Shares in their particular circumstances.

This discussion assumes that Siemens AG has not been, and the Company will not be, a passive foreign investment company for U.S. federal income tax purposes (a "**PFIC**") for any taxable year, except as specifically described below under "*20.4 Passive Foreign Investment Company Rules*".

## 20.1 Tax Consequences of the Spin-Off

The Spin-Off has not been structured to qualify as a tax-free transaction for U.S. federal income tax purposes, and no ruling has been sought from the U.S. Internal Revenue Service. Siemens AG believes that the distribution of New Shares pursuant to the Spin-Off will constitute a taxable distribution to U.S. Holders with respect to Siemens AG's shares, to the extent of Siemens AG's current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because Siemens AG does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that the distribution of New Shares will be reported to U.S. Holders as a dividend. The amount of the dividend will equal the fair market value of the New Shares on the date of the Spin-Off, and a U.S. Holder will have a tax basis in the New Shares equal to that fair market value.

As described in section "5.3.6 ADR Program", New Shares that U.S. Holders of ADRs would otherwise be entitled to receive in the Spin-Off will instead be sold by the depositary for cash on behalf of the U.S. Holders. U.S. Holders of ADRs will be treated as if they received a taxable distribution of the New Shares on the date of the Spin-Off and then sold such New Shares for cash when they are disposed of by the Depositary. U.S. Holders will recognize dividend income in an amount equal to the fair market value of the New Shares on the date of the Spin-Off as described above, and will also recognize short-term capital gain or loss in an amount equal to the difference (if any) between the U.S. Holder's tax basis in the New Shares and the amount of cash realized on the sale of the New Shares by the depositary (each as determined in U.S. dollars). The U.S. Holder's tax basis in the New Shares will be equal to their U.S. dollar value as of the date of the Spin-Off (that is, the amount includible in income as dividend income as described above in this paragraph).

The dividend income will be foreign-source and U.S. Holders will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Subject to applicable limitations, dividends included in income of certain non-corporate U.S. Holders may be taxable at a favorable rate. Such U.S. Holders should consult their tax advisers regarding the availability of the favorable tax rate on dividends in their particular circumstances.

## 20.2 Taxation of Distributions on the New Shares

Distributions paid on New Shares will generally be treated as dividends to the extent paid out of the Company's current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because the Company will not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. The amount of dividend income will include any amounts withheld by the Company in respect of German taxes. Dividends will be treated as foreign-source income to U.S. Holders and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be taxable at a favorable rate. Such U.S. Holders should consult their tax advisers regarding the availability of the favorable tax rate on dividends.

Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's receipt of the dividend. The amount of any dividend paid in euros will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

Subject to applicable limitations, non-refundable German income taxes withheld from dividends on New Shares at a rate not exceeding the rate applicable under the Treaty will be creditable against the U.S. Holder's U.S. federal income tax liability. German taxes withheld in excess of the rate applicable under the Treaty or that are otherwise refundable will not be eligible for credit against a U.S. Holder's federal income tax liability. The rules governing foreign tax credits are

complex, and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes in their particular circumstances. In lieu of claiming a foreign tax credit, U.S. Holders may, at their election, deduct foreign taxes, including German taxes, in computing their taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

### **20.3 Sale or Other Disposition of New Shares**

Gain or loss realized on the sale or other disposition of New Shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the New Shares for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder's tax basis in the Shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. The deductibility of capital losses is subject to limitations. As described under Section "19.3.2 Taxation of Capital Gains of Shareholders with a Non-German Tax Domicile", in certain limited circumstances German tax may be imposed on disposition gains and U.S. Holders should consult their tax advisers regarding the credibility of any such taxes (and should be aware that any such tax will generally not be creditable to the extent it is exempt under German law or the Treaty).

### **20.4 Passive Foreign Investment Company Rules**

In general, a foreign corporation will be a PFIC for any taxable year in which (i) 75.0% or more of its gross income consists of passive income (such as dividends, interest or certain rents and royalties) or (ii) 50.0% or more of the average value of its assets (generally determined on a quarterly basis) consists of assets that produce, or are held for the production of, passive income. If a corporation owns at least 25.0% (by value) of the stock of another corporation, the corporation will be treated, for purposes of the PFIC tests, as owning its proportionate share of the 25.0%-owned corporation's assets and receiving its proportionate share of the 25.0%-owned corporation's income.

Based upon the nature of its expected business, the Company does not expect to be a PFIC for its current taxable year or in the foreseeable future. However, because PFIC status depends on the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that the Company will not be a PFIC for any taxable year.

If the Company were a PFIC for any taxable year during which a U.S. Holder held New Shares, gain recognized by a U.S. Holder on a sale or other disposition (including certain pledges) of the New Shares would be allocated ratably over the U.S. Holder's holding period for the New Shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as applicable, for that taxable year, and an interest charge would be imposed on the tax attributable to the allocated amounts. Further, to the extent that any distribution received by a U.S. Holder on its New Shares exceeds 125.0% of the average of the annual distributions on the New Shares received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, described immediately above. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the New Shares.

As described in "20.1 Tax Consequences of the Spin-Off", U.S. Holders will be treated as receiving taxable distributions of New Shares pursuant to the Spin-Off. Generally, if Siemens AG were a PFIC for any taxable year during the U.S. Holder's holding period of Siemens AG's shares or ADRs, to the extent that such distribution exceeds 125.0% of the average of the annual distributions on Siemens AG shares or ADRs received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, the distribution would be subject to taxation in the same manner as described in the preceding paragraph. Siemens AG believes it was not a PFIC for its

most recent taxable year and does not expect to be a PFIC for its current taxable year. However, Siemens AG has not analyzed or made any determination as to its PFIC status for any recent taxable years.

U.S. Holders should consult their tax advisers regarding Siemens AG and the Company's PFIC status, and the application of the PFIC rules to the Spin-Off and their ownership of the New Shares.

## **20.5 Information Reporting and Backup Withholding**

The distribution of New Shares in connection with the Spin-Off and payments of dividends and sales proceeds, in each case, that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals (and certain specified entities) may be required to report information relating to their ownership of the New Shares, or any non-U.S. accounts through which the New Shares are held. U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the New Shares.

## 21 FINANCIAL INFORMATION

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**Unaudited Condensed Combined Interim Financial  
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## A.1 Combined Statements of Income

### Combined Statements of Income

For the nine months ended June 30, 2020 and 2019

(in millions of €)	2020	2019
Revenue .....	19,828	20,503
Cost of Sales .....	(18,364)	(17,420)
<b>Gross profit .....</b>	<b>1,463</b>	<b>3,084</b>
Research and development expenses .....	(689)	(683)
Selling and general administrative expenses .....	(2,323)	(1,945)
Other operating income .....	66	41
Other operating expenses .....	(77)	(79)
Income (loss) from investments accounted for using the equity method, net ...	6	90
Interest income .....	30	76
Interest expenses .....	(134)	(290)
Other financial income (expenses), net .....	(16)	(23)
<b>Income (loss) before income taxes .....</b>	<b>(1,672)</b>	<b>270</b>
Income tax (expenses) / gains .....	203	(67)
<b>Net income (loss) .....</b>	<b>(1,469)</b>	<b>202</b>
<b>Attributable to:</b>		
Non-controlling interests .....	(234)	94
Siemens Group .....	(1,234)	108

## A.2 Combined Statements of Comprehensive Income

### Combined Statements of Comprehensive Income For the nine months ended June 30, 2020 and 2019

(in millions of €)	2020	2019
<b>Net Income (loss)</b>	<b>(1,469)</b>	<b>202</b>
Remeasurements of defined benefit plans	(27)	(157)
therein: Income tax effects	5	66
Remeasurements of equity instruments	–	–
therein: Income tax effects	–	–
Income (loss) from investments accounted for using the equity method, net	(1)	(2)
<b>Items that will not be reclassified to profit or loss</b>	<b>(28)</b>	<b>(159)</b>
Currency translation differences	(569)	169
Derivative financial instruments	(53)	(15)
therein: Income tax effects	20	8
Income (loss) from investments accounted for using the equity method, net	(17)	6
<b>Items that may be reclassified subsequently to profit or loss</b>	<b>(639)</b>	<b>160</b>
<b>Other comprehensive income (loss), net of income taxes</b>	<b>(667)</b>	<b>1</b>
<b>Total comprehensive income (loss)</b>	<b>(2,135)</b>	<b>203</b>
<b>Attributable to:</b>		
Non-controlling interests	(315)	172
Siemens Group	(1,821)	32

## A.3 Combined Statements of Financial Position

### Combined Statements of Financial Position As of June 30, 2020 and September 30, 2019

(in millions of €)	Jun 30, 2020	Sep 30, 2019
<b>Assets</b>		
Cash and cash equivalents .....	2,352	1,871
Trade and other receivables .....	4,205	5,097
Other current financial assets .....	529	730
Contract assets .....	4,805	5,230
Receivables from Siemens Group .....	3,894	3,402
Inventories .....	7,250	7,148
Current income tax assets .....	432	329
Other current assets .....	1,023	1,093
Assets classified as held for disposal .....	–	16
<b>Total current assets</b> .....	<b>24,491</b>	<b>24,917</b>
Goodwill .....	9,593	9,815
Other intangible assets .....	4,016	4,743
Property, plant and equipment .....	4,790	3,275
Investments accounted for using the equity method .....	762	818
Other financial assets .....	502	437
Other receivables from Siemens Group .....	–	3
Deferred tax assets .....	1,052	742
Other assets .....	217	291
<b>Total non-current assets</b> .....	<b>20,933</b>	<b>20,124</b>
<b>Total assets</b> .....	<b>45,424</b>	<b>45,041</b>
<b>Liabilities and equity</b>		
Short-term debt and current maturities of long-term debt .....	787	359
Trade payables .....	4,595	4,698
Other current financial liabilities .....	483	614
Payables to Siemens Group .....	979	2,960
Contract liabilities .....	10,417	9,337
Current provisions .....	1,678	1,872
Current income tax liabilities .....	489	372
Other current liabilities .....	3,004	3,267
Liabilities associated with assets classified held for disposal .....	–	8
<b>Total current liabilities</b> .....	<b>22,432</b>	<b>23,487</b>
Long-term debt .....	1,690	547
Provisions for pensions and similar obligations .....	1,095	1,960
Deferred tax liabilities .....	586	1,102
Provisions .....	2,158	2,072
Other financial liabilities .....	543	447
Other liabilities .....	669	729
Other liabilities to Siemens Group .....	–	1,608
<b>Total non-current liabilities</b> .....	<b>6,741</b>	<b>8,465</b>
<b>Total liabilities</b> .....	<b>29,173</b>	<b>31,952</b>
<b>Total equity</b> .....	<b>16,250</b>	<b>13,089</b>
<b>Total liabilities and equity</b> .....	<b>45,424</b>	<b>45,041</b>



## A.4 Combined Statements of Cash flows

### Combined Statements of Cash flows

For the nine months ended June 30, 2020 and 2019

(in millions of €)	2020	2019
<b>Cash flows from operating activities</b>		
Net income (loss) .....	(1,469)	202
<b>Adjustments to reconcile net income (loss) to cash flows from operating activities</b>		
Amortization, depreciation and impairments .....	1,656	858
Income tax expenses .....	(203)	67
Interest (income) expenses, net .....	103	215
(Income) loss related to investing activities .....	(26)	(40)
Other non-cash (income) expenses .....	132	30
<b>Change in operating net working capital</b>		
Contract assets .....	(3)	(414)
Inventories .....	(262)	(1,016)
Trade and other receivables .....	(271)	(414)
Trade payables .....	125	(10)
Contract liabilities .....	1,290	979
Additions to assets leased to others in operating leases .....	(7)	(4)
Change in other assets and liabilities .....	(296)	(953)
Income taxes paid .....	(254)	(147)
Dividends received .....	21	44
Interest received .....	23	16
<b>Cash flows from operating activities</b> .....	<b>561</b>	<b>(585)</b>
<b>Cash flows from investing activities</b>		
Additions to intangible assets and property, plant and equipment .....	(543)	(515)
Acquisitions of businesses, net of cash acquired .....	(177)	(1)
Purchase of investments and financial assets .....	(11)	(31)
Disposal of intangibles and property, plant and equipment .....	37	18
Disposal of businesses, net of cash disposed .....	39	(58)
Disposal of investments and financial assets .....	2	82
<b>Cash flows from investing activities</b> .....	<b>(653)</b>	<b>(503)</b>
<b>Cash flows from financing activities</b>		
Change in debt and other financing activities .....	251	(676)
Interest paid .....	(53)	(35)
Dividends paid to non-controlling interest holders .....	(10)	(25)
Interest paid to Siemens Group .....	(48)	(161)
Other transactions/financing with Siemens Group .....	533	502
<b>Cash flows from financing activities</b> .....	<b>674</b>	<b>(395)</b>
<b>Effect of changes in exchange rates on cash and cash equivalents</b> .....	<b>(102)</b>	<b>15</b>
<b>Change in cash and cash equivalents</b> .....	<b>481</b>	<b>(1,468)</b>
<b>Cash and cash equivalents at beginning of period</b> .....	<b>1,871</b>	<b>2,544</b>
<b>Cash and cash equivalents at end of period</b> .....	<b>2,352</b>	<b>1,076</b>

## A.5 Combined Statements of Changes in Equity

### Combined Statements of Changes in Equity For the nine months ended June 30, 2020 and 2019

(in millions of €)	Net assets attributable to Siemens Group	Currency translation differences	Equity instruments	Derivative financial instruments	Total equity attributable to Siemens Group	Non-controlling interests	Total equity
<b>Balance as of October 1, 2018</b> .....	<b>9,400</b>	<b>71</b>	<b>0</b>	<b>28</b>	<b>9,499</b>	<b>1,202</b>	<b>10,701</b>
Effect of retrospectively adopting IFRS 9 .....	(3)	–	–	–	(3)	(2)	(5)
Balance as of October 1, 2018 .....	9,396	71	0	28	9,496	1,200	10,696
Net income (loss) .....	108	–	–	–	108	94	202
Other comprehensive income (loss) .....	(159)	93	0	(11)	(76)	77	1
Total comprehensive income (loss) .....	(51)	93	0	(11)	32	172	203
Dividends & profit and loss transfer with owners .....	(203)	–	–	–	(203)	(25)	(227)
Other changes .....	2,932	–	–	–	2,932	(105)	2,827
<b>Balance as of June 30, 2019</b> .....	<b>12,075</b>	<b>165</b>	<b>0</b>	<b>17</b>	<b>12,257</b>	<b>1,242</b>	<b>13,498</b>
Balance as of October 1, 2019 .....	11,472	422	0	(37)	11,856	1,233	13,089
Effect of retrospectively adopting IFRS 16 .....	2	0	–	–	2	–	2
Balance as of October 1, 2019 .....	11,474	422	0	(37)	11,858	1,233	13,091
Net income (loss) .....	(1,234)	–	–	–	(1,234)	(234)	(1,469)
Other comprehensive income (loss) .....	(28)	(506)	(0)	(52)	(587)	(80)	(667)
Total comprehensive income (loss) .....	(1,262)	(506)	(0)	(52)	(1,821)	(315)	(2,135)
Dividends & profit and loss transfer with owners .....	(222)	–	–	–	(222)	(5)	(226)
Other changes .....	5,936	(146)	–	48	5,838	(317)	5,521
<b>Balance as of June 30, 2020</b> .....	<b>15,926</b>	<b>(231)</b>	<b>0</b>	<b>(42)</b>	<b>15,653</b>	<b>597</b>	<b>16,250</b>

## **B. Notes to the Condensed Combined Interim Financial Statements**

**For the nine months ended June 30, 2020**

### **NOTE 1 Basis of presentation**

The accompanying Condensed Combined Interim Financial Statements should be read in conjunction with Siemens Energy Combined Financial Statements for the fiscal years ended September 30, 2019, 2018 and 2017.

#### **Purpose and content of the Condensed Combined Interim Financial Statements**

On May 7, 2019, Siemens Aktiengesellschaft ("Siemens AG") announced its plans to publicly list the Siemens Energy Business (referred to hereafter as "Siemens Energy") in the form of a spin-off, by issuing Siemens Energy shares to shareholders of Siemens AG and a subsequent listing of these shares. Siemens AG plans to retain a minority stake in Siemens Energy. The parent company of Siemens Energy, and thus the issuer of shares for the spin-off, will be Siemens Energy AG (until April 2, 2020: Kyros 52 Aktiengesellschaft) with registered office in Munich (registry number HRB 252581), Germany. Siemens Energy AG (referred to hereafter as "the company") became economically active on April 1, 2020 (before this date and until spin-off the company does not have any operating business). Upon completion of the proposed transaction structure, Siemens Energy AG will be the parent company of the future Siemens Energy Group and will directly hold 100% of the partnership interest of Siemens Gas and Power GmbH & Co. KG and 100% of the interest of Siemens Gas and Power Management GmbH, the sole general partner of Siemens Gas and Power GmbH & Co. KG. Siemens Gas and Power GmbH & Co. KG was incorporated in fiscal 2019 and will directly and indirectly hold shares in all Siemens Energy companies.

Siemens Energy has been separated from Siemens AG and its subsidiaries ("Siemens Group") in several steps. In an initial preparatory step, activities that had not been conducted by separate companies have been or will be transferred to separate legal entities, either by carving out the Siemens Energy Businesses or in some countries (for example in Brazil, Norway and Israel) by carving out the businesses within the legal entities that remain with Siemens Group (reverse carve-out). All activities that form the Siemens Energy Business are then placed under the control of Siemens Gas and Power GmbH & Co. KG.

The transfer of the Siemens Energy Business that has been bundled in and under Siemens Gas and Power GmbH & Co. KG will be implemented in two steps. First, the participation held by Siemens Beteiligungen Inland GmbH ("SBI GmbH") in Siemens Gas and Power GmbH & Co. KG and a portion of the participation held by Siemens AG in Siemens Gas and Power GmbH & Co. KG as well as corresponding participations held in the Siemens Gas and Power Management GmbH will be contributed to Siemens Energy AG by way of capital increases in kind. SBI GmbH and Siemens AG will each receive shares in Siemens Energy AG created by way of the capital increase in return. To ensure value congruence between the shares being issued and the contribution, Siemens AG will also receive a cash payment. This was contractually agreed on May 22, 2020, where Siemens AG and SBI GmbH on the one side and Siemens Energy AG on the other side entered into a notarized contribution agreement.

In a second step, Siemens AG will spin off its remaining limited partnership interest in Siemens Gas and Power GmbH & Co. KG and its remaining shares in the Siemens Gas and Power Management GmbH to Siemens Energy AG by way of a spin-off for absorption under the German Transformation Act ("Umwandlungsgesetz", "UmwG").

The Siemens shareholders will receive Siemens Energy shares corresponding to their participation in Siemens AG. The shares required for this purpose will be created by an additional capital increase in exchange for a contribution in kind of Siemens Energy AG. This was contractually agreed on May 22, 2020, where Siemens AG and Siemens Energy AG entered into a notarized Spin-off and Transfer Agreement, which was approved by the shareholders' meeting of Siemens

AG on July 9, 2020 and previously approved by the shareholders' meeting of Siemens Energy AG. Siemens AG, acting as the sole shareholder of Siemens Energy AG, granted its consent to the Spin-off and Transfer Agreement at the shareholders' meeting of Siemens Energy AG in May 2020. After the implementation of the spin-off, the Siemens Group together with the pension fund, Siemens Pension-Trust e.V., will hold 45% and the Siemens Shareholders will hold 55% of the shares in Siemens Energy AG.

As regards the future participation of the Siemens Group in Siemens Energy AG, Siemens AG, SBI GmbH and Siemens Energy AG have entered into a Deconsolidation Agreement ("Entherrschungsvertrag") in the context of the conclusion of the Spin-off and Transfer Agreement. The Siemens Energy Business is to be conducted by Siemens Energy AG autonomously and independently of Siemens AG.

According to the Commission Delegated Regulation (EU) 2019/980 of March 14, 2019, Annex I, item 18.1.1., supplementing Regulation (EU) 2017/1129, an issuer must present historical financial information covering the latest three fiscal years in its securities prospectus. Furthermore, according to Commission Delegated Regulation (EU) 2019/980 of March 14, 2019, Article 18 para 1 in connection with Article 18 para 3, Siemens Energy AG, as the issuer, has a "Complex Financial History" as of the share issuance date and needs to prepare additional financial information. Therefore, in addition to the Combined Financial Statements for the fiscal years from October 1, 2018 to September 30, 2019, from October 1, 2017 to September 30, 2018 and from October 1, 2016 to September 30, 2017, Siemens Energy presents Condensed Combined Interim Financial Statements for the nine month period ended June 30, 2020.

These Condensed Combined Interim Financial Statements consist of Combined Statements of Income, Combined Statements of Comprehensive Income, Combined Statements of Financial Position, Combined Statements of Cash Flows, Combined Statements of Changes in Equity and Notes to the Condensed Combined Interim Financial Statements for the nine month period from October 1, 2019 to June 30, 2020 (collectively referred to hereafter as "Condensed Combined Interim Financial Statements").

The Condensed Combined Interim Financial Statements have been prepared and published generally in millions of euro (€ million). Rounding differences may occur in respect of individual amounts or percentages.

The Condensed Combined Interim Financial Statements are unaudited and were authorized for issue by the Managing Board of Siemens Energy AG on July 30, 2020.

### **Definition of Siemens Energy Business**

The accompanying Condensed Combined Interim Financial Statements as of June 30, 2020 present Siemens Energy entities and operations. Siemens Energy is one of the largest suppliers of technology in the energy and electricity sector with an integrated setup that encompasses the entire scope of the energy market. It provides a portfolio along the entire energy value chain – in both conventional and renewable energy, supported by a complete set of training and service offerings. This comprehensive portfolio supports public- and private-sector customers along the continuum of energy – from power generation to power transmission and the related services businesses.

Siemens Energy's operations include the following two reportable segments:

- Gas and Power (GP), which offers a broad spectrum of products and solutions for the generation of energy, along the entire value chain in the oil and gas industry and the construction and operation of power transmission networks;
- Siemens Gamesa Renewable Energy (SGRE), which offers on- and offshore wind turbines as well as services throughout the whole lifecycle of wind turbines.

## Basis for Condensed Combined Interim Financial Statements

These Condensed Combined Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to interim financial reporting as adopted by the European Union ("EU"), and, in particular, for interim financial statements according to International Accounting Standard ("IAS") 34, Interim Financial Reporting. The Condensed Combined Interim Financial Statements apply the same accounting principles and practices as those used in the Combined Financial Statements as of September 30, 2019 with the exception of IFRS 16, Leases, and IFRIC 23, Uncertainty over Income Tax Treatments (refer to Recently adopted Accounting Pronouncements). Results for the interim reporting are not necessarily indicative for future results. In interim periods, tax expense is based on the current estimated annual effective tax rate of Siemens Energy.

The Condensed Combined Interim Financial Statements are prepared on a going concern and a historical cost basis as included in the Siemens AG Consolidated Financial Statements, based on the Siemens AG date of transition to IFRS (October 1, 2004). Since IFRS provides no guidelines for the preparation of Combined Financial Statements, rules given in IAS 8.12 have been used. IAS 8.12 requires the consideration of the most recent pronouncements of other standard-setting bodies, other financial requirements and recognized industry practices. Following IAS 8.12, the predecessor accounting approach has been applied in the Condensed Combined Interim Financial Statements. Due to the classification of Siemens Energy as discontinued operations at the level of Siemens AG, the extraction approach has been adjusted for the accounting policies and valuation methods applied when presenting Siemens Energy as a group of companies independent of Siemens AG. In particular, this includes the assessment of useful lives and impairments of assets including investments and associated companies by Siemens Energy Management.

Except for the cases stated above, the same accounting policies and measurement principles have been applied in preparing the Condensed Combined Interim Financial Statements as used by the Siemens Energy entities and operations in preparing their financial information for inclusion in the financial information as of June 30, 2020 published by Siemens AG.

The Condensed Combined Interim Financial Statements of Siemens Energy reflect the following businesses:

- the segment Gas and Power (GP)<sup>1</sup>;
- the segment Siemens Gamesa Renewable Energy (SGRE).

With the exception of the stake in Siemens Ltd., India, these businesses have been presented as discontinued operations starting from the Half-year Consolidated Financial Statements of Siemens AG as of March 31, 2020.

For a list of legal entities that are included in the Condensed Combined Interim Financial Statements, refer to *Scope of combination*.

The Condensed Combined Interim Financial Statements for Siemens Energy are derived as follows:

The financial information for the segment GP included in the Condensed Combined Interim Financial Statements is derived from the segment reporting of Siemens Group, before applying the presentation and measurement principles of IFRS 5 for discontinued operations. The segment reporting included certain cost allocations for centrally managed functions prior to the legal separation.

The financial information for the segment SGRE included in the Condensed Combined Interim Financial Statements is derived from the segment reporting of Siemens Group, before applying the presentation and measurement principles of IFRS 5 for discontinued operations.

<sup>1</sup> The segment GP now includes the 24% minority stake in Siemens Ltd., India, which is an associated company and accounted for using the at equity method. The treatment of the shares (24% of historical book values) already in the Siemens Energy Combined Financial Statements for the fiscal years ended September 30, 2019, 2018 and 2017 was based on the expectation of both the management of Siemens AG and Siemens Energy that the sale of the minority stake in Siemens Ltd., India will be successfully completed before spin-off. The sale materialized on May 19, 2020.



The financial information for the minority stake in Siemens Ltd., India is derived from the Siemens AG IFRS reporting package of this entity.

In addition, in order to reflect the assets, liabilities, income and expenses that fall within the scope of Siemens Energy, the following combination rules have been applied. The management uses significant judgment in determining these combination rules. Thus, the Condensed Combined Interim Financial Statements presented do not necessarily reflect the financial position, cash flows or results of operations that would have occurred if Siemens Energy had existed as a separate group in the periods presented.

### **Scope of combination**

The scope of combination for the Condensed Combined Interim Financial Statements of Siemens Energy for the nine months ended June 30, 2020 was determined on the principles of the legal reorganization approach. This approach is based on the fact that the economic activities that form the new group were not managed centrally in the past, but the entities are legally bound together within a reorganization process. During the reporting periods of the Condensed Combined Interim Financial Statements, the assets and liabilities forming the reporting entity were under common control of Siemens AG.

The scope of combination includes companies and businesses that will be directly or indirectly and fully or partially owned by Siemens Energy AG after the spin-off of the Siemens Energy Group has been completed. This includes entities that were controlled by Siemens AG or its subsidiaries during the reporting period of the Condensed Combined Interim Financial Statements and for which a legal transfer to Siemens Energy AG is planned. Businesses in accordance with IFRS 3 under common control that were transferred to Siemens Energy during the legal reorganization are included with their respective assets and liabilities as well as income and expenses in the Condensed Combined Interim Financial Statements for all periods during which Siemens AG controlled these entities.

For legal entities transferring to Siemens Energy that had already been fully dedicated to the Siemens Energy Business and for which no carve-out has been required, the Condensed Combined Interim Financial Statements also includes all non-business assets, liabilities, income and expenses of the legal entity (mainly financing activities and real estate), with the exception of a one-off fee amounting to €655 million paid by Siemens Energy to Siemens Group for the early termination of a loan payable to Siemens Group, which occurred in the nine months ended June 30, 2020 in connection with the preparation of Siemens Energy's future capital structure. Since the corresponding external loan from a Siemens Group perspective was not impacted by this premature repayment, the profit impact was subsequently eliminated within equity.

For legal entities that required a legal separation, certain assets and liabilities or obligations transferred to Siemens Energy that historically have not been part of the Siemens Energy Business are recognized in the Condensed Combined Interim Financial Statements at the time of the separation as further detailed below. Balances related to the settlement of local purchase prices of the Siemens Energy Business still held by other Siemens Group companies as of June 30, 2020 have been eliminated.

### **Goodwill allocation**

The goodwill included in the Condensed Combined Interim Financial Statements is based on the goodwill attributable to the Siemens Energy Business. The goodwill amount reflected in the Condensed Combined Interim Financial Statements comprises the goodwill attributable to the segment SGRE as included in the Siemens Group segment reporting as well as goodwill attributable to the segment GP as reported in the Siemens Group segment reporting for the operating company Gas and Power which was allocated to the Siemens Energy Business adjusted for legal entities where legal transfer is not planned, based on a relative value approach.

The goodwill is allocated and to be tested for impairment on an annual basis and whenever there is an indication of impairment, at the level of groups of cash-generating units, represented by the segment GP and for SGRE one level below the segment. This is the lowest level at which

goodwill is monitored for internal management purposes. As of March 31, 2020, the recoverability of goodwill was assessed in the process of the held for disposal classification at the level of Siemens AG and no impairment was recorded.

### **Services provided and charged by centrally managed functions**

Services provided by centrally managed functions from Siemens Group to Siemens Energy have been included in the Condensed Combined Interim Financial Statements as historically charged to the business. For employees previously employed by such centrally managed functions of Siemens Group that have been transferred to the Siemens Energy Business in line with the reorganization, employee-related expenses, assets and liabilities (including liabilities for pensions and similar obligations) have been included in the Condensed Combined Interim Financial Statements from the occurrence of the transfer.

### **Pensions and similar obligations**

The Condensed Combined Interim Financial Statements of Siemens Energy present the pension obligations of the Siemens Energy population and the corresponding plan assets.

The pension obligations for active employees, as well as for passives (with the exception of Germany), have been transferred mainly in line with the legal reorganization. Therefore, the majority of pension obligations has been transferred during fiscal year 2020. In countries where the carve-out had not been completed as at June 30, 2020, the pension obligations and related plan assets may change considering specific requirements when the separation into Siemens Energy legal entities becomes effective.

In Germany, the Siemens Group provides pension benefits through the following plans: BSAV (Beitragsorientierte Siemens Altersversorgung), closed legacy plans and deferred compensation. Funding for such plans is currently provided via contractual trust arrangements ("CTAs"). In relation to Siemens Energy, Siemens Gas and Power GmbH & Co. KG has set up a CTA which acts as the pension trust (the "GP Trust") for German entities. Siemens Gas and Power GmbH & Co. KG acts as sole trustor for the BSAV and the legacy plans, while for the deferred compensation plans the participating Group entities are acting as trustor. This CTA has been funded with assets that had a fair value of approximately €915 million as at transfer date (January 2, 2020) and resulted in an equivalent increase in Siemens Energy's pension assets from that date.

Before carve-out, plan assets have been allocated by taking into consideration specific legal requirements for the major countries. Where the respective employee has a right to claim a minimal funding or the plan assets were already allocated to individual employee accounts, plan assets have been retrospectively allocated to Siemens Energy for the periods prior to the legal transfer of the assets.

### **Income taxes**

Income taxes, current and deferred income taxes are recognized for the purposes of the Condensed Combined Interim Financial Statements taking into consideration local tax requirements. Income taxes are determined using the separate tax return approach under the assumption that the entities and operations of Siemens Energy constitute separate taxable entities. In interim periods, tax expense is based on the current estimated annual effective tax rate of Siemens Energy.

This assumption implies that current and deferred taxes for all companies and operations and tax groups within Siemens Energy are calculated separately. The recoverability of deferred tax assets is assessed on this basis. In the Condensed Combined Interim Financial Statements deferred tax assets were recognized to the extent it is probable that they can be offset with future taxable income from the respective Siemens Energy entities.

Tax receivables and liabilities as well as deferred tax assets on loss carryforwards of Siemens Energy entities and operations that did not constitute a separate taxpayer were treated as contributions or transfers from reserves by shareholders and are not included in the Condensed

Combined Interim Financial Statements of Siemens Energy. The management of Siemens Energy deems the approach as appropriate though not necessarily indicative of the tax expenses or income that would result for Siemens Energy as a separate group.

### **Real estate assets**

Assets that were leased from Siemens Real Estate and transferred to Siemens Energy as part of the legal reorganization have been included in the Condensed Combined Interim Financial Statements when the separation into Siemens Energy legal entities became effective. Before transfer, the leases have been reflected as such in the Condensed Combined Interim Financial Statements. Apart from the effect of the initial application of IFRS 16, these transfers of real estate assets, including right-of-use assets, were the main driver for the increase of property, plant and equipment year-over-year.

### **Other centrally managed items**

Other centrally managed items have been included in the Condensed Combined Interim Financial Statements from the occurrence of the legal transfer of each entity. Until completion of the carve-out, only business-related items as well as taxes are included in the Condensed Combined Interim Financial Statements.

### **Capital structure**

The equity of Siemens Energy consists of the net assets attributable to Siemens Energy. The Condensed Combined Interim Financial Statements do not show any subscribed capital, because Siemens Energy does not constitute a legal group during the period presented.

The equity of Siemens Energy as presented in the Condensed Combined Interim Financial Statements has been impacted mainly by the following combination rules:

- a) Any allocation of assets and liabilities to Siemens Energy in addition to those already included in the segment reporting for the businesses as presented in the Consolidated Financial Statements of Siemens AG was directly recognized in equity as withdrawal or contribution at the time of the allocation;
- b) any consideration given or received in the course of the formation of a group of entities was directly recognized in equity as withdrawal or contribution at the time of the transfer;
- c) any taxes paid from Siemens Group and related to Siemens Energy operations prior to the carve-out, was directly recognized in equity;
- d) any changes in the conversion of receivables and payables to cash related to Siemens Energy operations prior to the carve-out, was directly recognized in equity;

category c) and d) was necessary because in the Siemens AG Consolidated Financial Statements cash balances were not allocated to the Siemens Group operating segments but managed centrally. Additionally, in Siemens Group legal entities tax payments were not assigned to operating segments.

### **Recently adopted Accounting Pronouncements**

IFRS 16, Leases, was adopted as of October 1, 2019, by applying the modified retrospective approach (using practical and transition-related expedients), i.e. comparative figures for the preceding year are not adjusted. IFRS 16 introduces a single lessee accounting model requiring lessees to recognize right-of-use assets and lease liabilities for leases with a term of more than twelve months, unless the underlying asset is of low value.

As of September 30, 2019, finance leases totaled €39 million; thereof GP €37 million and SGRE €2 million. As of June 30, 2020, lease liabilities amounted to €1,204 million (October 1, 2019: €896 million); thereof GP €598 million (October 1, 2019: €311 million) and SGRE €606 million (October 1, 2019: €585 million).

As of October 1, 2019, right-of-use assets of €1,003 million were recognized in property, plant and equipment, generally measured at the amount of the lease liability (in total: €896 million) adjusted by any prepaid or accrued lease payments. Most of the transition effect relates to real estate leased by Siemens Energy. The difference between future payment obligations under operating leases as of September 30, 2019 of €1,559 million and the gross lease liability as of October 1, 2019 of €1,045 million mostly results from the application of transition-related expedients. For leases between Siemens Real Estate and Siemens Energy that were to be transferred during fiscal 2020, no right-of-use assets and lease liabilities were recognized prior to the transfer.

The future lease payments from leases under the right-of-use model as of October 1, 2019 were discounted using incremental borrowing rates (weighted average incremental borrowing rate as of October 1, 2019: 1.7%.)

On October 1, 2019, Siemens Energy retrospectively adopted IFRIC 23, Uncertainty over Income Tax Treatments. The adoption had no material impact on the Condensed Combined Interim Financial Statements.

### **Coronavirus pandemic (COVID-19)**

In the nine months ended June 30, 2020, Siemens Energy's business and economic environment has been adversely affected by the pandemic COVID-19 spread, though certain mitigating effects may arise due to the various measures taken by governments or states globally, including favorable financial support. As the outbreak continues to evolve, it is challenging to predict its duration and its magnitude of impacts on assets, liabilities, results of operations and cash flows. In the June 30, 2020 Condensed Combined Interim Financial Statements, Siemens Energy cautiously based financial information related estimates and assumptions on existing knowledge and best information available and applied a scenario assuming the current COVID-19 situation is of no long-term duration. COVID-19-related impacts on Siemens Energy's Condensed Combined Interim Financial Statements may inter alia result from interest rate adjustments in various countries, increasing volatility in foreign currency exchange rates, deteriorating creditworthiness, credit default or delayed payments, delays in order placements as well as in executing orders and contracts, termination of contracts, adjusted or modified revenue and cost patterns, limited usage of assets, volatility in financial and commodity markets, limited or no access to customer facilities and hardship in preparing predictions and forecasts due to uncertainties in amount and timing of cash flows. Those factors may impact fair value and carrying amounts of assets and liabilities, amount and timing of results of operations and cash flows. It requires complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. Siemens Energy believes assumptions applied appropriately reflect the current situation. Furthermore, accounting estimates are made in determining the net realizable value of inventories taking into account quantity, technical and price risk. With regard to goodwill the underlying assumptions used in the Q2 2020 impairment assessment described above were reviewed in Q3 2020 and no changes were identified which required impairment testing to be performed at June 30, 2020. The Company believes assumptions applied appropriately reflect the current situation. As regards specific singular impacts related to COVID-19 please refer to *Note 8 Segment Information*.

## NOTE 2 Acquisitions

On October 20, 2019, Senvion GmbH i.L. and Siemens Gamesa Renewable Energy Eólica, S.L. Unipersonal (S.L. Unipersonal, hereinafter, "S.L.U.") signed an agreement under which Siemens Gamesa Renewable Energy Eólica, S.L.U. has acquired on January 9, 2020 all the shares of Senvion Deutschland GmbH (Senvion European Onshore Services), which includes the carved-out European onshore service business of Senvion and certain additional assets associated to the business, including certain related intellectual property of Senvion and based on which on April 30, 2020, Siemens Gamesa Renewable Energy, S.A. (hereinafter, "SGRE Portugal") signed an agreement with Senvion Indústria, S.A., and Senvion GmbH i.L. by virtue of which all the shares of Ria Blades, S.A., entity which owns and operates the business of the wind turbine blades production facility in Vagos (Portugal) and certain additional assets associated to said business were acquired.

This acquisition is in line with SGRE's strategy to grow its multibrand service business and its production capacities and strengthens SGRE's competitive position in Europe. The overall price to be paid in cash for the shares of Senvion Deutschland GmbH and Ria Blades, S.A. amounts to €200 million, subject to closing accounts confirmation adjustments. The closing accounts related adjustment mechanism for working capital, debt, maintenance cost and backlog deviations since 30 June 2019 until 9 January 2020 has different caps and leads to a maximum overall price to be paid by SGRE of €215 million, in case of positive adjustments, and a minimum overall cash consideration of €180 million, in case of negative adjustments, considering that SGRE could be entitled to further obtain, under certain circumstances, up to €10 million of additional current assets, without change in the consideration paid. The price adjustment amount, within the established limits, will be resolved in the following months, and is referred to the transaction as a whole. At the time the final price adjustment is determined, the allocation of the resulting consideration transferred to the different parts of the transaction will also be completed.

The assets and liabilities of Senvion Deutschland GmbH and its subsidiaries as well as the assets and liabilities of Ria Blades, S.A. are included in the Condensed Combined Interim Financial Statements at their acquisition date fair values. The accounting for these business combinations has been determined provisionally as of June 30, 2020, due to the fact that the measurement of the acquired assets and liabilities has not yet been completed, as well as the twelve month period since the acquisition of Senvion Deutschland GmbH and Ria Blades, S.A. established by IFRS 3 "Business Combinations" has not elapsed.

The preliminary purchase price allocation as of the acquisition dates of Senvion Deutschland GmbH and Ria Blades results in: other intangible assets €151 million (related to the fair value of order backlog and customer relationships), property, plant and equipment €92 million, cash and cash equivalents €5 million, current and non-current provisions €132 million and other net assets €2 million. The goodwill has been provisionally determined in an amount of €72 million and has been provisionally substantially allocated to the goodwill carrying unit Operation and Maintenance.

As of June 30, 2020, the preliminary estimate for the consideration to be transferred amounts to €190 million (€186 million net of cash acquired). Until June 30, 2020, the consideration paid in accordance with the milestones established in the acquisition agreement amounts to €182 million (€177 million net of cash acquired).

The acquired businesses have contributed revenues of €81 million and a negative net result of €6 million (pre-purchase price allocation impacts) to Siemens Energy for the period from acquisition to June 30, 2020. The revenue and profit of the acquired entities for the current reporting period as though the acquisition date had been as of the beginning of the annual reporting period amounts to €141 million and €5 million, respectively, (pre-purchase price allocation impacts).

The transaction cost of €12.5 million have been recognized in selling and general administrative expenses in the Combined Statements of Income.



## Acquisition of non-controlling interests in Siemens Gamesa Renewable Energy

As a result of Siemens AG's acquisition of the 8.1% non-controlling interest in SGRE from Iberdrola S.A. for a purchase price of €1.1 billion in February 2020, the non-controlling interest and the equity attributable to Siemens Group are adjusted to reflect the relative change in Siemens Energy's interest in SGRE.

## NOTE 3 Debt

(in millions of €)	Current debt		Non-current debt	
	Jun 30, 2020	Sep 30, 2019	Jun 30, 2020	Sep 30, 2019
Loans from banks .....	525	325	731	494
Lease liabilities .....	259	2	945	37
Other financial indebtedness .....	3	32	14	17
<b>Total debt .....</b>	<b>787</b>	<b>359</b>	<b>1.690</b>	<b>547</b>

Loans from banks were mainly related to SGRE. Otherwise Siemens Energy is substantially financed by Siemens Group. Beginning in Q2 2020, financial liabilities to Siemens Group have been assessed to be short-term. For further details please also refer to *Note 10 – Related party transactions*.

### Credit facilities

A commitment letter for a new €3 billion syndicated revolving credit facility for general corporate purposes to be available after spin-off with a tenor of three years and two one-year extension options at the discretion of the lenders (after year one and two) has been signed on May 11, 2020. The first step of the syndication was completed by signing the facility agreement on July 7, 2020. In a second step, syndication has been launched to an additional group of banks in July 2020, to complete the group of core banks for Siemens Energy and have the facility agreement signed by all banks by the end of August 2020 – latest before spin-off.

In December 2019, SGRE's credit facilities were extended by one year: the €500 million fully drawn loan tranche will mature in 2022 and the two billion unused revolving credit line tranche will mature in 2024. In January 2020, SGRE has signed two new loans amounting to €240 million, both with maturity in 2023. Additionally, in May 2020, two new bilateral short-term credit lines amounting to €125 million have been signed, which will mature in 2021.

## NOTE 4 Equity

As stated in *Note 1 – Basis of presentation*, Siemens Energy was not a legal group for Consolidated Financial Statements reporting purposes in accordance with IFRS 10, Consolidated Financial Statements, in the periods presented. The equity was presented on the basis of the aggregation of the net assets of the Siemens Energy Business under the control of Siemens AG and centrally managed by the Managing Board of Siemens AG.

Since the combined group does not show any subscribed capital, a presentation of earnings per share in accordance with IAS 33, Earnings per share, is not applicable.

### Other changes

During the period presented in the Condensed Combined Interim Financial Statements, the line item other changes as included in the Combined Statements of Changes in Equity mainly contains effects in connection with the funding of the group as well as specifics in relation to the combination rules described above.

These effects resulted in a net increase of total equity of €5,521 million and were mainly related to transactions in the course of the formation of the Group, in particular (i) the funding of the pension obligations of the German Group entities, (ii) carve-out related asset transfers and (iii) transactions for the purpose of achieving the envisaged capital structure and liquidity position of Siemens Energy.

## Capital management

Capital management for Siemens Energy was performed by Siemens Group and includes the consideration of legal requirements relating to the equity and liquidity requirements of Siemens AG and Siemens Group during the periods presented.

## NOTE 5 Commitments and contingencies

Siemens Energy issues guarantees of third-party performance, which mainly include performance bonds and guarantees of advanced payments in a consortium. In the event of a claim under the guarantees, Siemens Energy will be required to pay up to the agreed-upon maximum amount of €399 million as of June 30, 2020 (September 30, 2019: €147 million). These agreements typically have terms of up to ten years. Besides the guarantees issued by Siemens Energy during the periods presented, Siemens Group provided guarantees for Siemens Energy Business for which Siemens Group has a recourse right against Siemens Energy in case of any drawing on the guarantees.

The Company acts as a partner in commercial partnerships and as such has capital contribution obligations and is jointly and severally liable for the partnerships' liabilities.

## NOTE 6 Legal proceedings

In relation to the previously reported cartel damages claims in Israel filed by an electricity consumer group and the Israel Electric Corporation in relation to alleged anti-competitive behavior in the Israeli gas-insulated switchgear market, an agreement concluded in December 2018 has become final in fiscal 2020.

## NOTE 7 Financial instruments

The following table presents the fair values and carrying amounts of financial liabilities measured at amortized cost for which the carrying amounts do not approximate fair value:

(in millions of €)	Jun 30, 2020		Sep 30, 2019	
	Fair value	Carrying Amount	Fair value	Carrying Amount
Loans from banks	1,266	1,256	828	819
Lease liabilities	1,300	1,204	40	39
Other non-derivative financial liabilities <sup>1</sup>	1,146	1,147	5,839	4,733
Other financial indebtedness	17	17	49	49

1 Included in Other current financial liabilities and Other financial liabilities (except credit guarantees) as well as Other liabilities to Siemens Group (except Payables to Siemens Group).

The following table allocates financial assets and liabilities measured at fair value to the three levels of the fair value hierarchy:

(in millions of €)	Jun 30, 2020			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>	–	729	47	776
Equity instruments measured at fair value through profit or loss	–	–	37	37
Debt instruments measured at fair value through profit or loss	–	–	10	10
Derivative financial instruments	–	729	–	729
<b>Financial liabilities measured at fair value – Derivative financial instruments</b>	–	739	–	739

Fair values of derivative financial instruments are in accordance with the specific type of instrument. Fair values of derivative interest rate contracts are estimated by discounting expected future cash flows using current market interest rates and yield curves over the remaining term of

the instrument. Fair values of foreign currency derivatives are based on forward exchange rates. No compensating effects from underlying transactions (e.g. firm commitments and forecast transactions) are taken into consideration.

## NOTE 8 Segment information

### Description of reportable segments

Siemens Energy has two reportable segments:

- Gas and Power (GP), which offers a broad spectrum of products and solutions for the generation of energy, along the entire value chain in the oil and gas industry and the construction and operation of power transmission networks;
- Siemens Gamesa Renewable Energy (SGRE), which offers on- and offshore wind turbines as well as services throughout the whole lifecycle of wind turbines.

(in millions of €)	Orders				
	Nine months ended		Three months ended		
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Gas and Power .....	14,897	15,075	4,089	5,374	5,434
Siemens Gamesa Renewable Energy .....	12,172	9,674	5,342	2,203	4,628
<b>Total Segments</b> .....	<b>27,069</b>	<b>24,749</b>	<b>9,431</b>	<b>7,577</b>	<b>10,061</b>
Reconciliation to Combined Interim Financial Statements .....	(55)	(179)	(13)	(11)	(32)
<b>Siemens Energy</b> .....	<b>27,014</b>	<b>24,570</b>	<b>9,418</b>	<b>7,566</b>	<b>10,029</b>

### Orders

Orders are determined principally as estimated revenue of accepted purchase orders for which enforceable rights and obligations exist as well as subsequent order value changes and adjustments, excluding letters of intent. To determine orders, Siemens Energy considers termination rights and customer's creditworthiness.

As of June 30, 2020, order backlog totaled €82 billion (September 30, 2019: €77 billion, September 30, 2018: €71 billion); thereof GP €51 billion (September 30, 2019: €52 billion, September 30, 2018: €48 billion) and SGRE €32 billion (September 30, 2019: €26 billion, September 30, 2018: €23 billion). As of September 30, 2019, Siemens Energy expected to convert €23 billion of the order backlog into revenue within one year (September 30, 2018: €22 billion), thereof GP €13 billion (September 30, 2018: €13 billion) and SGRE €9 billion (September 30, 2018: €9 billion).

(in millions of €)	External revenue				
	Nine months ended		Three months ended		
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Gas and Power .....	13,202	13,220	4,262	4,571	4,369
Siemens Gamesa Renewable Energy .....	6,615	7,282	2,411	2,203	2,000
<b>Total Segments</b> .....	<b>19,817</b>	<b>20,502</b>	<b>6,673</b>	<b>6,774</b>	<b>6,370</b>
Reconciliation to Combined Interim Financial Statements .....	11	1	2	6	3
<b>Siemens Energy</b> .....	<b>19,828</b>	<b>20,503</b>	<b>6,675</b>	<b>6,780</b>	<b>6,373</b>

(in millions of €)	Intersegment revenue				
	Nine months ended		Three months ended		
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Gas and Power .....	124	95	30	43	51
Siemens Gamesa Renewable Energy .....	1	1	0	1	0
<b>Total Segments</b> .....	<b>125</b>	<b>96</b>	<b>30</b>	<b>44</b>	<b>51</b>
Reconciliation to Combined Interim Financial Statements .....	(125)	(96)	(30)	(44)	(51)
<b>Siemens Energy</b> .....	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

(in millions of €)	Total revenue				
	Nine months ended		Three months ended		
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Gas and Power .....	13,326	13,315	4,292	4,615	4,420
Siemens Gamesa Renewable Energy .....	6,615	7,283	2,411	2,204	2,001
<b>Total Segments</b> .....	<b>19,942</b>	<b>20,598</b>	<b>6,703</b>	<b>6,818</b>	<b>6,420</b>
Reconciliation to Combined Interim Financial Statements .....	(114)	(95)	(28)	(39)	(48)
<b>Siemens Energy</b> .....	<b>19,828</b>	<b>20,503</b>	<b>6,675</b>	<b>6,780</b>	<b>6,373</b>

(in millions of €)	Adjusted EBITA <sup>2</sup>				
	Nine months ended		Three months ended		
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Gas and Power .....	(539)	506	(765)	174	51
Siemens Gamesa Renewable Energy .....	(631)	355	(406)	(60)	(165)
<b>Total Segments</b> .....	<b>(1,171)</b>	<b>861</b>	<b>(1,170)</b>	<b>114</b>	<b>(114)</b>
Reconciliation to Combined Interim Financial Statements .....	(40)	(4)	(12)	(26)	(3)
<b>Siemens Energy</b> .....	<b>(1,211)</b>	<b>857</b>	<b>(1,182)</b>	<b>88</b>	<b>(117)</b>

(in millions of €)	Free cash flow	
	Nine months ended	
	Jun 30, 2020	Jun 30, 2019
Gas and Power .....	133	(416)
Siemens Gamesa Renewable Energy .....	17	(618)
<b>Total Segments</b> .....	<b>150</b>	<b>(1,034)</b>
Reconciliation to Combined Interim Financial Statements .....	(131)	(65)
<b>Siemens Energy</b> .....	<b>18</b>	<b>(1,099)</b>

<sup>2</sup> As of April 1, 2020, the definition of Adjusted EBITA has been changed. Adjusted EBITA, as presented in the segment reporting of the Condensed Combined Interim Financial Statements, is calculated as earnings before financing interest, income taxes, amortization expenses related to intangible assets acquired in business combinations and goodwill impairments. Financing interest excluded from Adjusted EBITA is any interest income or expense other than financial result from operations. Prior year figures are presented on a comparable basis.

(in millions of €)	Additions to intangible assets and property, plant & equipment	
	Nine months ended	
	Jun 30, 2020	Jun 30, 2019
Gas and Power .....	181	197
Siemens Gamesa Renewable Energy .....	352	316
<b>Total Segments</b> .....	<b>533</b>	<b>513</b>
Reconciliation to Combined Interim Financial Statements .....	9	2
<b>Siemens Energy</b> .....	<b>543</b>	<b>515</b>

(in millions of €)	Amortization, depreciation & impairments	
	Nine months ended	
	Jun 30, 2020	Jun 30, 2019
Gas and Power .....	899	404
Siemens Gamesa Renewable Energy .....	644	443
<b>Total Segments</b> .....	<b>1,543</b>	<b>846</b>
Reconciliation to Combined Interim Financial Statements .....	113	12
<b>Siemens Energy</b> .....	<b>1,656</b>	<b>858</b>

As of June 30, 2020, additions to intangible assets and property, plant and equipment amounted to €543 million (June 30, 2019: €515 million), thereof additions to other intangible assets in the amount of €144 million (June 30, 2019: €126 million) and additions to property, plant and equipment in the amount of €399 million (June 30, 2019: €389 million).

As of June 30, 2020, amortization, depreciation and impairments totaled €1,656 million (June 30, 2019: €858 million), thereof depreciation and impairments of property, plant and equipment in the amount of €670 million (June 30, 2019: €454 million) and amortization and impairments on other intangible assets in the amount of €986 million (June 30, 2019: €404 million). Therein in the segment GP an impairment of intangible assets acquired in business combinations in the amount of €476 million has been recognized based on a level three discounted cash flow (DCF) valuation model. To determine the recoverable amount, cash flow projections were used that take into account past experience and represent management's best estimate about future developments. The calculation is based on a terminal value growth rate of 0.0% and an after-tax discount rate of 9.56%. In this relation also inventories relating to this business have been written down by €190 million. In addition, due to decreases of planned sales of gas turbines and early termination of one larger customer contract, €35 million and, respectively, €37 million inventory write downs were recorded. There were projects with project delays, the largest effects amounted to €43 million.



In the segment SGRE, an impairment of intangible assets in the amount of €82 million, a write down of inventories in the amount of €102 million and an impairment of property, plant and equipment in the amount of €11 million have been recognized, as a result of the deterioration of the Indian market and the corresponding restructuring plan. In addition and due to the challenges faced in the onshore market compounded by COVID-19, SGRE has recognized project charges, the two largest in the amount of €183 million and €95 million for the challenges faced in Northern Europe and India.

(in millions of €)	Assets	
	Jun 30, 2020	Sep 30, 2019
Gas and Power .....	10,378	11,549
Siemens Gamesa Renewable Energy .....	3,378	3,698
<b>Total Segments</b> .....	<b>13,756</b>	<b>15,247</b>
Reconciliation to Combined Interim Financial Statements .....	31,668	29,794
<b>Siemens Energy</b> .....	<b>45,424</b>	<b>45,041</b>

(in millions of €)	Investments accounted for using the equity method	
	Jun 30, 2020	Sep 30, 2019
Gas and Power .....	696	748
Siemens Gamesa Renewable Energy .....	66	71
<b>Total Segments</b> .....	<b>762</b>	<b>818</b>
Reconciliation to Combined Interim Financial Statements .....	–	–
<b>Siemens Energy</b> .....	<b>762</b>	<b>818</b>

(in millions of €)	Disaggregation of revenues	
	Nine months ended	
	Jun 30, 2020	Jun 30, 2019
<b>Type of activities in reportable segment Gas and Power</b>		
New units .....	7,658	7,556
Service contracts .....	5,545	5,664
<b>Type of business in reportable segment Siemens Gamesa Renewable Energy</b>		
Wind Turbines .....	5,389	6,116
Operation and Maintenance .....	1,225	1,167
<b>Type of business in reportable segment Gas and Power</b>		
Transmission .....	3,961	3,977
Generation .....	5,485	5,664
Industrial Applications .....	3,754	3,575
Other / Consolidation .....	2	4

## Reconciliation to Condensed Combined Interim Financial Statements

(in millions of €)	Adjusted EBITA	
	Nine months ended	
	Jun 30, 2020	Jun 30, 2019
<b>Total Segments</b>	<b>(1,171)</b>	<b>861</b>
Real Estate Services	1	9
Eliminations, Treasury and other central items	(42)	(13)
<b>Reconciliation to Adjusted EBITA Siemens Energy</b>	<b>(40)</b>	<b>(4)</b>
<b>Siemens Energy – Adjusted EBITA</b>	<b>(1,211)</b>	<b>857</b>
Amortization of intangible assets acquired in business combinations and goodwill impairments	(363)	(379)
Financial result	(119)	(238)
Financial result from operations	21	29
<b>Income (loss) before Income taxes</b>	<b>(1,672)</b>	<b>270</b>

(in millions of €)	Assets	
	Jun 30, 2020	Sep 30, 2019
Assets Real Estate Services	1,285	464
Asset-based adjustments:		
Financing receivables from Siemens Group	2,885	3,361
Tax-related assets	1,484	1,071
Liability-based adjustments	23,500	22,996
Eliminations, Treasury and other central items	2,514	1,901
<b>Reconciliation to Combined Interim Financial Statements</b>	<b>31,668</b>	<b>29,794</b>

For Adjusted EBITA, a new definition has been applied compared to the Adjusted EBITA as presented in the Siemens Energy Combined Financial Statements for the fiscal years ended September 30, 2019, 2018 and 2017 (see footnote above). Contrary to the segment reporting as presented in the Siemens Energy Combined Financial Statements for the fiscal years ended September 30, 2019, 2018 and 2017, pension-related interest and goodwill impairments are excluded from Adjusted EBITA in the Condensed Combined Interim Financial Statements as of June 30, 2020. The following table presents the Adjusted EBITA for the fiscal years ended September 30, 2019, 2018 and 2017 according to the new definition:

(in millions of €)	Adjusted EBITA		
	Fiscal year		
	2019	2018	2017
Gas and Power	589	440	1,703
Siemens Gamesa Renewable Energy	481	478	330
<b>Total Segments</b>	<b>1,069</b>	<b>918</b>	<b>2,033</b>
Real Estate Services	13	15	13
Eliminations, Treasury and other central items	(18)	(28)	(19)
<b>Reconciliation to Adjusted EBITA Siemens Energy</b>	<b>(5)</b>	<b>(13)</b>	<b>(5)</b>
<b>Siemens Energy – Adjusted EBITA</b>	<b>1,064</b>	<b>905</b>	<b>2,028</b>
Amortization of intangible assets acquired in business combinations and goodwill impairments	(499)	(545)	(507)
Financial result	(280)	(219)	(181)
Financial result from operations <sup>3</sup>	31	10	(31)
<b>Income (loss) before Income taxes</b>	<b>317</b>	<b>151</b>	<b>1,309</b>

<sup>3</sup> Financial result from operations includes interest income related to receivables from customers, from cash allocated to the segments and interest expensed on payables to suppliers.

## NOTE 9 Information about geographies

(in millions of €)	Revenue by location of customers		Revenue by location of Companies		Non-current assets <sup>4</sup>	
	Nine months ended June 30,		Nine months ended June 30,			
	2020	2019	2020	2019	Jun 30, 2020	Sep 30, 2019
Europe, C.I.S., Africa, Middle East . . . . .	10,053	11,256	11,272	12,608	8,720	7,689
<i>therein: Germany</i> . . . . .	1,717	1,767	4,371	4,479	2,249	1,819
Americas . . . . .	6,247	5,929	6,203	5,571	7,389	7,613
<i>therein: U.S.</i> . . . . .	4,192	3,758	4,532	4,144	6,762	6,973
Asia, Australia . . . . .	3,528	3,318	2,352	2,324	2,290	2,531
<i>therein: China and Taiwan</i> . . . . .	1,638	1,228	1,060	845	745	723
<b>Siemens Energy</b> . . . . .	<b>19,828</b>	<b>20,503</b>	<b>19,828</b>	<b>20,503</b>	<b>18,399</b>	<b>17,833</b>
<i>therein: countries outside of Germany</i> . .	<i>18,111</i>	<i>18,736</i>	<i>15,457</i>	<i>16,024</i>	<i>16,150</i>	<i>16,014</i>

## NOTE 10 Related party transactions

Siemens Energy maintains business relations with Siemens Group (i.e. remaining Siemens Group excluding Siemens Energy) and with investments of both Siemens Energy and Siemens Group. Transactions with these related parties are as follows:

Sales of goods and services and other income, as well as purchases of goods and services and other expense from transactions with Siemens Group are presented in the following table:

(in millions of €)	Sales of goods and services and other income		Purchases of goods and services and other expenses	
	Nine months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
Siemens Group . . . . .	439	241	1,625	2,052

Supply and delivery agreements exist between Siemens Energy and Siemens Group. Siemens Energy is supplied by and delivers to Siemens Group goods and services on a case by case basis.

During the carve-out, some contracts could not be or were not yet legally transferred from Siemens Group to Siemens Energy. These contracts are generally subcontracted from Siemens Group to Siemens Energy with recourse to Siemens Energy with respect of any risks. Provisions that Siemens Energy has recognized for warranties, litigations and other project-related risks relating to such contracts amount to €729 million as of June 30, 2020.

Siemens Group provides Siemens Energy with central corporate services, such as tax and legal, IT, corporate communications, HR, accounting, financial services and treasury in an amount of €697 million as of June 30, 2020 (nine months ended June 30, 2019: €913 million). This amount also includes the brand fee paid by Siemens Energy for the use of the Siemens brand.

(in millions of €)	Receivables		Payables	
	Jun 30, 2020	Sep 30, 2019	Jun 30, 2020	Sep 30, 2019
Siemens Group . . . . .	3,894	3,405	979	4,568
Therein:				
<i>from financing activities</i> . . . . .	2,885	3,361	862	4,535
<i>other items</i> . . . . .	1,009	44	117	33

<sup>4</sup> Non-current assets consist of property, plant and equipment, goodwill and other intangible assets.

## **Other material relationships with Siemens Group**

### **Share-based payments**

Siemens Energy's employees participate in share-based payment awards implemented by Siemens AG. Siemens AG delivers the respective shares on behalf of Siemens Energy and is reimbursed by Siemens Energy. Due to the spin-off, Siemens Energy is introducing new share-based payments programs.

### **Insurances**

Siemens Energy is covered by the insurance programs of Siemens Group. Furthermore, there are additional contracts for individual insurance services between companies of Siemens Energy and Siemens Group, the costs for which are borne by Siemens Energy.

### **Financing activities**

Siemens Energy is included in Siemens Group's cash pooling and cash management. Siemens Energy invests excess short-term liquidity and is granted overdraft facilities for financing its operating activities. Payables to Siemens Group from intercompany clearing amount to €206 million (September 30, 2019: €2,160 million).

Siemens Group provides loan financings to Siemens Energy. Amongst others, in May 2015 it provided a USD loan to Siemens Energy's subsidiary Dresser Rand Group Inc. maturing in May 2045 to finance the acquisition of Dresser Rand, shown under Other liabilities to Siemens Group. The decrease in the nine months ended June 30, 2020 is largely due to the repayment of the remaining outstanding amount of €1,571 million of the above-mentioned loan.

Siemens Energy has receivables from intercompany clearing towards Siemens Group amounting to €262 million (September 30, 2019: €3,004 million).

### **Leasing**

As of June 30, 2020, the carrying amount of right-of-use assets and lease liabilities recognized for leases between Siemens Real Estate and Siemens Energy amounted to €323 million and €337 million, respectively. Furthermore, Siemens Energy has entered into leasing transactions with Siemens Group relating to IT equipment and car leasing.

### **Hedging**

Siemens Energy hedging activities are performed mainly via Siemens Group Corporate Treasury. The related derivatives are contracted at market rates. The market value at the reporting date are included as receivables and payables in the line items Other current financial assets and Other current financial liabilities in the Combined Statements of Financial Positions.

### **Guarantees and other commitments**

Siemens Group has issued guarantees and similar declarations of liability in favor of Siemens Energy and Siemens Energy's investments. The volume amounts to €50,210 million as of June 30, 2020 (September 30, 2019: €48,943 million).

Siemens Energy issued guarantees for Siemens Group entities and Siemens Energy's own joint ventures amounting to €391 million as of June 30, 2020 (September 30, 2019: €144 million). The increase is mainly due to obligations that Siemens Energy provides for Siemens Group Business in reverse carve-out entities.

### **Pension schemes**

In most countries Siemens Energy participated in Siemens Group pension plans and trusts.

## Transactions with joint ventures, associates and their affiliates

Siemens Energy has relationships with Siemens Group joint ventures and associates as well as own joint ventures and associates whereby Siemens Energy buys and sells a variety of products and services generally on arm's length terms.

(in millions of €)	Sales of goods and services and other income		Purchases of goods and services and other expenses	
	Nine months ended June 30,		Nine months ended June 30,	
	2020	2019	2020	2019
Siemens Group joint ventures .....	224	321	3	1
Siemens Group associates .....	69	147	1	2
Siemens Energy joint ventures .....	51	53	78	75
Siemens Energy associates .....	51	81	115	109
<b>Total .....</b>	<b>395</b>	<b>602</b>	<b>196</b>	<b>187</b>

(in millions of €)	Receivables		Liabilities	
	Jun 30, 2020	September 30, 2019	Jun 30, 2020	September 30, 2019
Siemens Group joint ventures .....	93	91	124	125
Siemens Group associates .....	3	12	73	111
Siemens Energy joint ventures .....	15	13	13	11
Siemens Energy associates .....	4	1	18	89
<b>Total .....</b>	<b>115</b>	<b>117</b>	<b>228</b>	<b>338</b>

## Disclosures relating to changes in Siemens Energy's Key Management Personnel

Until Q3 2020, the members of the Managing Board and Supervisory Board of Siemens AG have been identified as Key Management Personnel as these have been responsible for planning, directing and controlling the activities of the Siemens Energy operations.

Furthermore, the members of the Board of Directors and remaining senior management staff (who are not members of the Board of Directors) of Siemens Gamesa Renewable Energy S.A, a listed company in Spain, have also been identified as Key Management Personnel as these have been responsible for the planning, directing and controlling of the activities of a significant portion of Siemens Energy operations, acting independently from its majority shareholder Siemens AG.

In the third quarter of 2020, Siemens Energy's Key Management Personnel increases due to the appointment of the Managing Board of Siemens Energy AG. The Managing Board of Siemens Energy currently consist of four members, i.e., Dr.-Ing. Christian Bruch, Dr.-Ing. Jochen Eickholt, Maria Ferraro and Tim Oliver Holt. The board members Dr.-Ing. Jochen Eickholt and Tim Oliver Holt have been appointed by the supervisory board of Siemens Energy AG on April 1, 2020 for the period until the end of September 30, 2023. Dr.-Ing. Christian Bruch has been appointed with effect as of May 1, 2020 for the period until the end of April 30, 2025, and Maria Ferraro has been appointed with effect as of May 1, 2020 for the period until the end of September 30, 2023. At the same time, Dr.-Ing. Christian Bruch was appointed as Chairman of the Managing Board and Chief Executive Officer.

The new members of the Managing Board of Siemens Energy received a total cash compensation of €5.5 million. The expense related to a spin-off incentive bonus payment granted to the members of the Managing Board amounted to €0.83 million in Q3 2020.



## NOTE 11 Headcount

Employees were engaged in (averages, based on headcount):

(in thousands)	Nine months ended June 30,	
	2020	2019
Manufacturing and services .....	69	69
Sales and marketing .....	13	13
Research and development .....	5	5
Administration and general services .....	5	3
	<b>91</b>	<b>90</b>

## NOTE 12 Subsequent events

In the Extraordinary Annual General Meeting of Siemens AG on July 9, 2020, the Spin-off and Transfer Agreement between Siemens Energy AG and Siemens AG and the additional capital increase in the amount of €399,654,856 in exchange for a contribution in kind of Siemens Energy AG have been approved. After the implementation of the spin-off, Siemens AG will directly and indirectly hold 35.1%, the Siemens Pension Trust e.V. will directly hold 9.9% and the shareholders of Siemens AG will hold the remaining 55% of the shares in Siemens Energy AG.

## NOTE 13 Scope of combination

The tables below contain a list of all 100% dedicated legal entities, Mixed Entities as well as entities considered as at equity investments and other investments as of June 30, 2020.

Mixed Entities are legal entities that comprised Siemens Energy Business along with other Siemens Group activities. Their contribution to the Condensed Combined Interim Financial Statements reflects their Siemens Energy related business activities.

### Fully consolidated (100% dedicated legal entities)

Company name	Country	June 30, 2020
Siemens Energy S.A. ....	Angola	X
Artadi S.A. ....	Argentina	X
Guascor Argentina, S.A. ....	Argentina	X
Siemens S.A. ....	Argentina	X
VA TECH International Argentina SA ....	Argentina	X
Siemens Gamesa Renewable Energy Australia Pty Ltd ....	Australia	X
Siemens Gamesa Renewable Energy Pty Ltd ....	Australia	X
CARMODY'S HILL INVESTMENT COMPANY PTY LTD ....	Australia	X
Siemens Energy Pty. Ltd. ....	Australia	X
Siemens Gamesa Renewable Energy GmbH ....	Austria	X
Trench Austria GmbH ....	Austria	X
Siemens Energy Austria GmbH ....	Austria	X
Senvion Austria GmbH ....	Austria	X
Siemens Gamesa Renewable Energy Limited Liability Company ....	Azerbaijan	X
Limited Liability Company Siemens Energy ....	Belarus	X
Dresser-Rand Machinery Repair Belgie N.V. ....	Belgium	X [7]
Siemens Gamesa Renewable Energy NV ....	Belgium	X
Siemens Energy S.A./N.V. ....	Belgium	X
Siemens Energy S.A. ....	Bolivia	X
Chemtech Servicos de Engenharia e Software Ltda. ....	Brazil	X
Dresser-Rand do Brasil, Ltda. ....	Brazil	X
Guascor do Brasil Ltda. ....	Brazil	X

[1] Control due to a majority of voting rights.

[2] Control due to rights to appoint, reassign or remove members of the key management personnel.

[3] Control due to contractual arrangements to determine the direction of the relevant activities.

[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
Industrial Turbine Brasil Geracao de Energia Ltda. ....	Brazil	X
Jaguari Energética, S.A. ....	Brazil	X
Siemens Gamesa Energia Renovável Ltda. ....	Brazil	X
Siemens Ltda. ....	Brazil	X
Siemens Wind Power Energia Eólica Ltda. ....	Brazil	X
Siemens Gamesa Renewable Energy EOOD ....	Bulgaria	X
Siemens Energy EOOD ....	Bulgaria	X
Dresser-Rand Canada, ULC ....	Canada	X
Siemens Gamesa Renewable Energy Canada ULC ....	Canada	X
Siemens Transformers Canada Inc. ....	Canada	X
Siemens Gamesa Renewable Energy Limited ....	Canada	X
Trench Limited ....	Canada	X
Wheelabrator Air Pollution Control (Canada) Inc. ....	Canada	X
Siemens Energy Canada Limited ....	Canada	X
Siemens Gamesa Renewable Energy Chile SpA ....	Chile	X
Siemens Wind Power SpA ....	Chile	X
Siemens Energy SpA ....	Chile	X
Siemens Gamesa Renewable Energy (Beijing) Co., Ltd. ....	China	X
Gamesa Blade (Tianjin) Co., Ltd. ....	China	X
Siemens Gamesa Renewable Energy Technology (China) Co., Ltd. ....	China	X
Inner Mongolia Gamesa Wind Co., Ltd. ....	China	X
Jilin Gamesa Wind Co., Ltd. ....	China	X
Shuangpai Majiang Wuxingling Wind Power Co., Ltd ....	China	X
Siemens Gas Turbine Components (Jiangsu) Co., Ltd. ....	China	X
Siemens High Voltage Circuit Breaker Co., Ltd., Hangzhou ....	China	X
Siemens High Voltage Switchgear Co., Ltd., Shanghai ....	China	X
Siemens Industrial Turbomachinery (Huludao) Co. Ltd. ....	China	X
Siemens Power Plant Automation Ltd. ....	China	X
Siemens Surge Arresters Ltd. ....	China	X
Siemens Transformer (Guangzhou) Co., Ltd. ....	China	X

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[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
Siemens Transformer (Jinan) Co., Ltd . . . . .	China	X
Siemens Transformer (Wuhan) Company Ltd. . . . .	China	X
Siemens Gamesa Renewable Energy (Shanghai) Co., Ltd. . . . .	China	X
Trench High Voltage Products Ltd., Shenyang . . . . .	China	X
Ganquan Chaiguanshan Wind Power Co., Ltd. . . . .	China	X
Yongzhou Shuangpai Daguping Wind Power Co., Ltd. . . . .	China	X
Siemens Energy Co., Ltd. . . . .	China	X
Siemens Energy Electric Equipment (Changzhou) Ltd. . . . .	China	X
Dresser-Rand Colombia S.A.S. . . . .	Colombia	X
SIEMENS GAMESA RENEWABLE ENERGY S.A.S. . . . .	Colombia	X
Siemens Energy S.A.S. . . . .	Colombia	X
SIEMENS GAMESA RENEWABLE ENERGY, S.R.L. . . . .	Costa Rica	X
Siemens Energy SARL . . . . .	Côte d'Ivoire	X
Koncar-Energetski Transformatori, d.o.o. . . . .	Croatia	X
Siemens Gamesa Renewable Energy d.o.o. . . . .	Croatia	X
Siemens Energy d.o.o. . . . .	Croatia	X
Siemens Gamesa Renewable Energy Limited . . . . .	Cyprus	X
Siemens Energy, s.r.o. . . . .	Czech Republic	X
Siemens Gamesa Renewable Energy A/S . . . . .	Denmark	X
Siemens Energy A/S . . . . .	Denmark	X
Siemens Gamesa Renewable Energy Djibouti SARL . . . . .	Djibouti	X
Gamesa Dominicana, S.A.S. . . . .	Dominican Republic	X
Siemens Energy S.R.L. . . . .	Dominican Republic	X
Siemens Technologies S.A.E. . . . .	Egypt	X
Siemens Gamesa Renewable Energy Egypt LLC . . . . .	Egypt	X
Siemens Gamesa Renewable Energy Oy . . . . .	Finland	X
Siemens Energy Oy . . . . .	Finland	X
D-R Holdings (France) SAS . . . . .	France	X
Dresser-Rand SAS . . . . .	France	X
Siemens Gamesa Renewable Energy Wind SARL . . . . .	France	X

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[3] Control due to contractual arrangements to determine the direction of the relevant activities.

[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
Société d'Exploitation du Parc Eolien de Bonboillon SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Bouclans SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Broyes SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Champlong SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Chaintrix-Bierges SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Champsevraine, SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Chepniers SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien du Mont Égaré SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien des Voies de Bar SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Dampierre Prudemanche SAS . . . . .	France	X
Société d'Exploitation du Parc Eolien de Germainville SAS . . . . .	France	X
Société d'Exploitation du Parc Eolien de Guerfand SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de la Brie des Etangs SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de la Pièce du Moulin SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de la Tête des Boucs SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de la Monchot SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Villiers-aux-Chênes SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Mailly-le-Camp SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Maindoie SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Margny SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Moulins du Puits SAS . . . . .	France	X
Société d'Exploitation du Parc Eolien de Orge et Ornain SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Champeaux SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Pouilly-sur-Vingeanne SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Pringy SARL . . . . .	France	X

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[4] .-

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.



Company name	Country	June 30, 2020
Société d'Exploitation du Parc Eolien d'Omécourt SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Saint Amand SARL . . .	France	X
Société d'Exploitation du Parc Eolien des Fontaines SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Saint Loup de Saintonge SAS . . . . .	France	X
Société d'Exploitation du Parc Eolien de Saint-Lumier en Champagne SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien des Six Communes SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de la Gartempe SARL . . . .	France	X
Société d'Exploitation du Parc Eolien de Sceaux SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de la Belle Dame SARL . . .	France	X
Société d'Exploitation du Parc Eolien de Messeix SARL . . . . .	France	X
Société d'Exploitation du Parc Photovoltaïque de Messeix SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Souvans SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Trépot SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Vaudrey SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien de Vernierfontaine SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien d'Orchamps SARL . . . . .	France	X
Société d'Exploitation du Parc Eolien du Vireaux SAS . . . . .	France	X
Siemens Gamesa Renewable Energy France SAS . . . . .	France	X
Siemens Gamesa Renewable Energy S.A.S. . . . .	France	X
Trench France SAS . . . . .	France	X
Siemens Energy S.A.S. . . . .	France	X
Senvion France S.A.S . . . . .	France	X
Adwen Blades GmbH . . . . .	Germany	X
Adwen GmbH . . . . .	Germany	X
EBV Holding Verwaltung GmbH . . . . .	Germany	X
Gamesa Wind GmbH . . . . .	Germany	X
HSP Hochspannungsgeräte GmbH . . . . .	Germany	X
Siemens Energy AG . . . . .	Germany	X [7]
Siemens Compressor Systems GmbH . . . . .	Germany	X

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[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
Siemens Insulation Center GmbH & Co. KG .....	Germany	X
Siemens Insulation Center Verwaltungs-GmbH .....	Germany	X [7]
Siemens Power Control GmbH .....	Germany	X
Siemens Gamesa Renewable Energy GmbH & Co. KG .....	Germany	X
Siemens Gamesa Renewable Energy Management GmbH .....	Germany	X [7]
Trench Germany GmbH .....	Germany	X
Windfarm 33 GmbH .....	Germany	X
Windfarm 35 GmbH .....	Germany	X
Windfarm 40 GmbH .....	Germany	X
Windfarm 41 GmbH .....	Germany	X
Windfarm Groß Haßlow GmbH .....	Germany	X
Windfarm Ringstedt II GmbH .....	Germany	X
Siemens Gas and Power Management GmbH .....	Germany	X [7]
Kyros 60 GmbH .....	Germany	X
Siemens Gas and Power GmbH & Co. KG .....	Germany	X
Siemens Gas and Power Real Estate GmbH & Co. KG .....	Germany	X
Siemens Gas and Power Real Estate Management GmbH .....	Germany	X [7]
Windkraft Trinwillershagen Entwicklungsgesellschaft mbH ....	Germany	X
Senvion Deutschland GmbH .....	Germany	X
Siemens Energy Branch Business GmbH .....	Germany	X [7]
Siemens Oil & Gas Equipment Limited .....	Ghana	X
Siemens Energy, Ghana .....	Ghana	X
Siemens Gamesa Renewable Energy AE .....	Greece	X
Siemens Gamesa Renewable Energy Greece E.P.E. ....	Greece	X
ENERGIKI MAVROVOUNIOU IDIOTIKI KEFALEOUCHIKI ETERIA .....	Greece	X
ENERGIKI VELANIDIAS SINGLE MEMBER ANONYMOS ETAIRIA .....	Greece	X
ENERGIKI MESOVOUNIOU SINGLE MEMBER ANONYMOS ETAIRIA .....	Greece	X
SIEMENS GAMESA RENEWABLE ENERGY INSTALLATION & MAINTENANCE COMPAÑÍA LIMITADA .....	Guatemala	X
SIEMENS GAMESA RENEWABLE ENERGY, S.A. ....	Honduras	X
International Wind Farm Development I Limited .....	Hong Kong	X

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[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
International Wind Farm Development II Limited .....	Hong Kong	X
International Wind Farm Development IV Limited .....	Hong Kong	X
International Wind Farm Development VII Limited .....	Hong Kong	X
Siemens Energy Limited .....	Hong Kong	X
Siemens Gamesa Megújuló Energia Hungary Kft .....	Hungary	X
Siemens Gamesa Renewable Energy Kft. ....	Hungary	X
Siemens Energy Kft. ....	Hungary	X
Anantapur Wind Farms Private Limited .....	India	X
Bapuram Renewable Private Limited .....	India	X
Beed Renewable Energy Private Limited .....	India	X
Bhuj Renewable Private Limited .....	India	X
Channapura Renewable Private Limited .....	India	X
Chikkodi Renewable Power Private Limited .....	India	X
Devarabanda Renewable Energy Private Limited .....	India	X
Dhone Renewable Private Limited .....	India	X
Dresser-Rand India Private Limited .....	India	X
Gadag Renewable Private Limited .....	India	X
Gagodar Renewable Energy Private Limited .....	India	X
Ghatpimpri Renewable Private Limited .....	India	X
SIEMENS GAMESA RENEWABLE ENERGY PROJECTS PRIVATE LIMITED .....	India	X
Gudadanal Renewable Private Limited .....	India	X
Hattarwat Renewable Private Limited .....	India	X
Haveri Renewable Power Private Limited .....	India	X
Hungund Renewable Energy Private Limited .....	India	X
Jalore Wind Park Private Limited .....	India	X
Kadapa Wind Farms Private Limited .....	India	X
Kod Renewable Private Limited .....	India	X
Koppal Renewable Private Limited .....	India	X
Kurnool Wind Farms Private Limited .....	India	X
Kutch Renewable Private Limited .....	India	X
Mathak Wind Farms Private Limited .....	India	X

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[3] Control due to contractual arrangements to determine the direction of the relevant activities.

[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
Neelagund Renewable Private Limited .....	India	X
Nellore Renewable Private Limited .....	India	X
Nirlooti Renewable Private Limited .....	India	X
Osmanabad Renewable Private Limited .....	India	X
Poovani Wind Farms Private Limited .....	India	X
Powerplant Performance Improvement Ltd. ....	India	X [1]
Rajgarh Windpark Private Limited .....	India	X
Rangareddy Renewable Private Limited .....	India	X
RSR Power Private Limited .....	India	X
Sankanur Renewable Energy Private Limited .....	India	X
Saunshi Renewable Energy Private Limited .....	India	X
Siemens Gamesa Renewable Power Private Limited .....	India	X
Siemens Gamesa Renewable Energy Engineering Centre Private Limited .....	India	X
Thoothukudi Renewable Energy Private Limited .....	India	X
Tirupur Renewable Energy Private Limited .....	India	X
Tuljapur Wind Farms Private Limited .....	India	X
Umrani Renewable Private Limited .....	India	X
Uppal Renewable Private Limited .....	India	X
Viralipatti Renewable Private Limited .....	India	X
Zalki Renewable Private Limited .....	India	X
Gangavathi Renewable Private Limited .....	India	X
Jamkhandi Renewable Private Limited .....	India	X
Kanigiri Renewable Private Limited .....	India	X
SANTALPUR RENEWABLE POWER PRIVATE LIMITED .....	India	X
Kollapur Renewable Private Limited .....	India	X
Maski Renewable Energy Private Limited .....	India	X
Nandikeshwar Renewable Energy Private Limited .....	India	X
Rayachoty Renewable Private Limited .....	India	X
Shivamogga Renewable Energy Private Limited .....	India	X
Sindhanur Renewable Energy Private Limited .....	India	X
Vempalli Renewable Energy Private Limited .....	India	X

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[3] Control due to contractual arrangements to determine the direction of the relevant activities.

[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
PT Dresser-Rand Services Indonesia .....	Indonesia	X
PT. Siemens Industrial Power .....	Indonesia	X
PT Siemens Gamesa Renewable Energy .....	Indonesia	X
Siemens Sherkate Sahami (Khash) .....	Iran, Islamic Republic of	X
Siemens Gamesa Energy Tajdidpazir SSK .....	Iran, Islamic Republic of	X
Siemens Gamesa Renewable Energy Ireland Limited .....	Ireland	X
Siemens Gamesa Renewable Energy Limited .....	Ireland	X
Siemens Energy Ltd. ....	Ireland	X
Siemens Gamesa Renewable Energy Ltd .....	Israel	X
Siemens Israel Ltd. ....	Israel	X
Siemens Israel Projects Ltd. ....	Israel	X [7]
Parco Eolico Banzy S.r.l. ....	Italy	X
Parco Eolico Manca Vennarda S.r.l. ....	Italy	X
Siemens Gamesa Renewable Energy Italy, S.P.A. ....	Italy	X
Siemens Gamesa Renewable Energy Wind S.R.L. ....	Italy	X
Siemens Transformers S.r.l. ....	Italy	X
Siemens Gamesa Renewable Energy Italia S.r.l. ....	Italy	X
Trench Italia S.r.l. ....	Italy	X
Siemens Gas and Power S.r.l. ....	Italy	X
Senvion Italia S.r.L. ....	Italy	X
Siemens Gamesa Renewable Energy Japan K.K. ....	Japan	X
Siemens Energy K.K. ....	Japan	X
Siemens Gas and Power LLP .....	Kazakhstan	X
Siemens Gamesa Renewable Energy Limited .....	Kenya	X
Siemens Gamesa Renewable Energy Limited .....	Korea, Republic of	X
Siemens Energy Ltd. ....	Korea, Republic of	X
Siemens Electrical & Electronic Services K.S.C.C. ....	Kuwait	X [2]
D-R Luxembourg International SARL .....	Luxembourg	X
Siemens Energy Sdn. Bhd. ....	Malaysia	X
Siemens Gamesa Renewable Energy, SARL .....	Mauritania	X

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[3] Control due to contractual arrangements to determine the direction of the relevant activities.

[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.



Company name	Country	June 30, 2020
Siemens Gamesa Renewable Energy, Ltd . . . . .	Mauritius	X
Central Eólica de México S.A. de C.V. . . . .	Mexico	X
Siemens Gesa Renewable Energy México, S. de R.L. de C.V. . . . .	Mexico	X
Siemens Gesa Renewable Energy, S.A. de C.V. . . . .	Mexico	X
Gesa Oax I Sociedad Anonima de Capital Variable . . . . .	Mexico	X
Gesa Oax II Sociedad de Responsabilidad Limitada de Capital Variable . . . . .	Mexico	X
Gesa Oax III Sociedad Anonima de Capital Variable . . . . .	Mexico	X
Gesacisa Desarrolladora, S.A. de C.V. . . . .	Mexico	X
Gesan I S.A.P.I de C.V. . . . .	Mexico	X
Siemens Gesa Renewables Energy Services S. de R.L. de C.V. . . . .	Mexico	X
Siemens Gas and Power Servicios, S. de R.L. de C.V. . . . .	Mexico	X
Siemens Gas and Power, S. de R.L. de C.V. . . . .	Mexico	X
Siemens Gesa Renewable Energy Soluciones Técnicas, S. de R.L. de C.V. . . . .	Mexico	X
SIEMENS ENERGY DOO PODGORICA . . . . .	Montenegro	X
Siemens Gamesa Renewable Energy Morocco SARL . . . . .	Morocco	X
Guascor Maroc, S.A.R.L. . . . .	Morocco	X
Siemens Energy SARL . . . . .	Morocco	X
Siemens Gamesa Renewable Energy SARL . . . . .	Morocco	X
Siemens Gamesa Renewable Energy Blades, SARL AU . . . . .	Morocco	X
Dresser-Rand B.V. . . . .	Netherlands	X
Siemens Energy B.V. . . . .	Netherlands	X
Siemens D-R Holding B.V. . . . .	Netherlands	X
Siemens Gas Turbine Technologies Holding B.V. . . . .	Netherlands	X
Siemens Gamesa Renewable Energy B.V. . . . .	Netherlands	X
Siemens D-R Holding III B.V. . . . .	Netherlands	X
Siemens Gas and Power Holding B.V. . . . .	Netherlands	X
Siemens Energy Finance B.V. . . . .	Netherlands	X
SIEMENS GAMESA RENEWABLE ENERGY SARL . . . . .	New Caledonia	X
Siemens Gamesa Renewable Energy New Zealand Limited . . . . .	New Zealand	X

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[5] –

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[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
Gamesa Eólica Nicaragua S.A. ....	Nicaragua	X
Dresser-Rand (Nigeria) Limited ....	Nigeria	X
Siemens Energy Ltd. ....	Nigeria	X
Dresser-Rand AS ....	Norway	X
Siemens Energy AS ....	Norway	X
SIEMENS GAMESA RENEWABLE ENERGY AS ....	Norway	X
Siemens Energy L.L.C. ....	Oman	X
Siemens Gamesa Renewable Energy (Private) Limited ....	Pakistan	X
Siemens Energy S.A. ....	Panama	X
Siemens Energy S.A.C. ....	Peru	X
Siemens Gamesa Renewable Energy S.A.C. ....	Peru	X
Siemens Power Operations, Inc. ....	Philippines	X
Siemens Gamesa Renewable Energy, Inc. ....	Philippines	X
Siemens Gamesa Renewable Energy Poland Sp. z o.o. ....	Poland	X
Osiek Sp. z o.o. w Likwidacji ....	Poland	X
Siemens Gamesa Renewable Energy Sp. z o.o. ....	Poland	X
Smardzewo Windfarm Sp. z o.o. ....	Poland	X
Siemens Energy Sp. z o.o. ....	Poland	X
Senvion Polska Sp.z.o.o ....	Poland	X
Siemens Gamesa Renewable Energy, S.A. ....	Portugal	X
Siemens Energy Unipessoal Lda. ....	Portugal	X
Ria Blades S.A. ....	Portugal	X
Senvion Portugal Unipessoal, Lda. ....	Portugal	X
Siemens Gamesa Renewable Energy Wind Farms S.R.L. ....	Romania	X
Siemens Gamesa Renewable Energy Romania S.R.L. ....	Romania	X
GER Baneasa, S.R.L. ....	Romania	X
GER Baraganu, S.R.L. ....	Romania	X
GER Independenta, S.R.L. ....	Romania	X
Siemens Energy S.R.L. ....	Romania	X
OOO Siemens Gas Turbine Technologies ....	Russian Federation	X

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[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
OOO Siemens Transformers .....	Russian Federation	X
Siemens Gamesa Renewable Energy LLC .....	Russian Federation	X
Siemens Gas and Power LLC .....	Russian Federation	X
Dresser-Rand Arabia LLC .....	Saudi Arabia	X [1]
ISCOSA Industries and Maintenance Ltd. ....	Saudi Arabia	X
VA TECH T & D Co. Ltd. ....	Saudi Arabia	X
Siemens Energy d.o.o. Beograd .....	Serbia	X
Senvion d.o.o. Beograd .....	Serbia	X
Siemens Gamesa Renewable Energy Singapore Private Limited .....	Singapore	X
Siemens Energy Pte. Ltd. ....	Singapore	X
Siemens Energy, s.r.o. ....	Slovakia	X
Siemens Energy d.o.o. ....	Slovenia	X
Dresser-Rand Property (Pty) Ltd. ....	South Africa	X [7]
Dresser-Rand Service Centre (Pty) Ltd. ....	South Africa	X
Dresser-Rand Southern Africa (Pty) Ltd. ....	South Africa	X
Gamesa Wind South Africa (Proprietary) Limited .....	South Africa	X
SIEMENS GAMESA RENEWABLE ENERGY (PTY) LTD .....	South Africa	X
Siemens Energy (Pty) Ltd .....	South Africa	X
S'Energy Employee Share Ownership Trust .....	South Africa	X [3]
Siemens Wind Power Employee Share Ownership Trust .....	South Africa	X [3]
Adwen Offshore, S.L. ....	Spain	X
Siemens Gas and Power S.A. ....	Spain	X
Estructuras Metalicas Singulares, S.A. Unipersonal .....	Spain	X
Gamesa Electric, S.A. Unipersonal .....	Spain	X
Gamesa Energy Transmission, S.A. Unipersonal .....	Spain	X
Gerr Grupo Energético XXI, S.A. Unipersonal .....	Spain	X
Guascor Explotaciones Energéticas, S.A. ....	Spain	X
Guascor Ingenieria S.A. ....	Spain	X

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[3] Control due to contractual arrangements to determine the direction of the relevant activities.

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[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
Guascor Isolux AIE . . . . .	Spain	X [7]
SIEMENS ENGINES R&D, S.A.U. . . . .	Spain	X
SIEMENS ENGINES SA . . . . .	Spain	X
Guascor Promotora Solar, S.A. . . . .	Spain	X
International Wind Farm Developments II, S.L. . . . .	Spain	X
International Wind Farm Developments IX, S.L. . . . .	Spain	X
Parque Eólico Dos Picos, S.L.U. . . . .	Spain	X
Siemens Gamesa Renewable Energy 9REN, S.L. . . . .	Spain	X
Siemens Gamesa Renewable Energy Apac, S.L. . . . .	Spain	X
Siemens Gamesa Renewable Energy Eólica, S.L. . . . .	Spain	X
Siemens Gamesa Renewable Energy Europa S.L. . . . .	Spain	X
Siemens Gamesa Renewable Energy Innovation & Technology, S.L. . . . .	Spain	X
Siemens Gamesa Renewable Energy International Wind Services, S.A. . . . .	Spain	X
Siemens Gamesa Renewable Energy Invest, S.A. . . . .	Spain	X
Siemens Gamesa Renewable Energy Latam, S.L. . . . .	Spain	X
Siemens Gamesa Renewable Energy S.A. . . . .	Spain	X
Siemens Gamesa Renewable Energy Wind Farms, S.A. . . . .	Spain	X
Siemens Gamesa Renewable Energy Iberica S.L. . . . .	Spain	X
Sistemas Energéticos Argañoso, S.L. Unipersonal . . . . .	Spain	X
Sistemas Energéticos Arinaga, S.A. Unipersonal . . . . .	Spain	X
Sistemas Energéticos Balazote, S.A. Unipersonal . . . . .	Spain	X
Sistemas Energéticos Boyal, S.L. . . . .	Spain	X
Sistemas Energéticos Cabanelas, S.A. Unipersonal . . . . .	Spain	X
Sistemas Energéticos Cabezo Negro, S.A. Unipersonal . . . . .	Spain	X
Sistemas Energéticos Carril, S.L. Unipersonal . . . . .	Spain	X
Sistemas Energéticos Cuerda Gitana, S.A. Unipersonal . . . . .	Spain	X
Sistemas Energéticos Cuntis, S.A. Unipersonal . . . . .	Spain	X
Sistemas Energéticos de Tarifa, S.L. Unipersonal . . . . .	Spain	X

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[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
Sistemas Energéticos del Sur S.A. ....	Spain	X
Sistemas Energéticos Finca San Juan, S.L.U. ....	Spain	X
Sistemas Energéticos Fonseca, S.A. Unipersonal ....	Spain	X
Sistemas Energéticos La Cámara, S.L. ....	Spain	X
Sistemas Energéticos La Plana, S.A. ....	Spain	X
Sistemas Energéticos Ladera Negra, S.A. Unipersonal ....	Spain	X
Sistemas Energéticos Loma del Reposo, S.L. Unipersonal ....	Spain	X
Sistemas Energéticos Mansilla, S.L. ....	Spain	X
Sistemas Energéticos Monte Genaro, S.L.U. ....	Spain	X
Sistemas Energéticos Sierra de Las Estancias, S.A. Unipersonal ....	Spain	X
Sistemas Energéticos Sierra de Valdefuentes, S.L.U. ....	Spain	X
Sistemas Energéticos Tablero Tabordo, S.L. ....	Spain	X
Sistemas Energéticos Tomillo, S.A. Unipersonal ....	Spain	X
Siemens Gamesa Renewable Energy Digital Services, S.L. ....	Spain	X
Siemens Gamesa Renewable Energy Lanka (Private) Limited ...	Sri Lanka	X
Fanbyn2 Vindenergi AB ....	Sweden	X
SIEMENS GAMESA RENEWABLE ENERGY SWEDEN AB ....	Sweden	X
Lindom Vindenergi AB ....	Sweden	X
Lingbo SPW AB ....	Sweden	X
Siemens Energy AB ....	Sweden	X
Siemens Gamesa Renewable Energy AB ....	Sweden	X
Senvion Scandinavia AB ....	Sweden	X
Dresser Rand Sales Company GmbH ....	Switzerland	X
Siemens Power Holding AG ....	Switzerland	X
Siemens Energy AG ....	Switzerland	X
Siemens Gamesa Renewable Energy Offshore Wind Limited ...	Taiwan, Province of China	X

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[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

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[8] Not accounted for using the equity method due to immateriality.



Company name	Country	June 30, 2020
Siemens Energy Limited .....	Taiwan, Province of China	X
Siemens Gamesa Renewable Energy (Thailand) Co., Ltd. ....	Thailand	X
Siemens Energy Limited .....	Thailand	X
Siemens Gamesa Renewable Energy Limited .....	Thailand	X
Dresser-Rand Trinidad & Tobago Unlimited .....	Trinidad and Tobago	X
Siemens Gamesa Turkey Yenilenebilir Enerji Anonim Sirketi ...	Turkey	X
SIEMENS GAMESA RENEWABLE ENERJİ ANONİM SİRKETİ .....	Turkey	X
SIEMENS GAMESA YENİLENEBİLİR ENERJİ İÇ VE DİŞ TİCARET LIMITED SİRKETİ .....	Turkey	X
Siemens Enerji Sanayi ve Ticaret Anonim Sirketi .....	Turkey	X
Dresser-Rand Turkmen Company .....	Turkmenistan	X
Siemens Gamesa Renewable Energy LLC .....	Ukraine	X
Siemens Energy LLC .....	Ukraine	X
Dresser-Rand Field Operations Middle East LLC .....	United Arab Emirates	X [2]
Gulf Steam Generators L.L.C. ....	United Arab Emirates	X
Siemens LLC .....	United Arab Emirates	X [2]
D-R Holdings (UK) Ltd. ....	United Kingdom	X
Dresser-Rand (U.K.) Limited .....	United Kingdom	X
Dresser-Rand Company Ltd. ....	United Kingdom	X
Industrial Turbine Company (UK) Limited .....	United Kingdom	X
Materials Solutions Limited .....	United Kingdom	X
Sellafirth Renewable Energy Park Limited .....	United Kingdom	X

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[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
Siemens Gamesa Renewable Energy B9 Limited .....	United Kingdom	X
Siemens Gamesa Renewable Energy Limited .....	United Kingdom	X
Siemens Gamesa Renewable Energy UK Limited .....	United Kingdom	X
Siemens Gamesa Renewable Energy Wind Limited .....	United Kingdom	X
Siemens Industrial Turbomachinery Ltd. ....	United Kingdom	X
Siemens Energy Limited .....	United Kingdom	X
Senvion UK Limited .....	United Kingdom	X
Advanced Airfoil Components LLC .....	United States of America	X
Cedar Cap Wind, LLC .....	United States of America	X
Diversified Energy Transmissions, LLC .....	United States of America	X
D-R Steam LLC .....	United States of America	X
Dresser-Rand Company .....	United States of America	X
Dresser-Rand Global Services, Inc. ....	United States of America	X
Dresser-Rand Group Inc. ....	United States of America	X
Dresser-Rand LLC .....	United States of America	X
EcoHarmony West Wind, LLC .....	United States of America	X
Pocahontas Prairie Holdings, LLC .....	United States of America	X
Pocahontas Prairie Wind, LLC .....	United States of America	X
Siemens Demag Delaval Turbomachinery, Inc. ....	United States of America	X

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[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	June 30, 2020
Siemens Energy, Inc. ....	United States of America	X
Siemens Field Staffing, Inc. ....	United States of America	X
Siemens Gamesa Renewable Energy, Inc. ....	United States of America	X
Siemens Gamesa Renewable Energy PA, LLC ....	United States of America	X
Siemens Generation Services Company ....	United States of America	X
Siemens Power Generation Service Company, Ltd. ....	United States of America	X
Wheelabrator Air Pollution Control Inc. ....	United States of America	X
Wind Portfolio Memberco, LLC ....	United States of America	X
SIEMENS GAMESA RENEWABLE ENERGY S.R.L. ....	Uruguay	X
Siemens Uruguay S.A. ....	Uruguay	X
Gamesa Eólica VE, C.A. ....	Venezuela	X
Siemens S.A. ....	Venezuela	X
Siemens Gamesa Renewable Energy LLC ....	Vietnam	X
Siemens Energy Limited Company ....	Vietnam	X

#### Fully consolidated (Mixed Entities)

Company name	Country	June 30, 2020
Siemens Bangladesh Ltd. ....	Bangladesh	X
Siemens W.L.L. ....	Qatar	X [2]

#### Associated companies and joint ventures

Company name	Country	Equity interest in % June 30, 2020	
OIL AND GAS PROSERV LLC ....	Azerbaijan	25	[8]
Gas Natural Acu Infraestructura S.A ....	Brazil	5	[6]
Beijing Jingneng International Energy Technology Co., Ltd. ....	China	45	

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[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	Equity interest in %	
		June 30, 2020	
Infineon Technologies Bipolar GmbH & Co. KG . . . . .	Germany	40	
Infineon Technologies Bipolar Verwaltungs-GmbH . . . . .	Germany	40	[8]
Maschinenfabrik Reinhausen GmbH . . . . .	Germany	20	
Voith Hydro Holding GmbH & Co. KG . . . . .	Germany	35	
Voith Hydro Holding Verwaltungs GmbH . . . . .	Germany	35	[8]
Siemens Limited . . . . .	India	24	
PT Trafoindo Power Indonesia . . . . .	Indonesia	49	
COELME—Costruzioni Elettromeccaniche S.p.A. . . . .	Italy	25	
Advance Gas Turbine Solutions SDN. BHD. . . . .	Malaysia	43	
Energia Eólica de Mexico S.A. de C.V. . . . .	Mexico	50	
GLT-PLUS V.O.F . . . . .	Netherlands	40	[8]
Wirescan AS . . . . .	Norway	36	[8]
ZAO Interautomatika . . . . .	Russian Federation	46	
Ardora, S.A. . . . .	Spain	35	[8]
Desgasificación de Vertederos, S.A . . . . .	Spain	50	[8]
Energías Renovables San Adrián de Juarros, S.A. . . . .	Spain	45	
EXPLOTACIONES Y MANTEMIENTOS INTEGRALES S.L. . . . .	Spain	50	[8]
Sistemas Electricos Espluga, S.A. . . . .	Spain	50	
Tusso Energía, S.L. . . . .	Spain	50	[8]
Windar Renovables, S.L. . . . .	Spain	32	
SIGLO XXI SOLAR, SOCIEDAD ANONIMA . . . . .	Spain	25	[8]
SISTEMAS ENERGETICOS DE TENERIFE, S.A. . . . .	Spain	20	[8]
Ethos Energy Group Limited . . . . .	United Kingdom	49	
RWG (Repair & Overhauls) Limited . . . . .	United Kingdom	50	
Baja Wind US LLC . . . . .	United States of America	50	[8]
First State Marine Wind, LLC . . . . .	United States of America	31	[8]
Joint Venture Service Center . . . . .	Uzbekistan	49	[8]
Empresa Nacional De Maquinas Eléctricas ENME, S.A. . . . .	Venezuela	40	[8]

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[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

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[8] Not accounted for using the equity method due to immateriality.

## Other investments

Company name	Country	June 30, 2020
Georgetown Hills Renewable Energy PTY LTD .....	Australia	X
Uhre Vindmollelaug I/S .....	Denmark	X

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[4] –

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.



**Audited Combined Financial Statements of Siemens Energy  
prepared in accordance with IFRS as of and for the Fiscal  
Years Ended September 30, 2019, 2018 and 2017**

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# I. Combined Statements of Income

## Combined Statements of Income

For the fiscal years ended September, 30, 2019, 2018 and 2017

(in millions of €)	Note	2019	2018	2017
Revenue .....	2, 25	28,797	28,023	30,086
Cost of Sales .....		(24,615)	(23,876)	(24,832)
<b>Gross profit</b> .....		<b>4,181</b>	<b>4,147</b>	<b>5,254</b>
Research and development expenses .....		(1,001)	(1,069)	(1,111)
Selling and general administrative expenses .....		(2,647)	(2,739)	(2,631)
Other operating income .....	5	61	231	38
Other operating expenses .....	5	(108)	(114)	(126)
Income (loss) from investments accounted for using the equity method, net .....	4	111	(85)	65
Interest income .....		107	109	111
Interest expenses .....		(355)	(324)	(298)
Other financial income (expenses), net .....		(32)	(4)	5
<b>Income before income taxes</b> .....		<b>317</b>	<b>151</b>	<b>1,309</b>
Income tax (expenses) / gains .....	6	(35)	493	(349)
<b>Net income</b> .....		<b>282</b>	<b>645</b>	<b>960</b>
<b>Attributable to:</b>				
Non-controlling interests .....		123	98	50
Siemens Group .....		158	547	910

## II. Combined Statements of Comprehensive Income

### Combined Statements of Comprehensive Income For the fiscal years ended September 30, 2019, 2018 and 2017

(in millions of €)	Note	2019	2018	2017
<b>Net Income</b> .....		<b>282</b>	<b>645</b>	<b>960</b>
Remeasurements of defined benefit plans .....	14	(176)	2	262
<i>therein: Income tax effects</i> .....		66	(16)	(125)
Remeasurements of equity instruments .....		–	–	–
Income (loss) from investments accounted for using the equity method, net .....	4	(2)	1	(1)
<b>Items that will not be reclassified to profit or loss</b> .....		<b>(178)</b>	<b>3</b>	<b>261</b>
Currency translation differences .....		457	(528)	(430)
Available-for-sale financial assets .....		–	(0)	0
Derivative financial instruments .....		(84)	(74)	91
<i>therein: Income tax effects</i> .....		22	29	(35)
Income (loss) from investments accounted for using the equity method, net .....	4	3	(19)	(20)
<b>Items that may be reclassified subsequently to profit or loss</b> .....		<b>376</b>	<b>(621)</b>	<b>(359)</b>
<b>Other comprehensive income, net of income taxes</b> .....		<b>197</b>	<b>(618)</b>	<b>(98)</b>
<b>Total comprehensive income</b> .....		<b>479</b>	<b>27</b>	<b>863</b>
<b>Attributable to:</b>				
Non-controlling interests .....		209	(84)	3
Siemens Group .....		270	111	860

### III. Combined Statements of Financial Position

#### Combined Statements of Financial Position As of September 30, 2019, 2018 and 2017

(in millions of €)	Note	2019	2018	2017
<b>Assets</b>				
Cash and cash equivalents		1,871	2,544	1,850
Trade receivables		5,097	5,405	4,679
Other current financial assets		730	454	588
Contract assets	7	5,230	4,593	4,293
Receivables from Siemens Group	26	3,402	5,138	6,324
Inventories	8	7,148	6,607	7,350
Current income tax assets	6	329	431	462
Other current assets	9	1,093	833	776
Assets classified as held for disposal		16	–	147
<b>Total current assets</b>		<b>24,917</b>	<b>26,006</b>	<b>26,470</b>
Goodwill	10	9,815	9,462	9,541
Other intangible assets	11	4,743	4,967	5,449
Property, plant and equipment	11	3,275	3,085	3,178
Investments accounted for using the equity method	4	818	784	933
Other financial assets		437	427	523
Other receivables from Siemens Group	26	3	3	0
Deferred tax assets	6	742	686	833
Other assets		291	342	365
<b>Total non-current assets</b>		<b>20,124</b>	<b>19,757</b>	<b>20,821</b>
<b>Total assets</b>		<b>45,041</b>	<b>45,763</b>	<b>47,290</b>
<b>Liabilities and equity</b>				
Short-term debt and current maturities of long-term debt	13	359	1,000	819
Trade payables		4,698	4,303	4,175
Other current financial liabilities		614	375	287
Payables to Siemens Group	26	2,960	3,958	2,624
Contract liabilities	7	9,337	8,077	8,351
Current provisions	15	1,872	2,089	2,246
Current income tax liabilities	6	372	373	583
Other current liabilities	12	3,267	3,244	3,085
Liabilities associated with assets classified held for disposal		8	–	50
<b>Total current liabilities</b>		<b>23,487</b>	<b>23,418</b>	<b>22,221</b>
Long-term debt	13	547	877	505
Provisions for pensions and similar obligations	14	1,960	1,622	1,692
Deferred tax liabilities	6	1,102	1,195	1,904
Provisions	15	2,072	2,400	2,664
Other financial liabilities		447	359	418
Other liabilities		729	615	612
Other liabilities to Siemens Group	26	1,608	4,576	5,957
<b>Total non-current liabilities</b>		<b>8,465</b>	<b>11,644</b>	<b>13,752</b>
<b>Total liabilities</b>		<b>31,952</b>	<b>35,062</b>	<b>35,973</b>
Net assets attributable to Siemens Group		11,472	9,400	9,586
Other components of equity		384	99	538
<b>Total equity attributable to Siemens Group</b>		<b>11,856</b>	<b>9,499</b>	<b>10,123</b>
Non-controlling interests		1,233	1,202	1,195
<b>Total equity</b>	16	<b>13,089</b>	<b>10,701</b>	<b>11,318</b>
<b>Total liabilities and equity</b>		<b>45,041</b>	<b>45,763</b>	<b>47,290</b>



## IV. Combined Statements of Cash Flows

### IV. Combined Statements of Cash Flows

For the fiscal years ended September 30, 2019, 2018 and 2017

(in millions of €)	2019	2018	2017
<b>Cash flows from operating activities</b>			
Net income .....	282	645	960
<b>Adjustments to reconcile net income to cash flows from operating activities</b>			
Amortization, depreciation and impairments .....	1,209	1,281	1,139
Income tax expenses .....	35	(493)	349
Interest (income) expenses, net .....	248	215	186
(Income) loss related to investing activities .....	(43)	(49)	(62)
Other non-cash (income) expenses .....	21	36	59
<b>Change in operating net working capital</b>			
Contract assets .....	(527)	(324)	(53)
Inventories .....	(406)	623	(509)
Trade receivables .....	412	(517)	877
Trade payables .....	299	190	(366)
Contract liabilities .....	1,160	(217)	(1,394)
Additions to assets leased to others in operating leases .....	(11)	(4)	(0)
Change in other assets and liabilities .....	(773)	(96)	22
Income taxes paid .....	(287)	(541)	(618)
Dividends received .....	51	54	51
Interest received .....	25	43	46
<b>Cash flows from operating activities</b> .....	<b>1,694</b>	<b>844</b>	<b>686</b>
<b>Cash flows from investing activities</b>			
Additions to intangible assets and property, plant and equipment ...	(818)	(764)	(807)
Acquisitions of businesses, net of cash acquired .....	0	(1)	2
Purchase of investments .....	(32)	(24)	(14)
Disposal of intangibles and property, plant and equipment .....	21	3	14
Disposal of businesses, net of cash disposed .....	(50)	350	(31)
Disposal of investments .....	82	7	2
<b>Cash flows from investing activities</b> .....	<b>(797)</b>	<b>(429)</b>	<b>(835)</b>
<b>Cash flows from financing activities</b>			
Change in debt and other financing activities .....	(965)	527	292
Interest paid .....	(56)	(52)	(21)
Dividends paid to non-controlling interests holders .....	(25)	(28)	(66)
Interest paid to Siemens Group .....	(183)	(160)	(183)
Other transactions/financing with Siemens Group .....	(367)	44	1,868
<b>Cash flows from financing activities</b> .....	<b>(1,597)</b>	<b>330</b>	<b>1,890</b>
<b>Effect of changes in exchange rates on cash and cash equivalents</b> .....	<b>26</b>	<b>(60)</b>	<b>(60)</b>
<b>Effect from Cash and cash equivalents of assets classified as held for disposal</b> .....	<b>–</b>	<b>9</b>	<b>(9)</b>
<b>Change in cash and cash equivalents</b> .....	<b>(673)</b>	<b>694</b>	<b>1,671</b>
<b>Cash and cash equivalents at beginning of period</b> .....	<b>2,544</b>	<b>1,850</b>	<b>179</b>
<b>Cash and cash equivalents at end of period</b> .....	<b>1,871</b>	<b>2,544</b>	<b>1,850</b>

## V. Combined Statements of Changes in Invested Equity

### Combined Statements of Changes in Invested Equity

For the fiscal years ended September 30, 2019, 2018 and 2017

	Net assets attributable to Siemens Group	Currency translation differences	Equity instruments (prior years: available-for- sale financial assets)	Derivative financial instruments	Total invested equity attributable to Siemens Group	Non-controlling interests	Total equity
(in millions of €)							
<b>Balance as of October 1, 2016</b>	<b>6,499</b>	<b>820</b>	<b>2</b>	<b>28</b>	<b>7,348</b>	<b>530</b>	<b>7,878</b>
Net income	910	–	–	–	910	50	960
Other comprehensive income	261	(374)	0	62	(51)	(47)	(98)
Total comprehensive income	1,171	(374)	0	62	859	3	863
Dividends & profit and loss transfer with owners	(2,592)	–	–	–	(2,592)	(67)	(2,659)
Other changes <sup>1</sup>	4,508	–	–	–	4,508	728	5,236
<b>Balance as of September 30, 2017</b>	<b>9,586</b>	<b>446</b>	<b>2</b>	<b>90</b>	<b>10,123</b>	<b>1,195</b>	<b>11,318</b>
Balance as of October 1, 2017	9,586	446	2	90	10,123	1,195	11,318
Net income	547	–	–	–	547	98	645
Other comprehensive income	2	(375)	(2)	(61)	(436)	(182)	(618)
Total comprehensive income	549	(375)	(2)	(61)	111	(84)	27
Dividends & profit and loss transfer with owners	(385)	–	–	–	(385)	(31)	(415)
Other changes	(350)	–	–	–	(350)	122	(228)
<b>Balance as of September 30, 2018</b>	<b>9,400</b>	<b>71</b>	<b>0</b>	<b>28</b>	<b>9,499</b>	<b>1,202</b>	<b>10,701</b>
Effect of retrospectively adopting IFRS 9	(3)	–	–	–	(3)	(2)	(5)
Balance as of October 1, 2018	9,396	71	0	28	9,496	1,200	10,696
Net income	158	–	–	–	158	123	282
Other comprehensive income	(173)	350	0	(66)	112	86	198
Total comprehensive income	(15)	350	0	(66)	270	209	479
Dividends & profit and loss transfer with owners	(255)	–	–	–	(255)	(31)	(287)
Other changes	2,346	–	–	–	2,346	(145)	2,201
<b>Balance as of September 30, 2019</b>	<b>11,472</b>	<b>422</b>	<b>0</b>	<b>(37)</b>	<b>11,856</b>	<b>1,233</b>	<b>13,089</b>

<sup>1</sup> For further information refer to Note 16

# **Siemens Energy**

## **Notes to the Combined Financial Statements**

### **for the fiscal years ended September 30, 2019, 2018 and 2017**

#### **NOTE 1 Basis of preparation**

##### **Purpose and content of the Combined Financial Statements**

On May 7, 2019, Siemens Aktiengesellschaft, Berlin and Munich announced its plans to publicly list the Siemens Energy business (referred to hereafter as “Siemens Energy”) in the form of a spin-off, by issuing Siemens Energy shares to the shareholders of Siemens AG and a subsequent listing of these shares. Siemens AG plans to retain a minority stake in Siemens Energy. The parent company of Siemens Energy and thus, the issuer of shares for the planned spin-off will be Siemens Energy AG (until April 2, 2020: Kyros 52 Aktiengesellschaft) with registered office in Munich (registry number HRB 252581), Germany. The company became economically active on April 1, 2020 (before this date and until spin-off the company did not have any operating business). Siemens Gas and Power GmbH & Co. KG was incorporated in fiscal 2019 and will directly and indirectly hold shares in all Siemens Energy companies. Upon completion of the proposed transaction structure, Siemens Energy AG will be the parent company of the future Siemens Energy Group and will directly hold 100% of the shares of Siemens Gas and Power GmbH & Co. KG.

Siemens Energy is separated from Siemens AG and its subsidiaries (“Siemens Group”) in several steps. In an initial preparatory step, activities that had not been conducted by separate companies have been or will be transferred to separate legal entities, either by carving out the Siemens Energy businesses or by carving out the businesses within the legal entities that remain with Siemens Group (reverse carve-out). All activities that form the Siemens Energy business are then placed under the control of Siemens Gas and Power GmbH & Co. KG. At the time of the spin-off, Siemens AG and Siemens Beteiligungen Inland GmbH (“SBI”) will contribute their respective stake in Siemens Gas and Power GmbH & Co. KG to Siemens Energy AG against shares in Siemens Energy AG, of which Siemens AG will spin-off a majority portion to the shareholders of Siemens AG as a final step.

According to the Commission Delegated Regulation (EU) 2019/980 of March 14, 2019, Annex I, item 18.1.1., supplementing Regulation (EU) 2017/1129, an issuer must present historical financial information covering the latest three fiscal years in its securities prospectus. Furthermore, according to Commission Delegated Regulation (EU) 2019/980 of March 14, 2019, Article 18 para 1 in connection with Article 18 para 3, Siemens Energy AG, as the issuer, has a “Complex Financial History” as of the share issuance date and needs to prepare additional financial information. Therefore, Siemens Energy prepares historical financial information for the fiscal years from October 1, 2018 to September 30, 2019, from October 1, 2017 to September 30, 2018 and from October 1, 2016 to September 30, 2017 representing the Siemens Energy business under the control of Siemens AG.

The Combined Financial Statements consist of Combined Statements of Income, Combined Statements of Comprehensive Income, Combined Statements of Financial Position, Combined Statements of Cash Flows, Combined Statements of Changes in Invested Equity and Notes to the Combined Financial Statements for the fiscal years ended September 30, 2019, 2018 and 2017 (collectively referred to hereafter as “Combined Financial Statements”).

The Combined Financial Statements have been prepared and published in millions of euro (€ million). Rounding differences may occur in respect of individual amounts or percentages.

The Combined Financial Statements were authorized for issue on May 6, 2020 by the Managing Board of Siemens AG.

## **Definition of Siemens Energy business**

Siemens Energy is one of the largest suppliers of technology in the energy and electricity sector with an integrated setup that encompasses the entire scope of the energy market. It provides a leading portfolio along the entire energy value chain – in both conventional and renewable energy, supported by a complete set of training and service offerings. This comprehensive portfolio supports public- and private-sector customers along the continuum of energy – from power generation to power transmission and the related services businesses.

Siemens Energy's operations include:

- Gas and Power, which offers a broad spectrum of products and solutions for the generation of energy, along the entire value chain in the oil and gas industry and the construction and operation of power transmission networks;
- Siemens Gamesa Renewable Energy (SGRE), which offers on- and offshore wind turbines as well as services throughout the whole lifecycle of wind turbines.

Prior to the public listing of Siemens Energy, an internal reporting system has been established. For the segment reporting in the Combined Financial Statements, this system has been used retrospectively and in line with IFRS 8.

## **Combined Financial Statements**

The Combined Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

Since IFRS provides no guidelines for the preparation of Combined Financial Statements, rules given in IAS 8.12 have been used. IAS 8.12 requires the consideration of the most recent pronouncements of other standard-setting bodies, other financial requirements and recognized industry practices. Following IAS 8.12, the predecessor accounting approach has been applied in the Combined Financial Statements of Siemens Energy.

The same accounting policies and measurement principles have been applied in preparing the Combined Financial Statements as used by the Siemens Energy entities and operations in preparing their financial information for inclusion in the IFRS Consolidated Financial Statements of Siemens AG. Accounting estimates originally used in the IFRS Consolidated Financial Statements of Siemens AG have not been adjusted to reflect potential new knowledge before being included in the Combined Financial Statements.

The Combined Financial Statements of Siemens Energy reflect the following businesses as included in the IFRS Consolidated Financial Statements of Siemens AG for the fiscal year ended September 30, 2019, adjusted for legal entities where legal transfer is not planned;

- The segment Gas and Power;
- the segment Siemens Gamesa Renewable Energy;
- the Process Solutions business, excluding the minerals business;
- the Subsea business;
- the Distribution Transformer business;
- the at-equity investments in Voith Hydro and Ethos Energy;
- the 24% minority stake in Siemens Limited India, which is fully consolidated at Siemens AG. The treatment in the Combined Financial Statements (24% share of historical book values) is based on the current expectation of both the management of Siemens AG and Siemens Energy that the sale of the minority stake in Siemens Limited India will be successfully completed before spin-off. The agreement between Siemens AG and Siemens Energy dated March 30, 2020, specifies that should the sale not be completed before spin-off, Siemens AG may sell the stake in steps over a period of years. Consequently, accounting in the consolidated financial statements after spin-off would follow the step-wise acquisition of the stake in Siemens Limited, India.

For a list of legal entities respectively business activities in legal entities which will be carved out before transfer to Siemens Energy that are included in the Combined Financial Statements, please *also refer to Note 28 – Scope of combination*.

The Combined Financial Statements for Siemens Energy are derived as follows:

The financial information for the segment Gas and Power included in the Combined Financial Statements is derived from the segment reporting as presented in the Consolidated Financial Statements of Siemens AG. This segment reporting included certain cost allocations for centrally managed functions prior to the legal separation.

The financial information for SGRE included in the Combined Financial Statements is derived from the segment reporting as presented in the Consolidated Financial Statements of Siemens AG.

The financial information for the Process Solutions business (excluding the minerals business), Subsea business and Distribution Transformer business included in the Combined Financial Statements is derived from the sub-segment reporting and local Enterprise Resource Planning (ERP) systems. For selected items, the financial information is based on specific identification and attribution or allocation of assets, liabilities, income and expenses.

In addition, in order to reflect the assets, liabilities, income and expenses that fall within the scope of Siemens Energy, the following combination rules have been applied. The Management (as defined in Note 26 – *Related party transactions*) uses significant judgment in determining these combination rules. Thus, the Combined Financial Statements presented here do not necessarily reflect the financial position and results of operations that would have occurred if Siemens Energy had existed as a separate group in the periods presented.

### **Scope of combination**

The scope of combination for the Combined Financial Statements of Siemens Energy for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017 was determined on the principles of the legal reorganization approach. This approach is based on the fact that the economic activities that form the new group were not managed centrally in the past, but the entities are legally bound together within a reorganization process. During the reporting periods of the Combined Financial Statements, the assets and liabilities forming the combination scope were under common control of Siemens AG.

The scope of combination includes companies and businesses that will be directly or indirectly and fully or partially owned by Siemens Energy AG after the Spin-off of the Siemens Energy Group has been completed. This includes entities that were controlled by Siemens AG or its subsidiaries during the reporting periods of the Combined Financial Statements and for which a legal transfer to Siemens Energy AG is planned. Businesses in accordance with IFRS 3 under common control that will be transferred to Siemens Energy during the legal reorganization are included with their respective assets and liabilities as well as income and expenses in the Combined Financial Statements for all periods during which Siemens AG controlled these entities.

For legal entities transferring to Siemens Energy that had already been fully dedicated to the Siemens Energy business and for which no carve out has been required, the Combined Financial Statements also include all non-business assets, liabilities, income and expenses of the legal entity (mainly financing activities and real estate). For legal entities that required a legal separation, certain assets and liabilities or obligations transferred to Siemens Energy that historically have not been part of the Siemens Energy business are recognized in the Combined Financial Statements at the time of the transfer as further detailed below.

### **Goodwill allocation**

The goodwill included in the Combined Financial Statements is based on the goodwill attributable to the Siemens Energy business. The goodwill amount reflected in the Combined Financial Statements comprises the goodwill attributable to the segment SGRE as included in the Siemens Group segment reporting, as well as goodwill attributable to the segment Gas and Power and to the other businesses in scope, which was allocated to the Siemens Energy business adjusted for legal entities where legal transfer is not planned, based on a relative value approach.



During the periods presented, goodwill was allocated and tested based on the cash-generating unit structure used at that time by Siemens Group to monitor goodwill as the Siemens Energy reporting structure did not exist in the past. *For further details please also refer to Note 10 – Goodwill.*

### **Services provided and charged by centrally managed functions**

Services provided by centrally managed functions from Siemens Group to Siemens Energy have been included in the Combined Financial Statements for all periods presented as historically charged to the business. For employees previously employed by such centrally managed functions of Siemens Group that have been transferred to the Siemens Energy business in line with the reorganization, employee-related expenses, assets and liabilities (including liabilities for pensions and similar obligations) have been included in the Combined Financial Statements from the occurrence of the transfer.

### **Pensions and similar obligations**

The Combined Financial Statements of Siemens Energy present the pension obligations of the Siemens Energy population and corresponding plan assets.

The pension obligations for active employees, as well as for passives, with the exception of Germany, are transferred mainly in line with the legal reorganization. Therefore, the majority of pension liabilities have been transferred during fiscal year 2020 prior to the listing of the shares. Pension obligations have retrospectively been allocated to Siemens Energy based on historical employee lists for all periods presented in the Combined Financial Statements. The pension obligations may change in some countries considering specific requirements when the separation into Siemens Energy legal entities becomes effective.

Plan assets have been allocated by taking into consideration specific legal requirements for the major countries. Where the respective employee has a right to claim a minimal funding or the plan assets were already allocated to individual employee accounts, plan assets have been retrospectively allocated to Siemens Energy for the periods prior to the legal transfer of the assets. Due to the fact that the legal transfer of these plan assets has not yet been completed, the actual amounts of the plan assets to be transferred may differ from the plan assets presented in the Combined Financial Statements. *For further details please also refer to Note 14 – Provisions for pensions and similar obligations.*

### **Income Taxes and Deferred Taxes**

In accordance with IAS 12, "Income Taxes", current and deferred income taxes are recognized for the purposes of the Combined Financial Statements taking into consideration local tax requirements. Income taxes are determined using the separate tax return approach under the assumption that the entities and operations of Siemens Energy constitute separate taxable entities.

This assumption implies that current and deferred taxes for all companies and operations and tax groups within Siemens Energy are calculated separately. The recoverability of deferred tax assets is assessed on this basis. In the Combined Financial Statements deferred tax assets were recognized to the extent it is probable that they can be offset with future taxable income from the respective Siemens Energy entities.

Tax receivables and liabilities as well as deferred tax assets on loss carryforwards of Siemens Energy entities and operations that did not constitute a separate tax payer in previous years were treated as contributions or transfers from reserves by shareholders, and are not included in the Combined Financial Statements of Siemens Energy.

Management deems the approach as appropriate though not necessarily indicative of the tax expenses or income that would result for Siemens Energy as a separate group. *For further details please also refer to Note 6 – Income taxes.*

## Real Estate Assets

Assets that were leased from Siemens Real Estate and transferred to Siemens Energy as part of the legal reorganization have been included in the Combined Financial Statements when the separation into Siemens Energy legal entities became effective. Before legal transfer, the leases have been reflected as such in the Combined Financial Statements.

## Other centrally managed items

Other centrally managed items have been included in the Combined Financial Statements from the occurrence of the legal transfer of each entity. Until completion of the carve out only business-related items as well as pensions and taxes are included in the Combined Financial Statements.

## Capital Structure

The equity of Siemens Energy consists of the net assets attributable to Siemens Energy. The Combined Financial Statements do not show any subscribed capital, because Siemens Energy does not constitute a legal group during the periods presented.

The equity of Siemens Energy as presented in the Combined Financial Statements has been impacted mainly by the following combination rules:

- a) any allocation of assets and liabilities to Siemens Energy in addition to those already included in the segment reporting (or sub-segment reporting and local ERP systems in case of the Subsea, Distribution Transformer business and Process Solutions business (excluding the minerals business)) for the businesses as presented in the Consolidated Financial Statements of Siemens AG was directly recognized in equity as withdrawal or contribution at the time of the allocation;
- b) any consideration given or received in the course of the formation of a group of entities was directly recognized in equity as withdrawal or contribution at the time of the transfer;
- c) any taxes paid by Siemens Group and related to Siemens Energy operations prior to the carve-out, were directly recognized in equity;
- d) any changes in the conversion of receivables and payables to cash related to Siemens Energy operations prior to the carve-out, was directly recognized in equity;

category c) and d) are necessary because in the Siemens Group Consolidated Financial Statements cash balances are not allocated to the Siemens Group operating segments, but managed centrally. Additionally, in Siemens Group legal entities tax payments are not assigned to operating segments.

As the formation of Siemens Energy has not been finalized as of September 30, 2019, further changes in the capital structure have occurred. *For further details please also refer to Note 27 – Subsequent event.*

## Related Party Transactions

Transactions between Siemens Energy and the remaining Siemens Group are recognized in accordance with IFRS and classified as related party transactions. *For further details please also refer to Note 26 – Related party transactions.*

## Combined Statements of Cash Flows

According to IAS 7, "Cash Flow Statements", the Combined Statements of Cash Flows of Siemens Energy contain operating, investing and financing activities. Cash transactions resulting from the central cash management operated by the Siemens Group throughout the period presented as well as cash transactions with other Siemens Group entities in conjunction with the formation of the group of entities have been included in the line item *Financing transactions with Siemens Group* in the Cash Flows from Financing Activities of the Combined Statements of Cash Flows.

## NOTE 2 Material accounting policies and critical accounting estimates

The accounting principles set out below have, unless stated otherwise, been applied consistently for all periods presented in these Combined Financial Statements.

**Key accounting estimates and judgments** – Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. Such critical accounting estimates could change from period to period and have a material impact on the results of operations, financial positions and cash flows of Siemens Energy. Critical accounting estimates could also involve estimates where Siemens Energy reasonably could have used a different estimate in the current accounting period. Siemens Energy cautions that future events often vary from forecasts and that estimates routinely require adjustment.

The estimates in accordance with the basis of preparation made in these Combined Financial Statements are consistent with estimates made for the same date in accordance with the reporting requirements under IFRS as part of the consolidation group of Siemens AG, unless there is objective evidence that those estimates are not in accordance with IFRS on a stand-alone basis. The areas involving a high degree of judgment and where estimates and assumptions are significant to the Combined Financial Statements are disclosed.

**Business combinations** – Cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities assumed in a business combination (including contingent liabilities) are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Non-controlling interests are measured at the proportional fair value of assets acquired and liabilities assumed (partial goodwill method). If there is no loss of control, transactions with non-controlling interests are accounted for as equity transactions not affecting profit or loss. The non-controlling interests participate in profits and losses during the reporting period.

**Associates** – Associates are companies over which Siemens AG has the ability to exercise significant influence over operating and financial policies (generally through direct or indirect ownership of 20% to 50% of the voting rights) and which are in scope of the Siemens Energy business. These are recorded in the Combined Financial Statements using the equity method and are initially recognized at cost. Siemens Energy's share of its associate's post-acquisition profits or losses is recognized in the Combined Statements of Income, and its share of post-acquisition changes in equity that have not been recognized in the associate's profit or loss is recognized directly in equity. The cumulative post-acquisition changes are adjusted against the carrying amount of the investment in the associate. When Siemens Energy's share of losses in an associate equals or exceeds its interest in the associate, Siemens Energy does not recognize further losses, unless it incurs obligations or makes payments on behalf of the associate. The interest in an associate is the carrying amount of the investment in the associate together with any long-term interests that, in substance, form part of Siemens Energy's net investment in the associate.

**Joint ventures** – Joint ventures are entities over which Siemens AG and one or more parties have joint control and which are in scope of the Siemens Energy business. Joint control requires unanimous consent of the parties sharing control in decision making on relevant activities.

**Foreign currency translation** – Assets and liabilities of foreign subsidiaries, where the functional currency is other than the euro, are translated using the spot exchange rate at the end of the reporting period, while the Combined Statements of Income are translated using average exchange rates during the period. Differences arising from such translations are recognized within equity and reclassified to net income when the gain or loss on disposal of the foreign subsidiary is recognized. The Combined Statements of Cash Flow are translated at average exchange rates during the period, whereas cash and cash equivalents are translated at the spot exchange rate at the end of the reporting period.

**Foreign currency transaction** – Transactions that are denominated in a currency other than the functional currency of an entity, are recorded at that functional currency applying the spot exchange rate at the date when the underlying transactions are initially recognized. At the end of the reporting period, foreign currency-denominated monetary assets and liabilities are revalued to functional currency applying the spot exchange rate prevailing at that date. Gains and losses arising from these foreign currency revaluations are recognized in net income. Those foreign currency-denominated transactions which are classified as non-monetary are remeasured using the historical spot exchange rate. Siemens Energy applies Hyperinflation accounting in Venezuela and Argentina. The effect from the indexation of non-monetary Balance Sheet items and Income items amount to €(9) million in fiscal 2019 (fiscal 2018: €(57) million and fiscal 2017: €(11) million). Contrary effects on the net monetary position amounted to €8 million in fiscal 2019 (fiscal 2018: €43 million and fiscal 2017: €15 million).

**Revenue recognition** – Siemens Energy recognizes revenue, when or as control over distinct goods or services is transferred to the customer; i.e. when the customer is able to direct the use of the transferred goods or services and obtains substantially all of the remaining benefits, provided a contract with enforceable rights and obligations exists and amongst others collectability of consideration is probable taking into account customer's creditworthiness. Revenue is the transaction price Siemens Energy expects to be entitled to. Variable consideration is included in the transaction price if it is highly probable that a significant reversal of revenue will not occur once associated uncertainties are resolved. The amount of variable consideration is calculated by either using the expected value or the most likely amount depending on which is expected to better predict the amount of variable consideration. Consideration is adjusted for the time value of money if the period between the transfer of goods or services and the receipt of payment exceeds twelve months and there is a significant financing benefit either to the customer or Siemens Energy. If a contract contains more than one distinct good or service, the transaction price is allocated to each performance obligation based on relative stand-alone selling prices. If stand-alone selling prices are not observable, Siemens Energy reasonably estimates those. Revenue is recognized for each performance obligation either at a point in time or over time.

Sales from construction-type contracts: Revenues are recognized over time under the percentage-of-completion method, based on the percentage of costs incurred to date compared to total estimated costs. An expected loss on the contract is recognized as an expense immediately. Payment terms are usually 30 days from the date of invoice issued according to the contractual terms.

The percentage-of-completion method places considerable importance on accurate estimates of the extent of progress towards completion and may involve estimates on the scope of deliveries and services required to fulfill the contractually defined obligations. These significant estimates include total estimated costs, total estimated revenues, contract risks, including technical, political and regulatory risks, and other judgments. Under the percentage-of-completion method, changes in estimates may lead to an increase or decrease of revenue. In addition, Siemens Energy needs to assess whether the contract is expected to continue or whether it is terminated. In determining whether the continuation or termination of a contract is expected to be the most likely scenario, all relevant facts and circumstances relating to the contract are considered on an individual basis.

Revenues from services: Revenues are recognized over time on a straight-line basis or, if the performance pattern is other than straight-line, as services are provided, i.e. under the percentage-of-completion method as described above. Payment terms are usually 30 days from the date of invoice issued according to the contractual terms.

Sale of goods: Revenues are recognized at a point in time when control of the goods passes to the buyer, usually upon delivery of the goods. Invoices are issued at that point in time and are usually payable within 30 days.

**Functional costs** – In general, operating expenses by types are assigned to the functions following the functional area of the corresponding profit and cost centers. Amortization, depreciation and impairment of intangible assets and property, plant and equipment are included in functional costs depending on the use of the assets.

**Product-related expenses** – Provisions for estimated costs related to product warranties are recorded in line item Cost of sales at the time the related sale is recognized.

**Research and development costs** – Costs of research activities are expensed as incurred. Costs of development activities are capitalized when the recognition criteria in IAS 38 are met. Capitalized development costs are stated at cost less accumulated amortization and impairment losses with an amortization period of generally three to ten years.

**Goodwill** – Goodwill is not amortized, instead, goodwill is tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less accumulated impairment losses. The goodwill impairment test is performed at the level of a cash-generating unit or a group of cash-generating units, generally represented by a segment. SGRE is tested one level below the segment. During the periods presented, goodwill was tested for impairment based on the cash-generating unit structure used at that time by Siemens Group to monitor goodwill as Siemens Energy and the new reporting structure did not exist in the past. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit or the group of cash-generating units that is expected to benefit from the synergies of the business combination. If the carrying amount of the cash-generating unit or the group of cash-generating units, to which the goodwill is allocated, exceeds its recoverable amount, an impairment loss on goodwill allocated to this cash-generating unit or this group of cash-generating units is recognized. The recoverable amount is the higher of the cash-generating unit's or the group of cash-generating units' fair value less costs to sell and its value in use. If either of these values exceeds the carrying amount, it is not always necessary to determine both values. These values are generally determined based on discounted cash flow calculations. Impairment losses on goodwill are not reversed in future periods.

The determination of the recoverable amount of a cash-generating unit or a group of cash-generating units to which goodwill is allocated involves the use of estimates by management. The outcome predicted by these estimates is influenced e.g. by the successful integration of acquired entities, volatility of capital markets, interest rate developments, foreign exchange rate fluctuations and the outlook on economic trends. In determining recoverable amounts, discounted cash flow calculations use five-year projections that are based on financial forecasts. Cash flow projections take into account past experience and represent management's best estimate about future developments. Cash flows after the planning period are extrapolated using individual growth rates. Key assumptions on which management has based its determination of fair value less costs to sell and value in use include estimated growth rates and weighted average cost of capital. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any goodwill impairment.

**Other intangible assets** – Siemens Energy amortizes intangible assets with finite useful lives on a straight-line basis over their respective estimated useful lives. Estimated useful lives for patents, licenses and other similar rights generally range from three to five years, except for intangible assets with finite useful lives acquired in business combinations. Intangible assets acquired in business combinations primarily consist of customer relationships and trademarks as well as technology. Useful lives in specific acquisitions ranged from four to 20 years for customer relationships and trademarks and from five to 25 years for technology.



**Property, plant and equipment** – Property, plant and equipment, is valued at cost less accumulated depreciation and impairment losses. Depreciation expense is recognized using the straight-line method. The following useful lives are assumed:

Factory and office buildings .....	20 to 50 years
Other buildings .....	5 to 10 years
Technical machinery & equipment .....	generally 10 years
Furniture & office equipment .....	generally 5 years

**Impairment of property, plant and equipment and other intangible assets** – Siemens Energy reviews property, plant and equipment and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, intangible assets not yet available for use are subject to an annual impairment test. Impairment testing of property, plant and equipment and other intangible assets involves the use of estimates in determining the assets' recoverable amount which can have a material impact on the respective values and ultimately the amount of any impairment.

**Non-current assets / liabilities held for disposal** – Non-current assets/liabilities are held for disposal if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

**Income taxes** – Tax positions under respective local tax laws and tax authorities' views can be complex and subject to different interpretations of tax payers and local tax authorities. Different interpretations of existing or new tax laws as a result of tax reforms or other tax legislative procedures may result in additional tax payments for prior years and are taken into account based on management's considerations. Under the liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each period-end, Siemens Energy evaluates the recoverability of deferred tax assets, generally based on five-years projected future taxable profits. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, Siemens Energy believes it is probable Siemens Energy will realize the benefits of these deductible differences. As future developments are uncertain and partly beyond Siemens Energy's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. Estimates are revised in the period in which there is sufficient evidence to revise the assumption.

**Contract assets, contract liabilities, receivables** – When either party to a contract with customers has performed, Siemens Energy presents a contract asset, a contract liability or a receivable depending on the relationship between Siemens Energy's performance and the customer's payment. Contract assets and liabilities are presented as current since incurred in the normal operating cycle. Receivables are recognized when the right to consideration becomes unconditional. Valuation allowances for credit risks are made for contract assets and receivables in accordance with the accounting policy for financial assets measured at amortized cost.

**Inventories** – Inventories are valued at the lower of acquisition or production costs and net realizable value, costs being generally determined based on an average or first-in, first-out method. Net realizable value corresponds to the estimated selling price net of remaining costs of completion and selling.

**Defined benefit plans** – Siemens Energy measures the entitlements by applying the projected unit credit method. The approach reflects an actuarially calculated net present value of the future benefit entitlement for services already rendered. In determining the net present value of the future benefit entitlement for service already rendered (Defined Benefit Obligation ("DBO")), the expected rates of future salary increases and expected rates of future pension

progression are considered. The assumptions used for the calculation of the DBO as of the period-end of the preceding fiscal year are used to determine the calculation of service cost and interest income and expense of the following year. Starting in fiscal year 2018 significant plans apply individual spot rates from full discount rate curves to determine service cost and interest expense. The net interest income or expense for the fiscal year will be based on the discount rate for the respective year multiplied by the net defined benefit liability (asset) at the preceding fiscal year's period-end date.

Service cost, past service cost and settlement gains (losses) for pensions and similar obligations as well as administration costs unrelated to the management of plan assets are allocated among functional costs. Past service cost and settlement gains (losses) are recognized immediately in profit or loss. For unfunded plans, the amount of the line item Provisions for pensions and similar obligations equals the DBO. For funded plans, Siemens Energy offsets the fair value of the plan assets with the DBO. Siemens Energy recognizes the net amount, after adjustments for effects relating to any asset ceiling.

Remeasurements comprise actuarial gains and losses as well as the difference between the return on plan assets and the amounts included in net interest on the net defined benefit liability (asset). They are recognized in Other comprehensive income, net of income taxes.

Actuarial valuations rely on key assumptions including discount rates, expected compensation increases, rate of pension progression and mortality rates. Discount rates used are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the end of the reporting period. In case such yields are not available, discount rates are based on government bonds yields. Due to changing market, economic and social conditions, the underlying key assumptions may differ from actual developments.

Entitlements resulting from plans based on asset returns from underlying assets are generally measured at the fair value of the underlying assets at period-end. If the performance of the underlying assets is lower than a guaranteed return, the DBO is measured by projecting forward the contributions at the guaranteed fixed return and discounting back to a present value.

**Provisions** – A provision is recognized in the Statement of Financial Position when it is probable that Siemens Energy has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are recognized at present value by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money. When a contract becomes onerous, the present obligation under the contract is recognized as a provision.

Significant estimates are involved in the determination of provisions related to warranty costs, onerous contracts, legal and regulatory proceedings as well as governmental investigations (Legal Proceedings). The measurement of warranty provisions reflects whether the underlying obligation results from a single obligation or a larger population of items. The amounts provided are based on best available information but may vary from actual claims. Siemens Energy records a provision for onerous contracts with customers when current estimates of total estimated costs exceed estimated revenue. Onerous contracts with customers are identified by monitoring the progress of the project and updating the estimates which requires significant judgment relating to achieving certain performance standards as well as estimates involving warranty costs and estimates regarding project delays including the assessment of responsibility splits between the contract partners for these delays.

Legal proceedings often involve complex legal issues and are subject to substantial uncertainties. Accordingly, considerable judgment is part of determining whether it is probable that there is a present obligation as a result of a past event at the end of the reporting period, whether it is probable that such a Legal proceeding will result in an outflow of resources and whether the amount of the obligation can be reliably estimated. Internal and external counsels are generally part of the determination process. Due to new developments, it may be necessary, to record a provision for an ongoing Legal proceeding or to adjust the amount of a previously

recognized provision. Upon resolution of a Legal proceeding, Siemens Energy may incur charges in excess of the recorded provisions for such matters. The outcome of Legal proceedings may have a material effect on Siemens Energy's financial position, its results of operations and/or its cash flows.

**Termination benefits** – Termination benefits are provided as a result of an entity's offer made in order to encourage voluntary redundancy before the regular retirement date or from an entity's decision to terminate the employment. Termination benefits in accordance with IAS 19, Employee Benefits, are recognized as a liability and an expense when the entity can no longer withdraw the offer of those benefits.

**Financial instruments** – A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Based on their contractual cash flow characteristics and the business model they are held in, financial instruments are classified as financial assets and financial liabilities measured at cost or amortized cost, measured at fair value, loan commitments and credit guarantees and contract assets. Regular way purchases or sales of financial assets are accounted for at the trade date. Siemens Energy does not use the option to designate financial assets or financial liabilities at fair value through profit or loss at inception (fair value option). Initially, financial instruments are recognized at fair value and net of transaction costs, if not categorized at FVTPL. Subsequently, financial assets and liabilities are measured according to the category to which they are assigned to:

Financial assets measured at fair value through profit or loss (FVTPL) – Debt financial assets are measured at FVTPL if the business model they are held in is not a hold-to-collect or a hold-and-sell business model, or if their contractual cash flows do not represent solely payments of principal and interest. Equity instruments are measured at FVTPL unless the FVOCI-option is elected.

Financial assets measured at fair value through other comprehensive income (FVOCI) – Are equity instruments for which Siemens Energy irrevocably elects to present subsequent fair value changes in OCI at initial recognition of the instrument. Unrealized gains and losses, net of deferred income tax expenses, as well as gains and losses on the subsequent sale of the instruments are recognized in line item Other comprehensive income, net of income taxes.

Financial assets measured at amortized cost – Loans, receivables and other debt instruments held in a hold-to-collect business model with contractual cash flows that represent solely payments of principal and interest are measured at amortized cost using the effective interest method less valuation allowances for expected credit losses.

Valuation allowances are set up for expected credit losses, representing a forward-looking estimate of future credit losses involving significant judgment. Expected credit loss is the gross carrying amount less collateral, multiplied by the probability of default and a factor reflecting the loss in the event of default. Valuation allowances are not recognized when the gross carrying amount is sufficiently collateralized. Probabilities of default are mainly derived from internal rating grades. A simplified approach is used to assess expected credit losses from trade receivables, lease receivables and contract assets by applying their lifetime expected credit losses. Financial assets are written off as uncollectible if recovery appears unlikely. Generally, if the limitation period expired, when a debtor's sworn statement of affairs is received, or when the receivable is not pursued due to its minor value. Receivables are written off when bankruptcy proceedings close.

**Cash and cash equivalents** – Siemens Energy considers all highly liquid investments with less than three months maturity from the date of acquisition to be cash equivalents.

A financial asset is derecognized when the rights to cash flows expire or the financial asset is transferred to another party. Significant modifications of contractual terms of a financial asset measured at amortized cost result in derecognition and recognition of a new financial asset; for insignificant modifications, the carrying amount of the financial asset is adjusted without derecognition.

**Credit guarantees** – Credit guarantees are recognized at the higher of consideration received for granting the guarantee and expected credit losses determined.

**Financial liabilities** – Except for derivative financial instruments, Siemens Energy measures financial liabilities at amortized cost using the effective interest method.

**Derivative financial instruments** – Derivative financial instruments, such as foreign currency exchange contracts and interest rate swap contracts are measured at fair value unless they are designated as hedging instruments, for which hedge accounting is applied. Changes in the fair value of derivative financial instruments are recognized either in net income or, in the case of a cash flow hedge, in line item Other comprehensive income, net of income taxes (applicable deferred income tax). Certain derivative instruments embedded in host contracts are also accounted for separately as derivatives.

**Cash flow hedges** – The effective portion of changes in the fair value of derivative instruments designated as cash flow hedges are recognized in line item Other comprehensive income, net of income taxes, and any ineffective portion is recognized immediately in net income. Amounts accumulated in equity are reclassified into net income in the same periods in which the hedged item affects net income.

**Share-based payment** – Share-based payment awards at Siemens Energy are predominately classified as cash-settled to fulfill the specific requirements for share-based payment transactions among group entities. Fair value is measured at grant date, updated each quarter and expensed over the vesting period. Fair value is determined as the market price of Siemens AG shares, considering dividends during the vesting period the grantees are not entitled to and market conditions and non-vesting conditions, if applicable.

Expenses related to share-based payment awards for Siemens Energy employees, which were granted by a Siemens Group entity and for which the contractual obligation to settle the share-based payment liability has not been transferred to Siemens Energy as well as Share-based payments related to Siemens Gamesa shares, are included in the Combined Financial Statements as equity-settled awards.

**Prior-year's information** – The presentation of certain prior-year's information has been reclassified to conform to the current year presentation.

#### Recently adopted Accounting Pronouncements

IFRS 9, Financial Instruments, was adopted retrospectively as of October 1, 2018. Fiscal 2018 information is measured under IAS 39; amounts are not adjusted in accordance with IFRS 9 transitional provisions. The adoption had no material impact on the Combined Financial Statements. IFRS 9 changed the classification of financial instruments: Equity instruments were assessed on a case-by-case basis whether measurement at FVOCI or FVTPL applies. Debt instruments not satisfying the solely payments of principal and interest criterion were reclassified from loans and receivables and available-for-sale to FVTPL.

In fiscal 2018 and fiscal 2017, under IAS 39, loans and receivables were measured at amortized cost using the effective interest method less any impairment loss. Available-for-sale financial assets were measured at fair value, if reliably measurable, and changes in fair value other than impairment losses were recognized in Other comprehensive income, net of income taxes; upon derecognition, gains and losses accumulated in Equity were reclassified. If fair value was not reliably measurable, available-for-sale assets were measured at cost. Impairments were based on the incurred loss model.

IAS 39 measurement category (in millions of €)	IAS 39 Sep 30, 2018	Reclassifications	Remeasurements	IFRS 9 Oct 1, 2018	IFRS 9 measurement category
Loans and receivables . . . . .	5,815	(16)	(3)	5,796	Financial assets at amortized cost
Available-for-sale financial assets (measured through OCI) . . . . .	37	(31)	–	6	Financial assets at FVOCI
Financial assets at fair value through profit or loss . . . . .	299	47	(1)	344	Financial assets at FVTPL
Contract Assets . . . . .	4,593		(3)	4,590	Contract Assets

## **Recent accounting pronouncements, not yet adopted**

The following pronouncements, issued by the IASB, are not yet effective and have not yet been adopted by Siemens Energy:

In January 2016, the IASB issued IFRS 16, Leases. IFRS 16 eliminates the current classification model for lessee's lease contracts as either operating or finance leases and, instead, introduces a single lessee accounting model requiring lessees to recognize right-of-use assets and lease liabilities for leases with a term of more than twelve months. This brings the previous off-balance leases on the balance sheet in a manner largely comparable to current finance lease accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Siemens Energy will adopt the standard for the fiscal year beginning as of October 1, 2019, by applying the modified retrospective approach, i.e. comparative figures for the preceding year will not be adjusted. It is intended to use most of the simplifications available under IFRS 16. Currently, it is expected that the majority of the transition effect relates to real estate leased by Siemens Energy. Regarding the adoption of IFRS 16, Leases, Siemens Energy expects an increase of approximately 2% in Total assets as well as in Total liabilities and equity as of October 1, 2019 (opening balance sheet). In addition, straight-line operating lease expenses will be replaced by depreciation expenses on right-of-use assets and interest expenses on lease liabilities.

In May 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments. The interpretation clarifies the recognition and measurement requirements when there is uncertainty over income tax treatments. In assessing the uncertainty, an entity shall consider whether it is probable that a taxation authority will accept or revise the uncertain tax treatment. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, while earlier application is permitted. Siemens Energy expects no material impact due to the adoption of IFRIC 23.

## **NOTE 3 Acquisition and disposals**

### **Acquisition**

In April 2017, Siemens AG contributed its wind power business, including service, into the publicly listed company Gamesa Corporación Tecnológica, S. A., Spain (Gamesa), and in return received newly issued shares of the combined entity Siemens Gamesa Renewable Energy, S. A., Spain (SGRE). The two businesses are highly complementary regarding global footprint, existing product portfolios and technologies. After the acquisition, Siemens AG as majority shareholder holds 59% of the shares of the combined entity, which are part of the combination scope of Siemens Energy. As part of the merger, Siemens AG paid €999 million in cash which was distributed to the Gamesa shareholders (without Siemens AG) following the completion of the merger.

The consideration transferred by Siemens AG equals 59% of Gamesa's market capitalization at closing of the merger and amounts to €3,669 million. The purchase price allocation as of the acquisition date resulted in:

Other intangible assets €2,490 million, Property, plant and equipment €610 million, Trade and other receivables €1,073 million, Cash and cash equivalent €1,004 million, Inventories €817 million, Contract assets €641 million, Other financial assets €373 million (current and non-current), Other current assets €206 million, Investments accounted for using the equity method €74 million, Current income tax assets €179 million, Deferred tax assets €478 million, Long-term debt €656 million, Provisions €1,554 million (current and non-current), Other financial liabilities €217 million, Short-term debt and current maturities of long-term debt €366 million, Trade payables €1,780 million, Contract liabilities €779 million, Current income tax liabilities €118 million, Other current liabilities €217 million, Other current financial liabilities €1,068 million and Deferred tax liabilities €798 million. Intangible assets mainly relate to technology of €1,147 million and customer relationships and trademarks of €1,343 million and is substantially being amortized over a period of 6 to 20 years. The gross contractual amount of the trade and other receivables acquired is €1,136 million. Goodwill amounts to €2,857 million and



comprises intangible assets that are not separable such as employee know-how and expected synergy effects from highly complementary businesses entailing an enhanced market position (including anticipated cost savings mainly in R & D, procurement and administration as well as revenue synergies).

Effects on equity resulting from this transaction are included in line Other changes. Including earnings effects from purchase price allocation and integration costs, the acquired business contributed revenue of €1,659 million and a net income of €(209) million to Siemens Energy for the period from acquisition to September 30, 2017. Goodwill is allocated within the segment SGRE to the units Wind Turbines and Operation and Maintenance. The non-controlling interests of 41% amount to €567 million at the acquisition date and are measured at the proportionate share in the recognized amounts of the acquired net assets (excluding goodwill).

## Disposals

In October 2017, Siemens Energy sold its Single Stage and Wastewater Compressor business and its small steam turbine business, both including service for €193 million in cash and cash equivalents. The following material asset and liability positions were derecognized in the course of the sale of the business: Goodwill €44 million, Property, plant and equipment €25 million, Trade and other receivables €22 million, Cash and cash equivalents €10 million, Inventories €14 million, Contract assets €20 million, Trade payables €11 million, Contract liabilities €14 million and Other current liabilities €13 million. The sale resulted in a gain of €86 million in fiscal 2018 which was recognized in the line item Other operating income and presented in the Gas and Power segment. The corresponding assets and liabilities were previously classified as held-for-sale.

In April 2018, Siemens Energy sold part of its government business and US Navy Service Centers for €174 million in cash and cash equivalents. The following material asset positions were derecognized in the course of the sale of the business: Goodwill €29 million, Other intangible assets €22 million and Inventories €35 million. The sale resulted in a gain of €79 million in fiscal 2018 which was recognized in the line item Other operating income and presented in the Gas and Power segment. The corresponding assets and liabilities were previously classified as held-for-sale.

In October 2018, Siemens Energy sold its packaging and service of rotating equipment site in Hengelo, Netherlands for €(58) million in cash and cash equivalents. The sale resulted in loss of €54 million in fiscal 2019 which was recognized in the line item Other operating expense and presented in the Gas and Power segment.

## NOTE 4 Interest in other entities

### Investments accounted for using the equity method

(in millions of €)	Fiscal year		
	2019	2018	2017
Share of profit (loss), net	54	69	69
Gains (losses) on sales, net	55	–	0
Impairment and reversals of impairment	1	(154)	(4)
<b>Income (loss) from investments accounted for using the equity method,</b>			
<b>net</b>	<b>111</b>	<b>(85)</b>	<b>65</b>

In fiscal 2019, the Gain on sales of €55 million is related to a partial sale of an at equity investment presented in the Gas and Power segment.

In fiscal 2018, Income (loss) from investments accounted for using the equity method includes an impairment loss of €154 million presented in the Gas and Power segment. The continuing adverse market environment triggered an impairment test on the investment. The recoverable amount was determined as the investment's fair value less cost of disposal using a market multiple approach based on the investment's adjusted EBIT (Level 3 of the fair value hierarchy).

Summarized financial information for the associate Siemens Limited, India is presented below

(in millions of €)	Siemens Limited, India Registered in Mumbai, India		
	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Percentage ownership interest (%)	24%	24%	24%
Non-current assets (100 %)	326	328	320
Current assets (100 %)	1,665	1,331	1,353
Non-current liabilities (100 %)	38	28	32
Current liabilities (100 %)	769	622	628
<b>Net Assets (100 %)</b>	<b>1,185</b>	<b>1,010</b>	<b>1,014</b>
<b>Group's share of net assets (24 %)</b>	<b>284</b>	<b>242</b>	<b>243</b>
Goodwill (24 %)	86	77	84
<b>Carrying amount of interest in associate (24%)</b>	<b>370</b>	<b>319</b>	<b>328</b>
<b>Fair Value of the investment in the associate</b>	<b>1,679</b>	<b>958</b>	<b>1,330</b>
	Fiscal year 2019	Fiscal year 2018	Fiscal year 2017
Revenue (100 %)	1,699	1,550	1,474
Income (loss) from continuing operations after tax (100 %)	126	112	146
Other comprehensive income (100 %)	(0)	0	0
Total comprehensive income (100 %)	126	112	146
<b>Group's share of total comprehensive income (24%)</b>	<b>30</b>	<b>27</b>	<b>35</b>
<b>Dividends received by the group</b>	<b>7</b>	<b>8</b>	<b>7</b>

Since there is a significant influence, Siemens Limited, India is included in the Combined Financial Statements of Siemens Energy as an associated company accounted for using the equity method and is presented in the Gas and Power segment.

The company offers products, integrated solutions for industrial applications for manufacturing industries, drives for process industries, intelligent infrastructure and buildings, efficient and clean power generation from fossil fuels and oil & gas applications, transmission and distribution of electrical energy for passenger and freight transportation, including rail vehicles, rail automation and rail electrification systems.

As of September 30, 2019, the carrying amount of all individually not material associates amounts to €327 million (September 30, 2018: €371 million, September 30, 2017: €356 million) and the carrying amount of all individually not material joint ventures amounts to €121 million (September 30, 2018: €93 million, September 30, 2017: €249 million). Summarized financial information for all individually not material associates and joint ventures, adjusted for the percentage of ownership held by Siemens Energy, is presented below. Items included in the Statements of Comprehensive Income are presented for the twelve month period applied under the equity method.

Associates in millions of €)	Fiscal year		
	2019	2018	2017
Income (loss) from continuing operations	5	35	52
Other comprehensive income, net of income taxes	(9)	(8)	2
<b>Total comprehensive income</b>	<b>(4)</b>	<b>26</b>	<b>54</b>

Joint Ventures in millions of €)	Fiscal year		
	2019	2018	2017
Income (loss) from continuing operations .....	25	19	14
Income (loss) from discontinued operations, net of income taxes .....	(9)	(4)	(28)
Other comprehensive income, net of income taxes .....	1	0	2
<b>Total comprehensive income .....</b>	<b>17</b>	<b>15</b>	<b>(12)</b>

### Subsidiaries with material non-controlling interests

Summarized financial information, in accordance with IFRS and before inter-company eliminations, is presented below.

(in millions of €)	Siemens Gamesa Renewable Energy S.A. registered in Zamudio, Spain		
	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Ownership interests held by non-controlling interests ....	41%	41%	41%
Accumulated non-controlling interests .....	668	606	637
Current assets .....	7,899	7,349	6,845
Non-current assets .....	8,790	8,804	9,477
Current liabilities .....	7,968	7,104	6,886
Non-current liabilities .....	2,449	3,118	3,351

	Fiscal year 2019	Fiscal year 2018	six months from acquisition to Sep 30, 2017
Net income attributable to non-controlling interests .....	57	22	(39)
Dividends paid to non-controlling interests .....	7	–	31
Revenue .....	10,227	9,122	5,022
Income (loss) from continuing operations, net of income taxes .....	141	70	(135)
Other comprehensive income, net of income taxes .....	214	(229)	(75)
Total comprehensive income, net of income taxes .....	355	(159)	(210)
Total cash flows .....	(729)	813	(1,611)

Non-current assets of Siemens Gamesa Renewable Energy include the full goodwill resulting from the merger. In the six months from acquisition to September 30, 2017, total cash flows of Siemens Gamesa Renewable Energy include a cash distribution to the Gamesa shareholders (excluding Siemens AG) of €999 million.

### NOTE 5 Other operating income and expenses

Other operating income includes €165 million gains related to the sale of businesses in fiscal year 2018. *For further details please also refer to Note 3 – Acquisitions and disposals.*

Other operating expenses in fiscal 2019, 2018 and 2017 include losses on sales of property, plant and equipment, transaction costs and effects from legal and regulatory matters as well as in fiscal 2019 losses on sales of businesses. *For further details please also refer to Note 3 – Acquisitions and disposals.*

### NOTE 6 Income Taxes

Income tax expense (benefit) consists of the following:

(in millions of €)	Sep 30,		
	2019	2018	2017
Current tax .....	469	160	536
Deferred tax .....	(433)	(653)	(188)
<b>Income tax expenses (benefits) .....</b>	<b>35</b>	<b>(493)</b>	<b>349</b>

The current income tax expenses in fiscal 2019 include adjustments recognized for current tax of prior years in the amount of €44 million (fiscal 2018: €(325) million, fiscal 2017: €39 million). Fiscal 2018 is affected from the reassessment of tax positions in different tax jurisdictions. The deferred tax expense (benefit) in fiscal 2019 includes tax effects of the origination and reversal of temporary differences of €149 million (fiscal 2018: €(220) million, fiscal 2017: €(45) million).

In fiscal 2018, deferred tax contains benefits concerning the revaluation of deferred taxes of €264 million caused by the U.S. Tax Cuts and Jobs Act (TCJA) and the accompanying reduction of the corporate income tax rate (Federal Tax Rate) from 35% to 21%. The effects are included in the table below, line item "Change in tax rates".

In Germany, the calculation of current tax is based on a combined tax rate of 31%, consisting of a corporate tax rate of 15%, a solidarity surcharge thereon of 5,5% and an average trade tax rate of 15%. For foreign subsidiaries, current taxes are calculated based on the local tax laws and applicable tax rates in the individual foreign countries. Deferred tax assets and liabilities in Germany and abroad are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Income tax expense (current and deferred) differs from the amounts computed by applying a combined statutory German income tax rate of 31% as follows:

(in millions of €)	Sep 30,		
	2019	2018	2017
Income before tax	317	151	1.309
Expected income tax expenses	98	47	406
Increase (decrease) in income taxes resulting from:			
Non-deductible losses and expenses	167	181	160
Tax-free income	(62)	(80)	(43)
Taxes for prior years	(1)	(304)	66
Change in realizability of deferred tax assets and tax credits	9	34	(126)
Change in tax rates	(40)	(258)	(2)
Foreign tax rate differential	(123)	(96)	(93)
Tax effect of investments accounted for using the equity method	(15)	(20)	(19)
Other, net	2	3	0
<b>Actual income tax expenses (benefits)</b>	<b>35</b>	<b>(493)</b>	<b>349</b>

Deferred income tax assets and (liabilities) on a net basis are summarized as follows:

(in millions of €)	Sep 30,		
	2019	2018	2017
Deferred taxes due to temporary differences			
Intangible assets	(1,079)	(1,130)	(1,534)
Pensions and similar obligations	248	229	270
Current assets and liabilities	0	60	40
Non-current assets and liabilities	(47)	4	(113)
Tax loss carryforwards	430	257	188
Tax credits	88	71	79
<b>Total deferred taxes, net</b>	<b>(359)</b>	<b>(509)</b>	<b>(1,071)</b>

Deferred tax balances and expenses (benefits) developed as follows at September 30, 2019, 2018 and 2017:

(in millions of €)	Fiscal year		
	2019	2018	2017
Balance at begin of fiscal year of deferred tax (assets) liabilities .....	509	1,071	669
Income taxes presented in the Consolidated Statements of Income .....	(433)	(653)	(188)
Changes in items of the Consolidated Statements of Comprehensive			
Income .....	(87)	(13)	160
Additions from acquisitions not impacting net income .....	0	(1)	327
Income taxes treated as contributions or transfers from reserves by			
shareholders .....	354	91	153
Other .....	16	14	(51)
Balance at end of fiscal year of deferred tax (assets) liabilities .....	<b>359</b>	<b>509</b>	<b>1,071</b>

Deferred tax assets have not been recognized with respect of the following items (gross amounts):

(in millions of €)	Sep 30,		
	2019	2018	2017
Deductible temporary differences .....	256	915	538
Tax loss carryforward .....	2,911	2,716	2,186
Tax Credits .....	240	243	237

As of September 30, 2019, €1,994 million (September 30, 2018: €1,565 million, September 30, 2017: €1,196 million), of the unrecognized tax loss carryforwards expire over the periods to 2031.

As of September 30, 2019, €220 million (September 30, 2018: €225 million, September 30, 2017: €212 million), of the unrecognized tax credits expire over the periods to 2043.

Siemens Energy has not recognized deferred tax liabilities for income taxes or foreign withholding taxes on the cumulative earnings of subsidiaries of €6,279 million in fiscal 2019 (fiscal 2018: €6,260 million, fiscal 2017: €6,811 million), because the earnings are intended to be permanently reinvested in the subsidiaries.

## NOTE 7 Contract assets and liabilities

As of September 30, 2019, amounts expected to be settled after twelve months are €1,087 million for contract assets (September 30, 2018: €978 million, September 30, 2017: €1,059 million) and €2,378 million for contract liabilities as of September 30, 2019 (September 30, 2018: €2,123 million, September 30, 2017: €2,338 million).

In fiscal 2019, €76 million are included in revenue, relating to performance obligations satisfied in previous periods (fiscal 2018: €21 million, fiscal 2017: €9 million).

In fiscal 2019 revenue includes €4,650 million which was included in contract liabilities at the beginning of the fiscal year (fiscal 2018: €5,013 million, fiscal 2017: €6,395 million).



## NOTE 8 Inventories

(in millions of €)	Sep 30,		
	2019	2018	2017
Raw materials and supplies .....	1,867	1,475	1,542
Work in progress .....	2,936	3,023	3,306
Finished goods and products held for resale .....	1,938	1,762	2,103
Advances to suppliers .....	408	347	399
	<b>7,148</b>	<b>6,607</b>	<b>7,350</b>

Cost of sales includes inventories recognized as expense as of September 30, 2019 amounting to €24,094 million (September 30, 2018: €22,991 million, September 30, 2017: €23,958 million). Compared to prior year as of September 30, 2019, write-downs increased (decreased) by €(16) million (September 30, 2018: €(58) million, September 30, 2017: €128 million).

## NOTE 9 Other current assets

Other current assets mainly relate to sales tax receivables and other tax receivables.

## NOTE 10 Goodwill

(in millions of €)	Sep 30,		
	2019	2018	2017
<b>Cost</b>			
Balance at begin of fiscal year .....	9,498	9,577	7,189
Translation differences and other .....	359	(49)	(424)
Acquisitions .....	–	–	2,857
Dispositions and reclassifications to assets classified as held for disposal ...	(6)	(30)	(45)
<b>Balance at fiscal year-end .....</b>	<b>9,851</b>	<b>9,498</b>	<b>9,577</b>
<b>Accumulated impairment losses and other changes</b>			
Balance at begin of fiscal year .....	(36)	(36)	(37)
Translation differences and other .....	–	–	1
<b>Balance at fiscal year-end .....</b>	<b>(36)</b>	<b>(36)</b>	<b>(36)</b>
<b>Carrying amount</b>			
Balance at begin of fiscal year .....	9,462	9,541	7,152
<b>Balance at fiscal year-end .....</b>	<b>9,815</b>	<b>9,462</b>	<b>9,541</b>

The goodwill included in the Combined Financial Statements is based on the goodwill attributable to the companies or businesses that will be transferred to Siemens Energy during the legal reorganization based on relative values. Total amounts correspond to the historically reported amounts in the IFRS Consolidated Financial Statements of Siemens AG (predecessor values). Acquisitions in fiscal year 2017 relate to the merger with Gamesa. *For further details please also refer to Note 3 – Acquisitions and disposals.*

During the periods presented, goodwill was tested for impairment based on the cash-generating unit structure used at that time by Siemens AG to monitor goodwill as the new reporting structure did not exist in the past. No goodwill impairment was recognized.

Siemens Energy defined operating segments in line with Siemens AG reporting structure. For the segment Gas and Power goodwill is allocated at the segment level. SGRE's cash-generating units to which goodwill is allocated are represented by its two segments Wind Turbines and Operation & Maintenance. *For further details please also refer to Note 24 – Segment information.*

(in millions of €)	Sep 30,		
	2019	2018	2017
Gas and Power .....	6,942	6,699	6,701
Siemens Gamesa Renewable Energy .....	2,873	2,763	2,840

## NOTE 11 Other intangible assets and property, plant and equipment

(in millions of €)	Gross carrying amount 10/01/2018	Transfer from Siemens Group	Translation differences	Additions	Reclassifications	Retirements <sup>1</sup>	Gross carrying amount 09/30/2019	Accumulated depreciation/amortization and impairment 09/30/2019	Carrying amount 09/30/2019	Depreciation/amortization and impairment in fiscal 2019
Internally generated technology . . . .	466	–	4	163	–	(1)	632	(288)	345	(49)
Acquired technology including patents, licenses and similar rights . .	2,560	–	20	3	–	(3)	2,581	(1,110)	1,471	(234)
Customer relationships and trademarks . . . .	4,143	–	202	–	–	–	4,344	(1,416)	2,928	(267)
<b>Other intangible assets . . . . .</b>	<b>7,169</b>	<b>–</b>	<b>226</b>	<b>166</b>	<b>–</b>	<b>(4)</b>	<b>7,557</b>	<b>(2,814)</b>	<b>4,743</b>	<b>(551)</b>
Land and buildings . . . . .	1,413	259	31	17	16	(31)	1,703	(555)	1,148	(63)
Technical machinery and equipment . . . .	3,827	–	71	173	149	(179)	4,041	(2,824)	1,218	(317)
Furniture and office equipment . . . .	1,791	17	23	187	60	(156)	1,921	(1,492)	429	(265)
Equipment leased to others . . . . .	71	–	2	11	1	(3)	81	(46)	36	(10)
Advances to suppliers and construction in progress . . . . .	393	4	12	275	(225)	(12)	447	(3)	444	(3)
<b>Property, plant and equipment . . . .</b>	<b>7,495</b>	<b>280</b>	<b>138</b>	<b>662</b>	<b>–</b>	<b>(382)</b>	<b>8,194</b>	<b>(4,919)</b>	<b>3,275</b>	<b>(658)</b>

1 Includes assets reclassified to Assets classified as held for disposal and dispositions of those entities

(in millions of €)	Gross carrying amount 10/01/2017	Transfer from Siemens Group	Translation differences	Additions	Reclassifications	Retirements <sup>1</sup>	Gross carrying amount 09/30/2018	Accumulated depreciation/amortization and impairment 09/30/2018	Carrying amount 09/30/2018	Depreciation/amortization and impairment in fiscal 2018
Internally generated technology . . . .	337	–	1	133	–	(4)	466	(235)	231	(25)
Acquired technology including patents, licenses and similar rights . .	2,555	–	3	6	–	(3)	2,560	(875)	1,685	(243)
Customer relationships and trademarks . . . .	4,195	–	(27)	–	–	(26)	4,143	(1,092)	3,051	(308)
<b>Other intangible assets . . . . .</b>	<b>7,087</b>	<b>–</b>	<b>(23)</b>	<b>139</b>	<b>–</b>	<b>(33)</b>	<b>7,169</b>	<b>(2,203)</b>	<b>4,967</b>	<b>(576)</b>
Land and buildings . . . . .	1,292	–	(18)	76	100	(37)	1,413	(411)	1,001	(61)
Technical machinery and equipment . . . .	3,707	3	(28)	197	94	(145)	3,827	(2,606)	1,222	(378)
Furniture and office equipment . . . .	1,782	–	(14)	171	42	(190)	1,791	(1,358)	433	(257)
Equipment leased to others . . . . .	66	–	1	4	–	–	71	(35)	36	(9)
Advances to suppliers and construction in progress . . . . .	383	–	(3)	250	(236)	(1)	393	–	393	–
<b>Property, plant and equipment . . . .</b>	<b>7,229</b>	<b>3</b>	<b>(62)</b>	<b>698</b>	<b>–</b>	<b>(373)</b>	<b>7,495</b>	<b>(4,410)</b>	<b>3,085</b>	<b>(705)</b>

1 Includes assets reclassified to Assets classified as held for disposal and dispositions of those entities

(in millions of €)	Gross carrying amount 10/01/2016	Transfer from Siemens Group	Translation differences	Additions through business combinations	Additions	Reclassifications	Retirements <sup>1</sup>	Gross depreciation/ carrying amount 09/30/2017	Accumulated amortization and impairment 09/30/2017	Carrying amount 09/30/2017	Depreciation/ amortization and impairment in fiscal 2017
Internally generated technology ...	265	–	(6)	–	80	–	(3)	337	(213)	<b>124</b>	(24)
Acquired technology including patents, licenses and similar rights .....	1,417	–	(32)	1,185	2	–	(17)	2,555	(636)	<b>1,919</b>	(171)
Customer relationships and trademarks ...	3,112	–	(237)	1,343	–	–	(24)	4,195	(790)	<b>3,405</b>	(341)
<b>Other intangible assets .....</b>	<b>4,795</b>	<b>–</b>	<b>(274)</b>	<b>2,527</b>	<b>82</b>	<b>–</b>	<b>(43)</b>	<b>7,087</b>	<b>(1,639)</b>	<b>5,449</b>	<b>(536)</b>
Land and buildings .....	967	79	(33)	152	29	129	(32)	1,292	(381)	<b>911</b>	(61)
Technical machinery and equipment ...	3,328	–	(90)	308	179	81	(100)	3,707	(2,360)	<b>1,347</b>	(287)
Furniture and office equipment ...	1,521	7	(29)	94	224	81	(115)	1,782	(1,286)	<b>496</b>	(242)
Equipment leased to others .....	72	–	(3)	–	–	2	(6)	66	(26)	<b>40</b>	(10)
Advances to suppliers and construction in progress .....	277	57	(5)	58	292	(294)	(2)	383	–	<b>383</b>	(3)
<b>Property, plant and equipment ...</b>	<b>6,165</b>	<b>143</b>	<b>(161)</b>	<b>612</b>	<b>725</b>	<b>–</b>	<b>(255)</b>	<b>7,229</b>	<b>(4,052)</b>	<b>3,178</b>	<b>(604)</b>

1 Includes assets reclassified to Assets classified as held for disposal and dispositions of those entities

Intangible assets relate substantially to customer relationships and technology acquired in the SGRE, Dresser-Rand Group Inc. and Rolls-Royce Energy business acquisitions. For SGRE related information please refer to note 3. The remaining customer relationships relate substantially to the Dresser-Rand acquisition and are amortized over a period of 20 years. With the Dresser-Rand acquisition, Siemens Energy has a comprehensive portfolio of equipment and capability for the oil and gas industry and a much expanded installed base, allowing Siemens Energy to address the needs of the market with products, solutions and services. Technology related to the Dresser-Rand and Rolls-Royce Energy acquisitions is substantially amortized over a period of 20-25 years. By acquiring Rolls-Royce Energy's small and medium derivative gas turbines business, Siemens Energy closed a technology gap in its gas turbine portfolio.

The gross carrying amount of Advances to suppliers and construction in progress includes as of September 30, 2019 €405 million of property, plant and equipment under construction (September 30, 2018: €353 million, September 30, 2017: €339 million). As of September 30, 2019, contractual commitments for purchases of property, plant and equipment are €148 million (September 30, 2018: €155 million, September 30, 2017: €175 million).

Additions through business combinations in fiscal year 2017 relate mainly to the acquisition of Siemens Gamesa Renewable Energy S.A.

## NOTE 12 Other current liabilities

(in millions of €)	Sep 30,		
	2019	2018	2017
Liabilities to personnel .....	1,546	1,546	1,425
Accruals for pending invoices .....	667	695	687
Sales tax liabilities .....	527	396	382
Other .....	527	607	592
	<b>3,267</b>	<b>3,244</b>	<b>3,085</b>

## NOTE 13 Debt

(in millions of €)	Current debt Sep 30,			Non-current debt Sep 30,		
	2019	2018	2017	2019	2018	2017
Loans from banks .....	325	986	810	494	792	459
Other financial indebtedness (incl. obligations under finance leases) .....	34	14	10	53	84	47
<b>Total debt .....</b>	<b>359</b>	<b>1,000</b>	<b>819</b>	<b>547</b>	<b>877</b>	<b>505</b>

Loans from banks are mainly related to the SGRE business. Otherwise Siemens Energy is substantially financed by Siemens Group with short- and long-term loans. *For further details please also refer to Note 26 – Related party transactions.*

As the formation of Siemens Energy has not been finalized as of September 30, 2019, further changes in the capital structure have occurred. *For further details please also refer to Note 27 – Subsequent event.*

### Changes in liabilities arising from financing activities

(in millions of €)	10/01/2018	Cash flows	Non-cash changes		09/30/2019
			Foreign currency translation	Reclassifications and other changes	
Loans from banks (current and non-current) .....	1,778	(975)	16	–	819
Other financial indebtedness (incl. obligations under finance leases) (current and non-current) .....	99	10	3	(24)	87
<b>Total debt .....</b>	<b>1,877</b>	<b>(965)</b>	<b>19</b>	<b>(24)</b>	<b>906</b>

(in millions of €)	10/01/2017	Cash flows	Non-cash changes		09/30/2018
			Foreign currency translation	Reclassifications and other changes	
Loans from banks (current and non-current) .....	1,268	531	(21)	–	1,778
Other financial indebtedness (incl. obligations under finance leases) (current and non-current) .....	56	(4)	–	46	99
<b>Total debt .....</b>	<b>1,324</b>	<b>527</b>	<b>(21)</b>	<b>46</b>	<b>1,877</b>



(in millions of €)	10/01/2016	Cash flows	Non-cash changes		09/30/2017
			Acquisitions	Foreign currency translation	
Loans from banks (current and non-current) .....	7	292	985	(15)	1,268
Other financial indebtedness (incl. obligations under finance leases) (current and non-current) .....	28	1	28	–	56
<b>Total debt</b> .....	<b>34</b>	<b>292</b>	<b>1,013</b>	<b>(15)</b>	<b>1,324</b>

Acquisitions in fiscal 2017 primarily include effects from the first-time consolidation of Gamesa.

In fiscal 2019, annual weighted-average interest rates for loans from banks were 2.56% (fiscal 2018: 2.51%, fiscal 2017: 2.21%).

### Credit facilities

The debt in the Balance Sheet as of September 30, 2019 and September 30, 2018 mainly relates to the multi-currency revolving credit facility and the loan signed as of May 30, 2018 by SGRE, amounting both to a total of €2,500 million, replacing the €750 million credit facility from 2017. The facility includes a fully drawn term loan tranche of €500 million maturing in 2021 and a revolving credit line tranche of €2,000 million maturing in 2023 with two one-year extension options. As of September 30, 2019, €500 million (September 30, 2018: €700 million) have been drawn. It may be used for general corporate purposes and to refinance outstanding debt.

In March and May 2019, SGRE signed new bilateral credit lines amounting to €512 million, of which €412 million mature in 2020 and €100 million are extendable by tacit agreement until 2022, accruing an average interest rate of 0.33%. As of September 30, 2019, SGRE has not drawn any amount related to these credit lines.

As of September 30, 2019, SGRE has bilateral credit lines in India with annual maturities for an amount of €304 million.

As of September 30, 2019, SGRE units had been granted loans and had drawn from credit facilities that accounted for 23% of the total financing granted to them maturing between 2019 and 2029 (September 30, 2018: 46% granted; maturing between 2018 and 2026, September 30, 2017: 48% granted; maturing between 2017 and 2026).

As of September 30, 2017, SGRE was using loan agreements amounting to €424 million with certain obligations as the compliance with financial ratios throughout the life of the agreement relating to the capacity to generate resources in the operations, to the debt level and financial duties. Also, these arrangements established certain limits to the arrangement of additional borrowings and to the distribution of dividends, as well as other conditions. Not meeting these contractual conditions would have enabled the banks to demand early repayment. As of September 30, 2017, the established financial ratios were met. As of September 30, 2019, and September 30, 2018, these conditions do not longer apply.

### NOTE 14 Provision for Pensions and similar obligations

Siemens Energy provides post-employment defined benefit plans or defined contribution plans to almost all domestic employees and the majority of the foreign employees.

#### Defined benefit plans

Defined benefit plans which are open to new entrants are based predominantly on contributions made by Siemens Group. Only to a certain extent, those plans are affected by longevity, inflation and compensation increases and take into account country-specific differences. Siemens Energy's major plans respectively are or will be funded with assets in segregated entities. In accordance with local laws and bilateral agreements with benefit trusts (trust agreement) those plans are managed in the interest of the beneficiaries. Between fiscal 2017 and fiscal 2019 the defined

benefit plans cover an average number of 52,000 participants, including 43,000 actives, 3,000 deferreds with vested benefits and 6,000 retirees and surviving dependents in around 50 countries.

Where Siemens Energy employees participate in Siemens Group's pension plans and the respective pension trusts, Siemens Energy and Siemens Group bear the financial impact from pension obligations related to the respective employees. As the majority of the Siemens Energy pension liabilities derives from three major countries, the pension landscape in these three countries is described in detail below.

#### **Germany:**

In Germany, pension benefits are provided through the following plans: BSAV (Beitragsorientierte Siemens Altersversorgung), closed legacy plans which exclude future benefit increases as well as deferred compensation plans. The majority of active employees participate in the BSAV. Those benefits are predominantly based on notional contributions and their respective asset returns, subject to a minimum return guaranteed by the employer. At inception of the BSAV, benefits provided under the legacy plans were modified to substantially eliminate the effects of compensation increases. However, the legacy plans still expose Siemens Energy to investment risk, interest rate risk and longevity risk. The pension plans are funded via contractual trust arrangements (CTA). In Germany, no legal or regulatory minimum funding requirements apply.

For deferred compensation plans, plan assets have been allocated to Siemens Energy and are therefore included in the numbers below. However, no plan assets have been allocated to Siemens Energy for the BSAV and the legacy plans. *For further details please also refer to Note 27 – Subsequent event.*

#### **U.S.:**

In the US, Siemens Energy currently participates in the defined benefit plans sponsored by Siemens Corporation, which for the most part have been frozen to new entrants and to future benefit accruals, except for interest credits on cash balance accounts. The pension plans are subject to the funding requirements under the Employee Retirement Income Security Act of 1974 as amended, (ERISA). There is a regulatory requirement to maintain a minimum funding level of 80% in defined benefit plans in order to avoid benefit restrictions. At its discretion, the sponsoring employers may contribute in excess of this regulatory requirement. Annual contributions are calculated by independent actuaries. For all funded US pension plans, plan assets have been allocated to Siemens Energy.

#### **U.K.:**

Pension benefits are mainly offered through the VA Tech U.K. Pension Scheme. The Scheme provides benefits on retirement and death of its members and is closed to future accruals. The required funding is determined by a funding valuation carried out every third year based on legal requirements. From April 2013 the Trustee arranged investments in insurance policies covering pensions in payment due to members, which significantly reduced the longevity and investment risks for the Scheme and provided additional security for members.

#### **Basis for allocation of Siemens Energy pension plans administrated by Siemens Group**

During the periods presented, Siemens Energy employees in most countries participated in Siemens Group's pension plans and the respective pension trusts. For these plans, pension benefits are administrated by Siemens Group.

The defined benefit obligation and where possible corresponding plan asset values are calculated on an individual employee basis. In all other cases, the plan assets have been split between Siemens Group and Siemens Energy based on the proportion of the Siemens Energy defined benefit obligation to the Siemens Group defined benefit obligations.

The service costs are based on the service of the employees under the respective plans. The interest costs and interest income are based on the allocated DBO and plan assets respectively.

## Development of the defined benefit plans

	Defined benefit obligation (DBO) (I)			Fair value of plan assets (II)			Effects of asset ceiling (III)			Net defined benefit balance (I – II + III)		
	Fiscal year			Fiscal year			Fiscal year			Fiscal year		
(in millions of €)	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
<b>Balance at begin of fiscal year</b>	<b>2,831</b>	<b>2,961</b>	<b>3,472</b>	<b>1,236</b>	<b>1,290</b>	<b>1,337</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>1,599</b>	<b>1,675</b>	<b>2,136</b>
Current service cost	95	94	110	–	–	–	–	–	–	95	94	110
Interest expenses	80	77	73	–	–	–	0	0	0	80	77	73
Interest income	–	–	–	41	35	36	–	–	–	(41)	(35)	(36)
Other <sup>1</sup>	4	18	(6)	(2)	(6)	(7)	–	–	–	6	24	0
<b>Components of defined benefit costs recognized in the Combined Statements of income</b>	<b>178</b>	<b>188</b>	<b>177</b>	<b>39</b>	<b>30</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>140</b>	<b>159</b>	<b>148</b>
Return on plan assets excluding amounts included in net interest income and net interest expenses	–	–	–	82	(28)	4	–	–	–	(82)	28	(4)
Actuarial (gains) losses	327	(47)	(386)	–	–	–	–	–	–	327	(47)	(386)
Effects of asset ceiling	–	–	–	–	–	–	(3)	0	2	(3)	0	2
<b>Remeasurements recognized in the Combined Statements of Comprehensive Income</b>	<b>327</b>	<b>(47)</b>	<b>(386)</b>	<b>82</b>	<b>(28)</b>	<b>4</b>	<b>(3)</b>	<b>0</b>	<b>2</b>	<b>242</b>	<b>(18)</b>	<b>(388)</b>
Employer contributions	–	–	–	12	111	89	–	–	–	(12)	(111)	(89)
Plan participants' contributions	11	9	11	11	9	11	–	–	–	–	–	–
Benefits paid	(105)	(96)	(115)	(77)	(74)	(92)	–	–	–	(29)	(22)	(23)
Settlement payments	–	(91)	(6)	–	(91)	(5)	–	–	–	–	–	(1)
Business combinations, disposals and other	(2)	(102)	(114)	9	(15)	(40)	–	–	–	(11)	(87)	(74)
Foreign currency translation effects	69	8	(77)	44	4	(44)	0	0	0	25	4	(34)
<b>Other reconciling items</b>	<b>(28)</b>	<b>(272)</b>	<b>(302)</b>	<b>0</b>	<b>(56)</b>	<b>(81)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(28)</b>	<b>(216)</b>	<b>(221)</b>
<b>Balance at fiscal year-end</b>	<b>3,310</b>	<b>2,831</b>	<b>2,961</b>	<b>1,357</b>	<b>1,236</b>	<b>1,290</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>1,953</b>	<b>1,599</b>	<b>1,675</b>
<i>thereof:</i>												
Germany	1,457	1,228	1,228	106	95	125	–	–	–	1,350	1,133	1,103
U.S.	972	844	1,009	623	558	596	–	–	–	348	287	413
U.K.	333	301	325	336	322	341	0	2	2	(3)	(18)	(14)
Other countries	549	458	400	292	261	228	0	1	1	257	198	173
<b>Total</b>	<b>3,310</b>	<b>2,831</b>	<b>2,961</b>	<b>1,357</b>	<b>1,236</b>	<b>1,290</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>1,953</b>	<b>1,599</b>	<b>1,675</b>
<i>thereof provisions for pensions and similar obligations</i>										1,960	1,622	1,692
<i>thereof net defined benefit assets (presented in Other assets)</i>										7	23	17

1 Includes past service benefit/costs, settlement gains/losses and administration costs related to liabilities.

Net interest expenses related to provisions for pensions and similar obligations in fiscal 2019 amounted to €39 million (fiscal 2018: €42 million and fiscal 2017: €37 million). The DBO is attributable to active employees in fiscal 2019 68% (fiscal 2018: 69% and fiscal 2017: 66%), to former employees with vested rights in fiscal 2019 7% (fiscal 2018: 7% and fiscal 2017: 7%), to retirees and surviving dependents in fiscal 2019 25% (fiscal 2018: 24% and fiscal 2017: 26%).

The position “business combinations, disposals and other” include mainly transfers of deferred vested members and retirees in Germany from Siemens Energy to Siemens AG.

The remeasurements comprise actuarial (gains) and losses resulting from:

(in millions of €)	Fiscal year		
	2019	2018	2017
Changes in demographic assumptions .....	(21)	(5)	(16)
Changes in financial assumptions .....	347	(24)	(368)
Experience (gains) losses .....	1	(18)	(2)
<b>Total .....</b>	<b>327</b>	<b>(47)</b>	<b>(386)</b>

Remeasurements in fiscal 2019 include an actuarial gain in the amount of €127 million due to a change in financial assumptions in connection with payment options at the start of retirement in Germany.

#### Actuarial assumptions

The weighted-average discount rate used for the actuarial valuation of the DBO at period-end was as follows:

	Sep.30,		
	2019	2018	2017
Discount rate .....	2.1%	3.2%	3.1%
EUR .....	1.0%	2.1%	2.4%
USD .....	3.1%	4.2%	3.5%
GBP .....	2.0%	2.9%	2.8%

The discount rate was derived from high-quality corporate bonds with an issuing volume of more than 100 million units in the respective currency zones, which have been awarded an AA rating (or equivalent) by at least one of the three rating agencies Moody’s Investor Service, Standard & Poor’s Rating Services or Fitch Ratings.

Applied mortality tables are:

Mortality table	2019	2018	2017
Germany .....	Siemens specific tables (Siemens Bio 2017)	Siemens specific tables with mortality trends based on Heubeck Richttafeln 2005G	Heubeck Richttafen 2005G (modified)
U.S. ....	Pri-2012 with generational projection from the US Social Security Administration’s Long Range Demographic Assumptions	RP-2006 with generational projection from the US Social Security Administration’s Long Range Demographic Assumptions	RP-2016 with generational projection from the US Social Security Administration’s Long Range Demographic Assumptions
U.K. ....	SAPS S2 (Standard mortality tables for Self Administered Pension Schemes with allowance for future mortality improvements)	SAPS S2 (Standard mortality tables for Self Administered Pension Schemes with allowance for future mortality improvements)	SAPS S2 (Standard mortality tables for Self Administered Pension Schemes with allowance for future mortality improvements)

Since fiscal 2019 the mortality tables used in Germany (Siemens Bio 2017) are mainly derived from data of the German Siemens AG population and to a lesser extent from data of the Federal Statistical Office in Germany by applying formulas in accordance with recognized actuarial standards.

The rate of pension progression with significant effects is shown in the following table. Inflation effects, if applicable, are included in the assumptions below.

Pension progression	Sep. 30,		
	2019	2018	2017
Germany . . . . .	1.3%	1.3%	1.3%
U.K. . . . .	2.5%	2.7%	3.2%

#### Sensitivity analysis

A one-half-percentage-point change of the above assumptions would result in the following increase (decrease) of the DBO:

(in millions of €)	Effect on DBO due to a one-half percentage-point					
	increase	decrease	increase	decrease	increase	decrease
	Sep 30, 2019	Sep 30, 2019	Sep 30, 2018	Sep 30, 2018	Sep 30, 2017	Sep 30, 2017
Discount rate . . . . .	(209)	246	(174)	193	(192)	212
Rate of compensation increase . . . . .	17	(15)	16	(15)	14	(13)
Rate of pension progression . . . . .	79	(72)	56	(53)	59	(56)

The DBO effect of a 10% reduction in mortality rates for all beneficiaries would be an increase of €79 million as of September 30, 2019 (September 30, 2018: €62 million, September 30, 2017: €71 million).

During the periods presented, sensitivity determinations apply the same methodology as applied for the determination of the post-employment benefit obligation. Sensitivities reflect changes in the DBO solely for the assumption changed.

#### Asset Liability Matching Strategies

A decline in the plans' funded status due to adverse developments of plan assets and/or defined benefit obligations resulting from changing parameters is considered a significant risk. Accordingly, a risk management concept aligned with the defined benefit obligations (Asset Liability Matching) was implemented. Risk management is based on a worldwide defined risk threshold (Value at risk). The concept, the Value at risk and the asset development including the investment strategy are monitored and adjusted on an ongoing basis under consultation of senior external experts. Independent asset managers are selected based on quantitative and qualitative analyses, which include their performance and risk evaluation. Derivatives are used to reduce risks as part of risk management.

#### Disaggregation of plan assets

As the majority of participating entities' plan assets are not separately managed, for those plans the respective plan assets have been allocated to the different asset classes proportionally to the plan asset allocation of Siemens Group:

(in millions of €)	Sep 30,		
	2019	2018	2017
Equity securities . . . . .	241	251	323
Fixed income securities . . . . .	680	621	577
<i>Government bonds</i> . . . . .	160	156	157
<i>Corporate bonds</i> . . . . .	520	464	419
Alternative investments . . . . .	3	3	2
Multi strategy funds . . . . .	54	32	50
Derivatives . . . . .	2	16	4
Cash and cash equivalents . . . . .	24	22	28
Other assets . . . . .	354	290	307
<b>Total</b> . . . . .	<b>1,357</b>	<b>1,236</b>	<b>1,290</b>



Virtually all equity securities have quoted prices in active markets. The fair value of fixed income securities is based on prices provided by price service agencies. The fixed income securities are traded in active markets and almost all fixed income securities are investment grade. Alternative investments include hedge funds, private equity and real estate investments. Multi strategy funds mainly comprise absolute return funds and diversified growth funds that invest in various asset classes within a single fund and aim to stabilize return and reduce volatility. Derivatives predominantly consist of financial instruments for hedging interest rate risk and inflation risk.

#### Future cash flows

Employer contributions expected to be paid to defined benefit plans in fiscal 2020 are €70 million. Over the next ten fiscal years, average annual benefit payments of €148 million are expected as of September 30, 2019 (September 30, 2018: €117 million, September 30, 2017: €116 million). The weighted average duration of the DBO for Siemens Energy defined benefit plans was 14 years as of September 30, 2019 (September 30, 2018: 13 years, September 30, 2017: 14 years).

#### Defined contribution plans and state plans

The amount recognized as expense for defined contribution plans amounts to €201 million in fiscal 2019 (fiscal 2018: €208 million, fiscal 2017: €233 million). Contributions to state plans amount to €431 million in fiscal 2019 (fiscal 2018: €399 million, fiscal 2017: €365 million).

#### NOTE 15 Provisions

(in millions of €)	Warranties	Order related losses and risks	Other	Total
Balance as of October 1, 2018	3,074	1,082	334	4,489
<i>Thereof non-current</i>	1,875	410	115	2,400
Additions	1,007	326	85	1,419
Usage	(644)	(402)	(72)	(1,117)
Reversals	(765)	(89)	(80)	(934)
Translation differences	33	10	5	48
Accretion expense and effect of changes in discount rates	34	–	–	34
Other changes	191	(184)	(3)	4
<b>Balance as of September 30, 2019</b>	<b>2,930</b>	<b>743</b>	<b>270</b>	<b>3,944</b>
<i>Thereof non-current</i>	1,717	270	84	2,072

(in millions of €)	Warranties	Order related losses and risks	Other	Total
Balance as of October 1, 2017	3,099	1,394	417	4,910
<i>Thereof non-current</i>	1,829	562	274	2,664
Additions	1,079	264	170	1,513
Usage	(568)	(489)	(119)	(1,176)
Reversals	(518)	(78)	(126)	(722)
Translation differences	(16)	(2)	(8)	(27)
Accretion expense and effect of changes in discount rates	(3)	–	–	(3)
Other changes	2	(7)	–	(5)
<b>Balance as of September 30, 2018</b>	<b>3,074</b>	<b>1,082</b>	<b>334</b>	<b>4,489</b>
<i>Thereof non-current</i>	1,875	410	115	2,400

(in millions of €)	Warranties	Order related losses and risks	Other	Total
Balance as of October 1, 2016 .....	2,275	699	265	3,239
<i>Thereof non-current</i> .....	1,297	305	82	1,684
Additions .....	1,043	339	161	1,542
Usage .....	(686)	(238)	(46)	(969)
Reversals .....	(451)	(62)	(116)	(630)
Translation differences .....	(49)	(12)	(8)	(69)
Accretion expense and effect of changes in discount rates .....	(5)	–	–	(5)
Other changes .....	972	667	162	1,801
<b>Balance as of September 30, 2017 .....</b>	<b>3,099</b>	<b>1,394</b>	<b>417</b>	<b>4,910</b>
<i>Thereof non-current</i> .....	1,829	562	274	2,664

The majority of the Company's provisions are generally expected to result in cash outflows during the next one to 10 years.

Warranties relate to completed projects and products sold. Order related losses and risks are provided for anticipated losses and risks on uncompleted construction and sales.

Other includes provisions for Legal Proceedings, as far as the risks that are subject to such Legal Proceedings are not already covered by project accounting. Provisions for Legal Proceedings as of September 30, 2019 amount to €106 million (September 30, 2018: €148 million, September 30, 2017: €120 million).

Other changes in fiscal 2017 primarily include effects from the first-time consolidation of Gamesa.

## NOTE 16 Equity

As stated in *Note 1 – Basis of preparation*, Siemens Energy was not a legal group for Consolidated Financial Statements reporting purposes in accordance with IFRS 10, Consolidated Financial Statements, in the periods presented. The equity was presented on the basis of the aggregation of the net assets of the Siemens Energy business under the control of Siemens AG and centrally managed by the Managing Board of Siemens AG.

Since the combined group does not show any subscribed capital, a presentation of earnings per share in accordance with IAS 33, Earnings per share, is not applicable.

### Other changes

During the periods presented in the Combined Financial Statements, the line item *Other changes* as included in the Combined Statements of Changes in Invested Equity mainly contains specifics in relation to the combination rules described in *Note 1 – Basis of preparation*. In fiscal 2017, the line substantially relates to the impact from the merger of the Siemens Wind Power business with Gamesa Corporación Tecnológica S.A.

## NOTE 17 Commitments and contingencies

Siemens Energy issues guarantees of third-party performance, which mainly include performance bonds and guarantees of advanced payments in a consortium. In the event of non-fulfillment of contractual obligations by the consortium partner(s), Siemens Energy will be required to pay up to the agreed-upon maximum amount of €147 million as of September 30, 2019 (September 30, 2018: €139 million, September 30, 2017: €145 million). These agreements typically have terms of up to ten years. Besides the guarantees issued by Siemens Energy during the periods presented, Siemens Group provided additional guarantees for Siemens Energy business. *For further details please also refer to Note 26 – Related party transactions.*

Future payment obligations under non-cancellable operating leases are:

(in millions of €)	Sep 30,		
	2019	2018	2017
Within one year . . . . .	350	328	310
After one year but no more than five years . . . . .	606	490	600
More than five years . . . . .	603	488	517
	<b>1,559</b>	<b>1,306</b>	<b>1,427</b>

Total operating rental expense (including operating expenses and service charges for real estate leasing contracts with Siemens Group) for the year ended September 30, 2019 were €753 million (September 30, 2018: €879 million, September 30, 2017: €815 million).

The Company is jointly and severally liable and has capital contribution obligations as a partner in commercial partnerships.

## NOTE 18 Legal proceedings

The following legal proceedings relate to the Siemens Energy Business.

### Proceedings out of or in connection with alleged breaches of contract

Siemens AG is a member of a supplier consortium that has been contracted to construct the nuclear power plant "Olkiluoto 3" in Finland for Teollisuuden Voima Oyj (TVO) on a turnkey basis. The agreed completion date for the nuclear power plant was April 30, 2009. Siemens AG's share of the contract value is approximately 27%. The other member of the supplier consortium is a further consortium consisting of Areva NP S.A.S. and its wholly owned subsidiary, Areva GmbH. Completion of the power plant has been delayed for reasons which were in dispute. In December 2008, the supplier consortium filed a request for arbitration against TVO demanding an extension of the construction time, additional compensation, milestone payments, damages and interest. TVO rejected the claims and asserted counterclaims against the supplier consortium consisting primarily of damages due to the delay, last updated to approximately €2.3 billion. The supplier consortium's monetary claims as last updated amounted to approximately €3.6 billion. The amounts claimed by the parties did not cover the total period of delay. In November 2016 a partial award on certain preliminary questions identified for early treatment was issued. A further partial award on document handling issues was rendered in July 2017. In this further partial award certain key facts underlying the claims regarding delay and disruption that occurred during project execution were decided in favor of TVO. Another partial award on project management issues and the use of advanced construction methods was rendered in November 2017. While the Tribunal granted some of TVO's requests, most of TVO's material allegations in this respect were dismissed or their decision was deferred to a later stage. None of the partial awards have dealt with the amounts claimed by the parties. A final arbitration award on the merits of the claims and counterclaims was finally expected during the first half of calendar year 2018. In March 2018, the supplier consortium, Areva SA and TVO signed a global settlement agreement which finally settled all claims and counterclaims raised in the arbitration against a lump sum payment of €450 million by Areva to TVO. In May 2018, the arbitral tribunal declared the proceedings closed.

In March 2019, a Brazilian company asserted claims to pay an amount in a higher three-digit million euro amount in local currency against a consortium of contractors and each member of the consortium, including Siemens Ltda., Brazil ("Siemens Ltda.") in a lawsuit relating to the construction of a power plant in Brazil that was completed in 2016. The members of the consortium are jointly and severally liable, Siemens Ltda.'s share in the consortium is below 3%. The consortium and its members defend themselves against the claim and for their part claim payment in a lower three-digit million euro amount in local currency.

## **Proceedings out of or in connection with alleged compliance violations**

In September 2011, the Israeli Antitrust Authority requested that Siemens AG present its legal position regarding an alleged anti-competitive arrangement between April 1988 and April 2004 in the field of gas-insulated switchgear. In September 2013, the Israeli Antitrust Authority concluded that Siemens AG was a party to an illegal restrictive arrangement regarding the Israeli gas-insulated switchgear market between 1988 and 2004, with an interruption from October 1999 to February 2002. The Company appealed against this decision in May 2014.

Based on the above mentioned conclusion of the Israeli Antitrust Authority, two electricity consumer groups filed motions to certify a class action for cartel damages against a number of companies including Siemens AG with an Israeli State Court in September 2013. One of the class actions has been dismissed by the court in fiscal year 2015. The remaining class action seeks compensation for alleged damages amounting to ILS 2.8 billion (September 30, 2019: €739 million, September 30, 2018: €665 million, September 30, 2017: €673 million). In addition, the Israel Electric Corporation (IEC) filed at the end of December 2013 with an Israeli State Court a separate ILS 3.8 billion (September 30, 2019: €997 million, September 30, 2018: €897 million, September 30, 2017: €909 million) claim for damages against Siemens AG and other companies that allegedly formed a cartel in the Israeli gas-insulated switchgear market. A settlement agreement concluded in December 2018 has been approved by the Israeli Court. This decision by the Israeli Court is subject to appeal.

Since 2006, the Administrative Council for Economic Defense (CADE) in Brazil conducted investigations into possible antitrust behavior in the field of gas-insulated and air-insulated switchgear from the 1990's to 2006. Siemens cooperated with the authorities. In February 2017, Siemens AG entered into a settlement agreement with CADE relating to alleged antitrust violations in the field of gas-insulated switchgear for an amount in a low single-digit euro million range. In October 2017, Siemens Ltda. entered into a settlement agreement with CADE relating to alleged antitrust violations in the field of air-insulated switchgear for an amount in a mid double-digit euro million range.

Siemens received credible information in 2017 that four gas turbines intended for a project in Taman, Russia, which were delivered by OOO Siemens Gas Turbines Technologies (SGTT) to its customer OAO VO TechnoPromExport in summer of 2016 had been allegedly brought to Crimea against contractual agreements with SGTT. Allegedly, these four gas turbines had been sold by OAO VO TechnoPromExport to OOO VO TechnoPromExport, had then been locally modified and moved to Crimea, a location under sanctions. Siemens AG together with SGTT and SGTT separately have filed lawsuits before the State Court of Moscow against OAO VO TechnoPromExport and OOO VO TechnoPromExport for the return of the gas turbines. The State Court of Moscow rejected the claims of Siemens AG and SGTT in both proceedings in four instances.

Additionally, the Hamburg public prosecutor initiated criminal proceedings against Siemens employees in regard of alleged violations of the German Foreign Trade and Payments Act. Siemens cooperates with the authorities.

Siemens and Siemens Energy are involved in numerous legal proceedings in various jurisdictions. These legal proceedings could result, in particular, in Siemens Energy being subject to payment of damages and punitive damages, equitable remedies or sanctions, fines or disgorgement of profit. In individual cases this may also lead amongst others to formal or informal exclusion from tenders or the revocation or loss of business licenses or permits. In addition, further legal proceedings may be commenced or the scope of pending legal proceedings may be extended. Asserted claims are generally subject to interest rates.

Some of these legal proceedings could result in adverse decisions for Siemens Energy, which may have material effects on its business activities as well as its financial position, results of operations and cash flows.

For legal proceedings, information required under IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed if the Company concludes that disclosure can be expected to seriously prejudice the outcome of the matter.

## NOTE 19 Additional disclosures on financial instruments

The following table discloses the carrying amounts of each category of financial assets and financial liabilities:

(in millions of €)	Sep 30, 2019
Loans, receivables and other debt instruments measured at amortized cost <sup>1</sup> . . . . .	8,860
Cash and cash equivalents . . . . .	1,871
Derivatives designated in a hedge accounting relationship . . . . .	145
Financial assets measured at fair value through profit or loss <sup>2</sup> . . . . .	664
<b>Financial assets</b> . . . . .	<b>11,541</b>
Financial liabilities measured at amortized cost <sup>3</sup> . . . . .	10,388
Derivatives not designated in a hedge accounting relationship <sup>4</sup> . . . . .	623
Derivatives designated in a hedge accounting relationship <sup>4</sup> . . . . .	223
<b>Financial liabilities</b> . . . . .	<b>11,234</b>

1 Reported in the following line items of the Statements of Financial Position: Trade receivables, Other current financial assets, Receivables from Siemens Group and Other financial assets, except for separately disclosed €35 million equity instruments and €756 million Derivative financial instruments (thereof in Other financial assets €306 million) as well as €18 million debt instruments measured at FVPL in Other financial assets. Includes €5,097 million Trade receivables from the sale of goods and services, thereof €285 million with a term of more than twelve months.

2 Reported in line items Other current financial assets and Other financial assets.

3 Reported in the following line items of the Statements of Financial Position: Short-term debt and current maturities of long-term debt, Trade payables, Other current financial liabilities, Long-term debt, Other financial liabilities, Payables to Siemens Group and Other liabilities to Siemens Group, except for separately disclosed derivative financial instruments of €846 million. Includes €4,698 million Trade payables, thereof €11 million with a term of more than twelve months.

4 Reported in line items Other current financial liabilities and Other financial liabilities.

Prior years' amounts are not comparable, since those are under IAS 39:

(in millions of €)	2018	2017
Loans and Receivables <sup>1</sup> . . . . .	10,956	11,552
Cash and cash equivalents . . . . .	2,544	1,850
Derivatives designated in a hedge accounting relationship . . . . .	136	246
Financial assets held for trading . . . . .	299	259
<b>Available-for-sale financial assets<sup>2</sup></b> . . . . .	<b>37</b>	<b>59</b>
Financial assets . . . . .	13,972	13,964
Financial liabilities measured at amortized cost <sup>3</sup> . . . . .	15,013	14,421
Financial liabilities held for trading <sup>4</sup> . . . . .	296	270
Derivatives designated in a hedge accounting relationship <sup>4</sup> . . . . .	138	95
<b>Financial liabilities</b> . . . . .	<b>15,447</b>	<b>14,786</b>

1 Reported in the following line items of the Statements of Financial Position as of September 30, 2018 and September 30, 2017: Trade receivables, Other current financial assets and Other financial assets, except for separately disclosed €37 million (September 30, 2017: €59 million) available-for-sale financial assets and €434 million (September 30, 2017: €504 million) derivative financial instruments. As of September 2018, includes €5,405 million (September 30, 2017: €4,679 million) trade receivables from the sale of goods and services in fiscal 2018 (fiscal 2017), thereof €245 million (September 30, 2017: €205 million) with a term of more than twelve months.

2 Includes equity instruments classified as available-for-sale, for which a fair value could not be reliably measured and which are therefore recognized at cost.

3 Reported in the following line items of the Statements of Financial Position: Short-term debt and current maturities of long-term debt, Trade payables, Other current financial liabilities, Long-term debt, Other financial liabilities, Payables to Siemens Group and Other liabilities to Siemens Group, except for separately disclosed derivative financial instruments of €434 million as of September 30, 2018 (September 30, 2017: €365 million). As of September 2018, includes €4,303 million (September 30, 2017: €4,175 million) Trade payables, thereof €5 million (September 30, 2017: €12 million) with a term of more than twelve months.

4 Reported in line items Other current financial liabilities and Other financial liabilities.



The following table presents the fair values and carrying amounts of financial liabilities measured at amortized cost for which the carrying amounts do not approximate fair value:

(in millions of €)	Sep 30, 2019		Sep 30, 2018		Sep 30, 2017	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
Other non-derivative financial liabilities <sup>1</sup> .....	5,839	4,733	9,083	8,776	9,549	8,846
Loans from banks .....	828	819	1,768	1,778	1,274	1,268
Other financial indebtedness (incl. obligations under finance leases) .....	88	87	99	99	55	56

1 Included in Other current financial liabilities and Other financial liabilities (except credit guarantees) as well as Other liabilities to Siemens Group (except Payables to Siemens Group).

Fixed-rate and variable-rate receivables with a remaining term of more than twelve months are evaluated by Siemens Energy based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer, and the risk characteristics of the financed project. Based on this evaluation, allowances for these receivables are recognized.

The fair value of other non-derivative financial liabilities, loans from banks and other financial indebtedness as well as obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt of similar terms and remaining maturities (Level 2).

The following table allocates financial assets and financial liabilities measured at fair value to the three levels of the fair value hierarchy:

(in millions of €)	Sep 30, 2019			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b> .....	<b>1</b>	<b>756</b>	<b>51</b>	<b>807</b>
Equity instruments measured at fair value through profit or loss .....	1	–	32	33
Debt instruments measured at fair value through profit or loss ..	–	–	18	18
Derivative financial instruments .....	–	756	–	756
<i>Not designated in a hedge accounting relationship (including embedded derivatives)</i> .....	–	610	–	610
<i>In connection with cash flow hedges</i> .....	–	145	–	145
<b>Financial liabilities measured at fair value – Derivative financial instruments</b> .....	<b>–</b>	<b>846</b>	<b>–</b>	<b>846</b>
<i>Not designated in a hedge accounting relationship (including embedded derivatives)</i> .....	–	623	–	623
<i>In connection with cash flow hedges</i> .....	–	223	–	223

All derivative financial instruments of the company are grouped into Level 2 as of September 30, 2018 and September 30, 2017.

Fair values of derivative financial instruments are in accordance with the specific type of instrument. Fair values of derivative interest rate contracts are estimated by discounting expected future cash flows using current market interest rates and yield curves over the remaining term of the instrument. Fair values of foreign currency derivatives are based on forward exchange rates. No compensating effects from underlying transactions (e.g. firm commitments and forecast transactions) are taken into consideration.

The fair value of equity instruments measured at fair value is either based on prices quoted in an active market or estimated by discounting future cash flows using current market interest rates. The fair value of debt instruments is estimated by discounting future cash flows using current market interest rates.

Level 3 financial assets relate to equity instruments previously measured at cost which were reclassified to fair value measurement upon adopting IFRS 9 as of October 1, 2018.

Net gains (losses) of financial instruments are:

(in millions of €)	Fiscal year 2019
Cash and cash equivalents .....	2
Loans, receivables and other debt instruments measured at amortized cost .....	(30)
Financial liabilities measured at amortized cost .....	(65)
Financial assets and financial liabilities measured at fair value through profit or loss ..	(76)

Amounts presented include foreign currency gains and losses from realizing and measuring financial assets and liabilities. Net gains (losses) on financial assets and financial liabilities measured at fair value through profit or loss consist of changes in the fair value of derivative financial instruments, including interest income and expense, for which hedge accounting is not applied, as well as dividends on equity instruments measured at fair value through profit or loss.

Prior years' net gains (losses) of financial instruments are not comparable since those are under IAS 39:

(in millions of €)	Fiscal year 2018	2017
Cash and cash equivalents .....	2	1
Available-for-sale financial assets .....	(2)	(1)
Loans and receivables .....	45	30
Financial liabilities measured at amortized cost .....	(16)	(31)
Financial assets and financial liabilities held for trading .....	(27)	(23)

Interest income (expense) includes interest from financial assets and financial liabilities not at fair value through profit or loss:

(in millions of €)	Fiscal year 2019	2018	2017
Total interest income on financial assets .....	99	106	107
Total interest expenses on financial liabilities .....	(311)	(279)	(257)

#### Valuation allowances for expected credit losses

Valuation allowances of current and long-term receivables and contract assets for expected credit losses in fiscal 2019 and under the IAS 39 incurred loss model in fiscal 2017 and 2018 developed as follows:

(in millions of €)	Fiscal year 2019	2018	2017
Valuation allowance as of fiscal year end of the prior year .....	380	416	312
Effect of retrospectively adopting IFRS 9 .....	(11)	–	–
Increase in valuation allowances recorded in the Combined Statements of			
Income in the current period .....	72	28	119
Write-offs charged against the allowance .....	(53)	(40)	(22)
Recoveries of amounts previously written-off .....	2	16	28
Foreign exchange translation differences and other changes .....	(10)	(36)	(24)
Reclassifications to line item Assets held for disposal and dispositions of those entities .....	–	(4)	4
<b>Valuation allowance as of fiscal year-end .....</b>	<b>381</b>	<b>380</b>	<b>416</b>

Impairment losses on financial instruments are presented in line items Cost of sales, Selling and general administrative expenses. Net losses in fiscal 2019 are €125 million (fiscal 2018: €59 million, fiscal 2017: €82 million).

Valuation allowances of contract assets developed as follows:

(in millions of €)	Sep 30,		
	2019	2018	2017
Valuation allowance as of fiscal year end of the prior year .....	112	78	120
Effect of retrospectively adopting IFRS 9 .....	3	–	–
Increase in valuation allowances recorded in the Combined Statements of Income in the current period .....	46	33	(39)
Foreign exchange translation differences and other changes .....	5	1	(3)
<b>Valuation allowance as of fiscal year-end .....</b>	<b>166</b>	<b>112</b>	<b>78</b>

### Offsetting

Siemens Energy enters into master netting agreements and similar agreements for derivative financial instruments. Potential offsetting effects are as follows:

(in millions of €)	Financial assets			Financial liabilities		
	Sep 30,			Sep 30,		
	2019	2018	2017	2019	2018	2017
Amounts in the Statement of Financial Position .....	449	326	416	666	397	314
Related amounts not offset in the Statement of Financial Position .....	97	67	35	97	67	35
<b>Net amounts .....</b>	<b>352</b>	<b>260</b>	<b>382</b>	<b>569</b>	<b>330</b>	<b>280</b>

### NOTE 20 Derivative financial instruments and hedging activities

To hedge foreign currency exchange and interest rate risks, derivatives are contracted to achieve a 1:1 hedge ratio so that the main characteristics match the underlying hedged items (e.g. nominal amount, maturity) in a critical term match, which ensures an economic relationship between hedging instruments and hedged items suitable for hedge accounting. The nominal amounts of hedging instruments by maturity are:

(in millions of €)	Sep 30, 2019	
	Up to 12 months	More than 12 months
Foreign currency exchange contracts .....	5,272	2,433
Interest rate swaps .....	—	344

Fair values of each type of derivative financial instruments reported as financial assets or financial liabilities in line items Other current financial assets (liabilities) or Other financial assets (liabilities) are:

(in millions of €)	Sep 30, 2019		Sep 30, 2018		Sep 30, 2017	
	Asset	Liability	Asset	Liability	Asset	Liability
Foreign currency exchange contracts . . . . .	448	643	325	392	413	314
<i>Therein: Included in cash flow hedges . . . . .</i>	<i>145</i>	<i>201</i>	<i>136</i>	<i>136</i>	<i>246</i>	<i>95</i>
Embedded Derivatives . . . . .	306	179	108	37	87	50
Other (interest rate swaps, commodity swaps) . . .	2	24	1	4	4	1
	<b>756</b>	<b>846</b>	<b>434</b>	<b>434</b>	<b>504</b>	<b>365</b>

The cash flow hedge reserve reconciles as follows (net of deferred taxes):

(in millions of €)	Interest Rate Risk Cash flow hedge reserve	Foreign Currency Risk Cash flow hedge reserve
Balance as of October 1, 2018 . . . . .	–	44
Hedging gains (losses) presented in OCI . . . . .	(20)	(12)
Reclassification to net income . . . . .	–	(53)
<b>Balance as of September 30, 2019 . . . . .</b>	<b>(20)</b>	<b>(21)</b>
<i>Thereof: discontinued hedge accounting relationships . . . . .</i>	<i>–</i>	<i>18</i>

Reclassifications of foreign currency risk hedges with operative business purposes are presented as functional costs.

## Foreign currency exchange rate risk management

### Derivative financial instruments not designated in a hedging relationship

Risks associated with fluctuations in foreign currency denominated receivables, payables, debt, firm commitments and forecast transactions were centrally managed by Siemens Corporate Treasury of Siemens AG in favor of Siemens Energy.

Under this approach the risks are aggregated centrally, and various derivative financial instruments, primarily foreign currency exchange contracts, foreign currency swaps and options, are utilized to minimize such risks. Such a strategy does not qualify for hedge accounting treatment.

## Cash flow hedges

Siemens Energy's units apply hedge accounting to certain significant forecast transactions and firm commitments denominated in foreign currencies. Particularly, Siemens Energy entered into foreign currency exchange contracts to reduce the risk of variability of future cash flows resulting from forecast sales and purchases as well as firm commitments. The risk is mainly related to foreign currency fluctuations between EUR/DKK, GBP/DKK and EUR/USD resulting from contracts from Siemens Energy's operating units entering into long-term contracts. The following table presents the average rate of either a forward purchase or a forward sale for those foreign currencies together with the respective average remaining maturity:

Instrument	Buy/Sell	Average rate	Average remaining maturity
EUR/DKK .....	Buy	7.4435	2020
EUR/DKK .....	Sell	7.4283	2020
GBP/DKK .....	Buy	8.0543	2020
GBP/DKK .....	Sell	8.2632	2020
EUR/USD .....	Buy	1.1798	2020
EUR/USD .....	Sell	1.3254	2023

## Interest rate risk management

### Project-related cash flow hedge

Siemens Energy applies cash flow hedge accounting to hedge the interest rate risk of a forecasted sale of receivables that will originate from an infrastructure project in the U.S. The project, in which Siemens Energy participates together with Siemens Group segment Smart Infrastructure, schedules the origination of long-term receivables with a gross amount of €344 million and maturities between 2 and 22 years after PAC in 2022. Siemens Energy will externally sell these receivables in 2022 shortly after their origination and hedges the discount that will be charged by the external purchaser with a forward-starting interest rate swap. The forward-starting interest rate swap fixes the applicable discount rate of the forecasted sale of receivables to 2.2787%.

## NOTE 21 Financial risk management

Siemens Energy manages and controls its financial risks in accordance with Siemens Group policies. During the periods presented, Siemens Energy (except SGRE business) delegated responsibilities to central functions of Siemens Group. Financial risk management for the SGRE business is done on Siemens Gamesa Group level.

### Market risk

Increasing market fluctuations may result in significant earnings and cash flow volatility risk for Siemens Energy. The Siemens Energy business as well as its investment and financing activities are affected particularly by changes in foreign exchange rates and interest rates. In order to optimize the allocation of financial resources across Siemens Energy's segments and entities, as well as to achieve its aims, Siemens Energy identifies, analyzes and manages the associated market risks. Siemens Energy seeks to manage and control these risks primarily through its regular operating and financing activities and uses derivative financial instruments when deemed appropriate.

In order to quantify market risks Siemens Energy utilized a system based on Value at Risk ("VaR"), which is also used for internal management of Siemens Group Corporate Treasury activities. The VaR figures are calculated based on historical volatilities and correlations of various risk factors, a ten days holding period, and a 99.5% confidence level.

Actual results that are included in the Combined Statements of Income or Combined Statements of Comprehensive Income may differ substantially from VaR figures due to fundamental



conceptual differences. While the Combined Statements of Income and Combined Statements of Comprehensive Income are prepared in accordance with IFRS, the VaR figures are the output of a model with a purely financial perspective and represent the potential financial loss which will not be exceeded within ten days with a probability of 99.5%. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations including the following. A ten days holding period assumes that it is possible to dispose of the underlying positions within this period. This may not be valid during continuing periods of illiquid markets. A 99.5% confidence level means, that there is a 0.5% statistical probability that losses could exceed the calculated VaR. The use of historical data as a basis for estimating the statistic behavior of the relevant markets and finally determining the possible range of the future outcomes on the basis of this statistic behavior may not always cover all possible scenarios, especially those of an exceptional nature.

Any market sensitive instruments, including equity and interest bearing investments related to Siemens Energy pension plans are not included in the following quantitative and qualitative disclosures.

### **Foreign currency exchange rate risk**

#### **Transaction risk**

Each Siemens Energy unit conducting businesses with international counterparties leading to future cash flows denominated in a currency other than its functional currency is exposed to risks from changes in foreign currency exchange rates. In the ordinary course of business Siemens Energy entities are exposed to foreign currency exchange rate fluctuations, particularly between the euro and the Danish kroner, as well as between the Danish kroner and the British pound and between the U.S. dollar and the euro. Foreign currency exchange rate exposure is partly balanced by purchasing of goods, commodities and services in the respective currencies as well as production activities and other contributions along the value chain in the local markets.

The operating units are prohibited from borrowing or investing in foreign currencies on a speculative basis. Financing from Siemens Group or investments of operating units are preferably carried out in their functional currency or on a hedged basis.

According to the Siemens Group policy Siemens Energy units are responsible for recording, assessing and monitoring their foreign currency transaction exposure. The net foreign currency position of Siemens Energy units serves as a central performance measure and has to be hedged within a band of at least 75% but no more than 100%.

Generally, the Siemens Energy units conclude their hedging activities with Siemens Group. SGRE units also conclude their hedging activities with international counterparties.

As of September 30, 2019, the VaR relating to foreign currency exchange rates was €10 million (September 30, 2018: €9 million, September 30, 2017: €12 million). This VaR was calculated under consideration of items of the Combined Statement of Financial Position in addition to firm commitments which are denominated in foreign currencies, as well as foreign currency denominated cash flows from forecast transactions for the following twelve months.

#### **Translation risk**

Many Siemens Energy units are located outside the Eurozone. Because the financial reporting currency of Siemens Energy is the euro, the financial statements of these subsidiaries are translated into euro for the preparation of the Combined Financial Statements. To consider the effects of foreign currency translation in the risk management, the general assumption is that investments in foreign-based operations are permanent and that reinvestment is continuous. Effects from foreign currency exchange rate fluctuations on the translation of net asset amounts into euro are reflected in the combined equity position.

## Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This risk arises whenever interest terms of financial assets and liabilities are different. Siemens Energy's exposure to the risk of changes in market interest rates relates in most parts to financial investments and borrowings to Siemens Group via Siemens Treasury, mainly with fixed rates of interest. Long-term liabilities mainly relate to loans with Siemens Treasury (except SGRE business). SGRE mainly uses external sources to finance parts of its operations, with either fixed or variable interest rates.

Siemens Energy (except SGRE business) is mainly financed by Siemens Treasury and interest rate risk management is performed at the level of Siemens Group. Consequently, until the end of fiscal 2019, Siemens Energy (except SGRE business) did not manage its interest rate risk actively. SGRE continuously analyses the split of external financing at variable and fixed rates to optimize its interest rate risk exposure.

Siemens Energy also uses derivative financial instruments to perform a comprehensive interest rate risk management when appropriate.

As of September 30, 2019, the VaR relating to the interest rate was €157 million (September 30, 2018: €57 million, September 30, 2017: €123 million). The changes were mainly driven by changing interest rate volatilities for the US-dollar.

## Liquidity risk

Liquidity risk results from Siemens Energy's inability to meet its financial liabilities. In the periods presented, Siemens Energy was largely financed by Siemens Group and invested excess liquidity using Siemens Group's cash pooling and cash management systems. Siemens Energy mitigates liquidity risk by the implementation of effective working capital and cash management as well as the arrangement of credit facilities with financial institutions.

The following table reflects Siemens Energy's contractually fixed pay-offs for settlement, repayments and interest. The disclosed expected undiscounted net cash outflows from derivative financial liabilities are determined based on each particular settlement date of an instrument and based on the earliest date on which Siemens Energy could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on the conditions existing at September 30, 2019.

(in millions of €)	Fiscal year			
	2020	2021	2022 to 2024	2025 and thereafter
Non-derivative financial liabilities .....				
Loans from banks .....	355	–	494	–
Other financial indebtedness (incl. obligations under finance leases) .....	38	22	19	30
Trade payables <sup>1</sup> .....	4,721	11	–	–
Other financial liabilities <sup>2</sup> .....	3,086	111	309	3,096
Derivative financial liabilities .....	494	98	106	116

<sup>1</sup> Includes Payables to Siemens Group.

<sup>2</sup> Includes Other liabilities to Siemens Group.

## Credit risk

Credit risk is defined as an unexpected loss in financial instruments if the contractual partner is failing to discharge its obligations in full and on time or if the value of collateral declines.

The effective monitoring and controlling of credit risk through credit evaluations and ratings is a core competency of Siemens Energy's risk management system. In this context, Siemens Energy is bound to the credit policy implemented by Siemens Group.

Siemens Group maintains a Credit Risk Intelligence Unit to which numerous operating units of Siemens Energy regularly transfer business partner data as a basis for a centralized rating and credit limit recommendation process. Due to the identification, quantification and active management of credit risks, credit risk transparency is increased.

Ratings and individually defined credit limits are based on generally accepted rating methodologies, with information obtained from customers, external rating agencies, data service providers and credit default experiences. The ratings used consider appropriate forward-looking information significant to the specific financial instrument like expected changes in the obligor's financial position, shareholders, management or operational risks, as well as broader forward-looking information, such as expected macroeconomic, industry-related and competitive developments. A country-specific risk component derived from external country credit ratings is also considered.

An exposure is considered defaulted if the obligor is unwilling or unable to pay its credit obligations. A range of internally defined events trigger a default rating, including the opening of bankruptcy proceedings, receivables due past 90 days or a default rating by an external rating agency.

To analyze and monitor credit risks, Siemens Energy applies various systems and processes. A main element is a central IT application that processes data from operating units together with rating and default information and calculates an estimate which may be used as a basis for individual bad debt provisions. Additionally, qualitative information is considered, to particularly incorporate latest developments.

The carrying amount is the maximum exposure to a financial assets' credit risk. Collateral reduces the valuation allowance to the extent it mitigates credit risk. Collateral needs to be specific, identifiable and legally enforceable to be taken into account.

As of September 30, 2019, collateral of €97 million (September 30, 2018: €67 million, September 30, 2017: €35 million) relate to financial assets measured at fair value. Those collaterals are provided in connection with netting agreements for derivatives providing protection from the risk of a counterparty's insolvency. As of September 30, 2019, collateral held for financial assets measured at amortized cost are €333 million (September 30, 2018: €372 million, September 30, 2017: €283 million), comprising letters of credit, guarantees and credit insurance policies. As of September 30, 2019, collateral held for contract assets are €14 million (September 30, 2018: €30 million, September 30, 2017: €0 million), comprising letters of credit (September 30, 2018: Guarantees).

Trade receivables of Siemens Energy units are generally rated internally; approximately 38% have an investment grade rating and 62% have a non-investment grade rating. Contract Assets generally show similar risk characteristics as trade receivables in operating units.

Amounts above do not represent economic credit risks, since they neither consider collateral held nor valuation allowances already recognized.

## **NOTE 22 Share-based payments**

Share-based payment awards may be settled in newly issued shares of capital stock of Siemens AG, in treasury shares or in cash. Share-based payment awards may forfeit if the employment of the beneficiary terminates prior to the expiration of the vesting period. At Siemens Group level, these share-based payment plans are predominantly designed and accounted for as equity-settled plans and to a limited extent as cash-settled plans.

In the Combined Financial Statements of Siemens Energy, the classification of share-based payment plans has been adjusted to fulfill the specific requirements for share-based payment transactions among group entities. In most cases, Siemens Energy carries the contractual obligation against its employees to settle the share-based payment transactions at the end of the vesting period. Consequently, Siemens Energy accounts for these share-based payment plans as cash-settled plans.

The carrying amount of liabilities from share-based payment transactions, included in the line item *Other liabilities* and *Other current liabilities* in the Combined Financial Statements, is €100 million as of September 30, 2019 (September 30, 2018: €118 million, September 30, 2017: €185 million). Total pretax expense for share-based payment amounted to €44 million for the year ended September 30, 2019 (September 30, 2018: €87 million, September 30, 2017: €129 million).

For information on share-based payments to related individuals refer to *Note 26 – Related party transaction*.

## Stock Awards

Siemens Energy grants stock awards to members of the senior management, and other eligible employees. Stock awards are subject to a restriction period of about four years and entitle the beneficiary to receive Siemens AG shares without payment of consideration following the restriction period.

Stock awards are tied to performance criteria of Siemens AG. The annual target amount for stock awards can be bound to the average of earnings per share (EPS, basic) of the past three fiscal years and/or to the share price performance of Siemens AG relative to the share price performance of five important competitors (SPAC) during the four-year restriction period. The target attainment for the performance criteria SPAC ranges between 0% and 200%. For awards granted in fiscal 2019 settlement is in shares only corresponding to the actual target attainment. For awards granted prior to fiscal 2019, target outperformances in excess of 100% are settled in cash, target attainments up to 100% are settled in shares. The vesting period is four years and for awards granted until fiscal 2014, five years.

In fiscal 2019, 729,417 stock awards were granted contingent upon attaining the prospective performance-based target of Siemens AG stock relative to five competitors (fiscal 2018: 315,691 stock awards, fiscal 2017: 361,746 stock awards). The fair value of these stock awards amounting to €33 million in fiscal 2019 (fiscal 2018: €23 million, fiscal 2017: €24 million), was calculated by applying a valuation model. In fiscal 2019 inputs to that model include an expected weighted volatility of Siemens AG shares of 21.73% (fiscal 2018: 22.17%, fiscal 2017: 22.79%) and a market price of €98.92 per Siemens AG share (fiscal 2018: €114.80, fiscal 2017: €107.95). Expected volatility was determined by reference to historic volatilities. The model applies a risk-free interest rate of up to 0.16% in fiscal 2019 (fiscal 2018: up to 0.05%, fiscal 2017: up to 0.03%) and an expected dividend yield of 3.84% in fiscal 2019 (fiscal 2018: 3.23%, fiscal 2017: 3.33%). Assumptions concerning share price correlations were determined by reference to historic correlations.

Furthermore, during fiscal 2019, 68,302 stock awards were granted to members of the senior management, and other eligible employees for extraordinary achievements based on a special allocation from the CEO of the Siemens Group (fiscal 2018: 49,950 stock awards, fiscal 2017: 37,481 stock awards). These stock awards are subject to a restriction period of about four years. The fair value amounts to €5 million in fiscal 2019 (fiscal 2018: €5 million, fiscal 2017: €4 million).

Changes in the number of stock awards held by members of the senior management, and other eligible employees are:

	Fiscal year		
	2019	2018	2017
Non-vested, beginning of period .....	1,264,608	1,180,044	994,249
Granted .....	797,719	365,641	399,227
Vested and fulfilled .....	(204,922)	(162,312)	(189,945)
Forfeited .....	(153,728)	(117,421)	(22,697)
Settled .....	(910)	(1,344)	(790)
<b>Non-vested, end of period .....</b>	<b>1,702,767</b>	<b>1,264,608</b>	<b>1,180,044</b>

## Share Matching Program and its underlying plans

In fiscal 2019, 2018 and 2017 respectively Siemens AG issued a new tranche under each of the plans of the Share Matching Program.

### Share Matching Plan

Under the Share Matching Plan senior managers may invest a specified part of their variable compensation in Siemens AG shares (investment shares). The shares are purchased at the market price at a predetermined date in the second quarter. Plan participants receive the right to receive one Siemens AG share without payment of consideration (matching share) for every three investment shares continuously held over a period of about three years (vesting period) provided the plan participant has been continuously employed by Siemens Group including Siemens Energy until the end of the vesting period.

### Monthly Investment Plan

Under the Monthly Investment Plan employees other than senior managers may invest a specified part of their compensation in Siemens AG shares on a monthly basis over a period of twelve months. Shares are purchased at market price at a predetermined date once a month. If the Managing Board of Siemens AG decides that shares acquired under the Monthly Investment Plan are transferred to the Share Matching Plan, plan participants will receive the right to matching shares under the same conditions applying to the Share Matching Plan described above with a vesting period of about two years since fiscal 2016 (fiscal 2015: about three years). The Managing Board of Siemens AG decided that shares acquired under the tranches issued in fiscal 2018, 2017 and 2016 are transferred to the Share Matching Plan as of February 2019, February 2018 and February 2017, respectively.

### Base Share Program

Under the Base Share Program employees of participating Siemens Energy companies may invest a fixed amount of their compensation in Siemens AG shares, in addition the same amount is sponsored by Siemens. The shares are bought at market price at a predetermined date in the second quarter and grant the right to receive matching shares under the same conditions applying to the Share Matching Plan described above. The fair value of the Base Share Program amounted to €7 million in fiscal 2019 (fiscal 2018: €8 million, fiscal 2017: €8 million).

### Resulting Matching Shares

	Fiscal year		
	2019	2018	2017
Outstanding, beginning of period .....	320,698	357,153	321,574
Granted .....	182,740	132,711	142,087
Vested and fulfilled .....	(133,015)	(138,937)	(86,829)
Forfeited .....	(25,756)	(24,169)	(15,799)
Settled .....	(4,274)	(6,059)	(3,880)
<b>Outstanding, end of period .....</b>	<b>340,393</b>	<b>320,698</b>	<b>357,153</b>

The weighted average fair value of matching shares granted in fiscal 2019 amounting to €76.81 per share (fiscal 2018: €90.52, fiscal 2017: €92.61 per share) was determined as the market price of Siemens AG shares less the present value of expected dividends taking into account non-vesting conditions.



## Siemens Profit Sharing

The Managing Board of Siemens AG decides annually on the issuance of a new Siemens Profit Sharing tranche and determines the targets to be met for the current fiscal year. At fiscal year-end, based on the actual target achievement, the Managing Board of Siemens AG decides in its discretion on the amount to be transferred to the Profit-Sharing-Pool; this transfer is limited to a maximum of €400 million annually. If the Pool amounts to a minimum of €400 million after one or more fiscal years, it will be transferred to eligible employees below senior management in full or partially through the grant of free Siemens AG shares. Expense is recognized pro rata over the estimated vesting period.

As of September 30, 2017, €300 million were in the Profit-Sharing-Pool, thereof €64 million allocated to Siemens Energy. In November 2017, €100 million were transferred to the Profit-Sharing-Pool, thereof €15 million allocated to Siemens Energy. The Pool was transferred to eligible employees in March 2018 through the grant of free Siemens AG shares.

## Jubilee Share Program

For their 25th and 40th service anniversary, eligible employees receive jubilee shares. There were 906 thousand entitlements to jubilee shares outstanding for Siemens Energy employees in Germany as of September 30, 2019 (September 30, 2018: 935 thousand, September 30, 2017: 961 thousand).

## NOTE 23 Personnel costs

(in millions of €)	Fiscal year		
	2019	2018	2017
Wages and salaries .....	6,296	6,523	6,362
Statutory social welfare contributions and expenses for optional support .....	918	930	947
Expenses relating to post-employment benefits .....	311	333	353
	<b>7,525</b>	<b>7,785</b>	<b>7,663</b>

In fiscal 2019, severance charges amount to €280 million (fiscal 2018: €452 million, fiscal 2017: €70 million).

Employees were engaged in (averages; based on headcount):

(in thousands)	Fiscal year		
	2019	2018	2017
Manufacturing and services .....	69	74	76
Sales and Marketing .....	13	13	14
Research and development .....	5	5	5
Administration and general services .....	3	3	3
	<b>89</b>	<b>95</b>	<b>97</b>

## NOTE 24 Segment information

(in millions of €)	Orders			External revenue			Intersegment Revenue		
	Fiscal year			Fiscal year			Fiscal year		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Gas and Power .....	21,187	19,283	21,029	18,569	18,900	22,164	140	82	64
Siemens Gamesa Renewable Energy .....	12,749	11,875	8,768	10,226	9,121	7,920	1	1	2
<b>Total Segments .....</b>	<b>33,936</b>	<b>31,157</b>	<b>29,796</b>	<b>28,795</b>	<b>28,021</b>	<b>30,084</b>	<b>141</b>	<b>84</b>	<b>66</b>
Reconciliation to Combined Financial Statements .....	(202)	(112)	(124)	2	2	2	(141)	(84)	(66)
<b>Siemens Energy .....</b>	<b>33,734</b>	<b>31,046</b>	<b>29,673</b>	<b>28,797</b>	<b>28,023</b>	<b>30,086</b>	<b>-</b>	<b>-</b>	<b>-</b>

(in millions of €)	Total revenue			Adj. EBITA <sup>1</sup>		
	Fiscal year			Fiscal year		
	2019	2018	2017	2019	2018	2017
Gas and Power .....	18,709	18,982	22,228	589	440	1,703
Siemens Gamesa Renewable Energy .....	10,227	9,122	7,922	481	478	330
<b>Total Segments .....</b>	<b>28,936</b>	<b>28,104</b>	<b>30,150</b>	<b>1,069</b>	<b>918</b>	<b>2,033</b>
Reconciliation to Combined Financial Statements .....	(139)	(82)	(64)	(752)	(767)	(725)
<b>Siemens Energy .....</b>	<b>28,797</b>	<b>28,023</b>	<b>30,086</b>	<b>317</b>	<b>151</b>	<b>1,309</b>

<sup>1</sup> Siemens Energy: Income before income taxes

(in millions of €)	Assets			Free cash flow			Additions to intangible assets and property, plant & equipment		
	Sep 30,			Fiscal year			Fiscal year		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Gas and Power .....	11,549	11,403	11,811	651	212	722	317	343	315
Siemens Gamesa Renewable Energy .....	3,698	3,818	4,209	407	373	(288)	498	415	476
<b>Total Segments .....</b>	<b>15,247</b>	<b>15,221</b>	<b>16,020</b>	<b>1,058</b>	<b>584</b>	<b>434</b>	<b>815</b>	<b>758</b>	<b>791</b>
Reconciliation to Combined Financial Statements .....	29,794	30,542	31,270	(182)	(504)	(555)	4	6	16
<b>Siemens Energy .....</b>	<b>45,041</b>	<b>45,763</b>	<b>47,290</b>	<b>876</b>	<b>80</b>	<b>(121)</b>	<b>818</b>	<b>764</b>	<b>807</b>

(in millions of €)	Amortization, depreciation & impairments			Investments accounted for using the equity method		
	Fiscal year			Sep 30,		
	2019	2018	2017	2019	2018	2017
Gas and Power .....	547	617	610	748	711	859
Siemens Gamesa Renewable Energy .....	647	645	510	71	73	74
<b>Total Segments .....</b>	<b>1,193</b>	<b>1,262</b>	<b>1,120</b>	<b>818</b>	<b>784</b>	<b>933</b>
Reconciliation to Combined Financial Statements .....	16	19	19	–	–	–
<b>Siemens Energy .....</b>	<b>1,209</b>	<b>1,281</b>	<b>1,139</b>	<b>818</b>	<b>784</b>	<b>933</b>

## Description of reportable segments

### Siemens Energy has two reportable segments:

- Gas and Power, which offers a broad spectrum of products and solutions for the generation of energy, along the entire value chain in the oil and gas industry and the construction and operation of power transmission networks;
- Siemens Gamesa Renewable Energy (SGRE), which offers on- and offshore wind turbines as well as services throughout the whole lifecycle of wind turbines.

For purposes of preparing these Combined Financial Statements, the segment reporting is applied retrospectively to the periods presented as the new reporting structure did not exist in the past.

### Reconciliation to Combined Financial Statements

Real Estate Services – manages segment Gas and Power’s real estate business portfolio, operates the properties, and is responsible for building projects and the purchase and sale of real estate.

Pension – includes the centrally carried income (expense) related to pension obligations not allocated to the segments as well as the centrally managed pension assets and liabilities.

Eliminations, Treasury and other central items – comprise consolidation of transactions between the segments, treasury activities and certain reconciliation and reclassification. It also includes interest income and expense, such as, for example, interest not allocated to segments and interest related to treasury activities.

### Measurement – Segments

Accounting policies for Segment information are generally the same as those used for the Combined Financial Statements. Intersegment transactions are based on market prices.

### Revenue

Revenue includes revenue from contracts with customers. All segments recognize revenue predominantly over time due to the nature of their long-term contracts.

### Adjusted EBITA

Siemens Energy’s management is responsible for assessing the performance of the segments (chief operating decision maker). The profitability measure of the segments is earnings before financing interest and certain pension costs, income taxes and amortization expenses of intangible assets acquired in business combinations as determined by the chief operating decision maker (Adjusted EBITA).

Financing interest excluded from Adjusted EBITA is any interest income or expense other than interest income related to receivables from customers, from cash allocated to the segments and interest expenses on payables to suppliers. Financing interest is excluded from Adjusted EBITA because decision-making regarding financing is typically made at the corporate level.

Decisions on essential pension items are made centrally. Accordingly, Adjusted EBITA primarily includes amounts related to service cost of pension plans only, while all other regularly recurring pension related costs are included in reconciliations in line item Centrally carried pension expense.

Income taxes are excluded from Adjusted EBITA since income tax is subject to legal structures, which typically do not correspond to the structure of the segments. Costs for support functions are primarily allocated to the segments.

Adjusted EBITA for Siemens Energy (i.e. Total Segments Adjusted EBITA plus elements of Real Estate Services, Pension as well as Eliminations, Treasury and other central items that meet the definition of Adjusted EBITA) amounts to €1,025 million in fiscal 2019 (fiscal 2018: €864 million, fiscal 2017: €1,991 million). Adjusted EBITA for Siemens Energy also includes interest income and expenses on pension-related assets and liabilities.

### **Asset measurement principles**

Management determined Assets (Net capital employed) as a measure to assess capital intensity of the segments. Its definition corresponds to the Adjusted EBITA measure except for amortization expenses of intangible assets acquired in business combinations which are not part of Adjusted EBITA, however, the related intangible assets are included in the segments' Assets. Segment Assets is based on Total assets of the Combined Statements of Financial Position, primarily excluding financing receivables from Siemens Group, tax related assets and assets of discontinued operations, since the corresponding positions are excluded from Adjusted EBITA. The remaining assets are reduced by non-interest-bearing liabilities other than tax related liabilities, e.g. trade payables and contract liabilities, to derive Assets. Assets of Siemens Gamesa Renewable Energy include real estate, while real estate of Gas and Power is carried centrally at Real Estate Services.

### **Orders**

Orders are determined principally as estimated revenue of accepted purchase orders for which enforceable rights and obligations exist as well as subsequent order value changes and adjustments, excluding letters of intent. To determine orders, Siemens Energy considers termination rights and customer's creditworthiness.

As of September 30, 2019 order backlog totaled €77 billion (September 30, 2018: €71 billion); thereof Gas and Power €52 billion (September 30, 2018: €48 billion) and Siemens Gamesa Renewable Energy €26 billion (September 30, 2018: €23 billion). As of September 30, 2019, Siemens Energy expects to convert approximately €23 billion of the order backlog into revenue within one year (September 30, 2018: €22 billion), thereof Gas and Power approximately €13 billion (September 30, 2018: €13 billion) and Siemens Gamesa Renewable Energy approximately €9 billion (September 30, 2018: €9 billion).

### **Free cash flow definition**

Free cash flow of the segments constitutes cash flows from operating activities less additions to intangible assets and property, plant and equipment. It excludes financing interest, except for cases where interest on qualifying assets is capitalized or classified as contract costs; it also excludes income tax as well as certain other payments and proceeds.

### **Amortization, depreciation and impairments**

Amortization, depreciation and impairments includes depreciation and impairments of property, plant and equipment as well as amortization and impairments of intangible assets each net of reversals of impairment.

## Reconciliation to Combined Financial Statements

### Adjusted EBITA

(in millions of €)	Fiscal year		
	2019	2018	2017
<b>Total segments</b>	<b>1,069</b>	<b>918</b>	<b>2,033</b>
Real Estate Services	13	15	13
Centrally carried pension expense	(54)	(67)	(54)
Amortization of intangible assets acquired in business combinations	(499)	(545)	(507)
Eliminations, Treasury and other central items	(212)	(170)	(177)
<b>Reconciliation to Combined Financial Statements</b>	<b>(752)</b>	<b>(767)</b>	<b>(725)</b>
<b>Siemens Energy – Income before income taxes</b>	<b>317</b>	<b>151</b>	<b>1,309</b>

### Assets

(in millions of €)	Sep 30,		
	2019	2018	2017
Assets pensions	7	22	17
Assets Real Estate Services	464	290	285
Asset-based adjustments:			
Financing receivables from Siemens Group	3,361	5,107	5,912
Tax-related assets	1,071	1,117	1,295
Liability-based adjustments	22,996	21,459	21,902
Eliminations, Treasury and other central items	1,894	2,546	1,859
<b>Reconciliation to Combined Financial Statements</b>	<b>29,794</b>	<b>30,542</b>	<b>31,270</b>

## NOTE 25 Information about geographies

(in millions of €)	Revenue by location of customers			Revenue by location of companies			Non-current assets		
	Fiscal year			Fiscal year			Sep 30,		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Europe, C.I.S., Africa, Middle East	15,756	14,881	16,471	17,581	17,185	19,025	7,689	8,011	9,245
Americas	8,222	7,796	9,112	7,796	7,506	8,627	7,613	7,064	7,051
Asia, Australia	4,819	5,346	4,503	3,420	3,332	2,434	2,531	2,439	1,872
<b>Siemens Energy</b>	<b>28,797</b>	<b>28,023</b>	<b>30,086</b>	<b>28,797</b>	<b>28,023</b>	<b>30,086</b>	<b>17,833</b>	<b>17,514</b>	<b>18,168</b>
<i>thereof</i>									
Germany	2,525	2,479	2,597	6,196	6,697	8,724	1,819	1,887	1,981
<i>thereof countries     outside of</i>									
Germany	26,272	25,544	27,489	22,601	21,326	21,362	16,014	15,627	16,187
<i>therein U.S.</i>	5,067	4,264	5,361	5,723	4,850	6,550	6,973	6,443	6,265

Non-current assets consist of property, plant and equipment, goodwill and other intangible assets.



## NOTE 26 Related party transactions

Siemens Energy maintains business relations with Siemens Group (i.e. remaining Siemens Group excluding Siemens Energy) and with investments of both Siemens Energy and Siemens Group. Transactions with these related parties are as follows:

**Transactions with Siemens Group** Sales of goods and services and other income, as well as purchases of goods and services and other expense from transactions with Siemens Group in fiscal 2019, 2018 and 2017 are presented in the following table:

(in millions of €)	Sales of goods and services and other income			Purchases of goods and services and other expenses		
	Fiscal year			Fiscal year		
	2019	2018	2017	2019	2018	2017
Siemens Group .....	381	404	379	2,801	2,879	3,104

### Sales to and purchases from Siemens Group

Supply and delivery agreements exist between Siemens Energy and Siemens Group. Siemens Energy is supplied by and delivers to Siemens Group goods and services on a case by case basis.

### Other expenses from Siemens Group

Siemens Group provides Siemens Energy with central corporate services, such as tax and legal, IT, corporate communications, HR, accounting, financial services and treasury in an amount of €1,238 million in fiscal 2019 (fiscal 2018: €1,328 million, fiscal 2017: €1,352 million).

### Share-based payments

Siemens Energy's employees participate in share-based payment awards implemented by Siemens AG. Siemens AG delivers the respective shares on behalf of Siemens Energy and is reimbursed by Siemens Energy. *For further details please also refer to Note 22- Share-based payments.*

### Insurances

Siemens Energy is covered by the group insurance of Siemens Group. Furthermore, there are additional contracts for individual insurance services between companies of Siemens Energy and Siemens Group, the costs for which are borne by Siemens Energy.

### Receivables from and payables to Siemens Group

Siemens Energy receivables from and payables to Siemens Group are as follows:

(in millions of €)	Receivables September 30,			Payables September 30,		
	2019	2018	2017	2019	2018	2017
Siemens Group .....	3,405	5,141	6,324	4,568	8,534	8,581
Therein:						
<i>from financing activities</i> .....	3,361	5,107	6,297	4,535	8,494	8,519
<i>other items</i> .....	44	34	27	33	40	62

## **Financing activities**

Siemens Energy is included in Siemens Group's cash pooling and cash management. Siemens Energy invests excess short-term liquidity and is granted overdraft facilities for financing its operating activities.

Siemens Group provides short- and long-term loans to Siemens Energy. Amongst others, in May 2015 it provided a USD loan to Siemens Energy's subsidiary Dresser Rand Group Inc. maturing in May 2045 to finance the acquisition of Dresser Rand, shown under Other liabilities to Siemens Group. The decrease in fiscal year 2019 is largely due to a partial repayment of the above-mentioned loan.

Siemens Energy has short-term receivables from Siemens Group amounting to €322 million as of September 30, 2019 (September 30, 2018: €2,220 million, September 30, 2017: €2,678 million). The decrease in fiscal year 2019 relates mainly to the partial repayment of Dresser Rand Group Inc's loan.

## **Leasing**

Siemens Energy has entered into leasing transactions with Siemens Real Estate mainly relating to office buildings. As of September 30, 2019, the future payment obligations under non-cancellable operating leases are €567 million (September 30, 2018: €622 million, September 30, 2017: €651 million).

Furthermore, Siemens Energy has entered into leasing transactions with Siemens Group relating to IT equipment and car leasing.

## **Hedging**

Siemens Energy hedging activities are performed mainly via Siemens Corporate Treasury of Siemens AG. The consideration is based on market rates. The related receivables and payables are included in the line item Other current financial assets and Other current financial liabilities in the Combined Statements of Financial Positions.

## **Guarantees**

Siemens Group issues collaterals and credit letters in favor of Siemens Energy and Siemens Energy's investments.

The guarantees issued by Siemens Group amount to €48,943 million as of September 30, 2019 (September 30, 2018: €48,331 million, September 30, 2017: €48,679 million).

## **Transactions with pension schemes and pension entities**

In some countries, mainly in the U.K. and U.S., Siemens Energy participates in Siemens Group pension plans and trusts. *For further details please also refer to Note 14 – Provision for Pensions and similar obligations.*

## **Agreements between Siemens AG and SGRE**

Following the merger of the Siemens Wind Power Business with Gamesa in 2017, SGRE has entered into certain agreements with Siemens AG governing areas such as use of the Siemens brand, strategic purchasing and other fields of cooperation.

## Transactions with joint ventures, associates and their affiliates

Siemens Energy has relationships with Siemens Group joint ventures and associates as well as own joint ventures and associates whereby Siemens Energy buys and sells a variety of products and services generally on arm's length terms.

(in millions of €)	Sales of goods and services and other income			Purchases of goods and services and other expenses		
	Fiscal year			Fiscal year		
	2019	2018	2017	2019	2018	2017
Siemens Group joint ventures .....	408	277	933	3	1	–
Siemens Group associates .....	163	176	427	2	3	1
Siemens Energy joint ventures .....	68	61	69	104	118	107
Siemens Energy associates .....	128	131	81	153	145	109
Total .....	767	645	1,510	262	267	217

(in millions of €)	Receivables			Liabilities		
	Fiscal year			Fiscal year		
	2019	2018	2017	2019	2018	2017
Siemens Group joint ventures .....	91	77	42	125	81	55
Siemens Group associates .....	12	12	11	111	132	128
Siemens Energy joint ventures .....	13	12	8	11	17	10
Siemens Energy associates .....	1	–	–	89	59	23
Total .....	117	101	60	337	289	216

## Guarantees

Siemens Energy issued guarantees for own joint ventures amounting to €144 million as of September 30, 2019 (September 30, 2018: €135 million, September 30, 2017: €133 million).

## Related individuals

During the periods presented, Siemens Energy did not exist as a separate legal group and thus there were no key management personnel for this group. Therefore, the members of the Managing Board and Supervisory Board of Siemens AG have been identified as key management personnel as these have been responsible for planning, directing and controlling the activities of the Siemens Energy operations.

Furthermore, the members of the Board of Directors and remaining Senior Management staff (who are not members of the Board of Directors) of Siemens Gamesa Renewable Energy S.A, a listed company in Spain, have also been identified as key management personnel as these have been responsible for the planning, directing and controlling of the activities of a significant portion of Siemens Energy operations, acting independently from its majority shareholder Siemens AG.

Under IAS 24, compensation paid to key management personnel must be disclosed.

## Disclosures relating to the Managing Board and Supervisory Board of Siemens AG

The following disclosures show the total compensation of the Managing Board and the Supervisory Board of Siemens AG, as published on the Siemens Group financial statements.

In fiscal 2019, the members of the Managing Board of Siemens AG received a total cash compensation of €22 million (fiscal 2018: €22 million, fiscal 2017: €21 million). The fair value of stock-based compensation amounted to €11 million for 254,693 Stock Awards in 2019 (fiscal 2018: €10 million for 100,511 Stock Awards, fiscal 2017: €13 million for 132,831 Stock Awards). In fiscal 2019, contributions under the BSAV granted to members of the Managing Board amounted to €6 million (fiscal 2018: €5 million, fiscal 2017: €7 million). Therefore, the total compensation and benefits of the Managing Board of Siemens AG amounted to €39 million in fiscal 2019 (fiscal 2018: €37 million, fiscal 2017: €41 million). In fiscal 2019, expense related to share-based payments amounted to €5 million (fiscal 2018: €14 million, fiscal 2017: €19 million).

Compensation attributable to members of the Supervisory Board comprises in fiscal 2019 of a base compensation and additional compensation for committee work and amounted to €5 million (including meeting fees) (fiscal 2018: €5 million, fiscal 2017: €5 million).

Of the above, 29% were attributable to Siemens Energy, based on the allocation key used for the allocation of overhead costs including management compensation in fiscal 2019 (fiscal 2018: 28%, fiscal 2017: 29%).

## Disclosures relating to the Board of Directors and remaining Senior Management of Siemens Gamesa Renewable Energy S.A.

In fiscal 2019, the Directors of Siemens Gamesa Board earned compensation for membership of the Board and Board's Commissions amounting to approximately €4 million (fiscal 2018: €4 million, fiscal 2017<sup>1</sup>: €5 million). The compensation for the Directors in fiscal year 2017 covers the period from the Merger Effective Date April 3, 2017 until September 30, 2017 and included contract termination costs amounting to €3 million that were not applicable to fiscal 2019 and 2018.

No advances or loans were granted to current or prior Board members, and there are no pension obligations with them. Only the CEO received contributions for pensions included in the total earned compensation above. Additionally, in fiscal 2019, the CEO received a cash compensation amounting to €1 million in relation to rights on Siemens shares, granted prior to the merger and hence with no cost for Siemens Gamesa (fiscal 2018: €284 thousand).

Furthermore, remaining Senior Management staff who are not members of the Board of Directors received compensation in fiscal 2019, amounting to €7 million (fiscal 2018: €8 million, fiscal 2017<sup>1</sup>: €5 million)

In fiscal 2019, 2018 and 2017, no other major transactions took place between Siemens Energy and its key management personnel.

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<sup>1</sup> the disclosures relating to fiscal 2017 encompass the period from the Merger Effective Date April 3, 2017 until September 30, 2017

## **NOTE 27 Subsequent events**

### **Carve-out process**

In the period after the reporting date but prior to the issuance of the Combined Financial Statements, activities that had not been conducted by separate companies have been transferred to separate legal entities either by carving out the Siemens Energy businesses or by carving out the businesses within the legal entities that remain with Siemens Group (reverse carve-out). As of the issuance of the Combined Financial Statements, the carve-out process has been completed in all countries except for Bangladesh, Egypt, Japan, Kuwait, Qatar and Saudi-Arabia.

### **Transfer of Real Estate Assets and other centrally managed items**

Certain assets and centrally managed items (mainly Real Estate previously leased by Siemens Energy from Siemens Real Estate and reflected as such in the Combined Financial Statements) have been transferred to Siemens Energy in line with the legal reorganization. Management expects that the total book value of Real Estate assets transferred to Siemens Energy after the reporting upon completion of all carve outs will amount to a mid three-digit million euro figure.

### **Deferred taxes**

In several countries, the legal carve out triggered taxable income on capital gains if the local purchase price exceeded the book value of the Siemens Energy business. In line with the separate tax return approach, no income tax expense will be shown in the Combined Financial Statements for fiscal 2020 for these transactions. However, management expects that the change of the related assets and liabilities' tax base and related temporary differences following carve out will lead to an increase in deferred tax assets of Siemens Energy by a low to mid three-digit million euro figure.

### **Legal proceedings in reverse carve-out countries**

In some countries, the separation of Siemens Energy from Siemens Group was executed by way of a reverse carve-out, i.e. the businesses within a regional company that shall remain with Siemens Group were transferred out of such a regional company into a newly established Siemens Group legal entity.

As a result, legal proceedings against such regional company arising in connection with business activities that were previously conducted by such regional company and that do not pertain to the Energy business will remain with such regional company, which is now part of Siemens Energy. Siemens Energy and Siemens Group have reached agreements to allocate the resulting financial risks in accordance with the separation of the business activities. However, it cannot be excluded at this stage that, as a result of those legal proceedings, such regional company might also be (temporarily or permanently) barred from conducting certain or any business in the respective region, or even be dissolved.

These statements also apply to legal proceedings in Brazil, inter alia resulting out of Siemens' businesses transferred into newly established Siemens Group legal entities (such as Siemens Infraestrutura e Indústria Ltda., Siemens Mobility Ltda., Siemens Healthcare Diagnósticos S.A.). These legal proceedings remain with Siemens Energy's subsidiary in Brazil and include among others the following legal proceedings:

In May 2013, Siemens Ltda., Brazil ("Siemens Ltda.") entered into a leniency agreement with the Administrative Council for Economic Defense (CADE) and other relevant Brazilian authorities relating to possible antitrust violations in connection with alleged anticompetitive irregularities in metro and urban train projects, in which Siemens Ltda. and partially Siemens AG, as well as a number of other companies participated as contractor. In July 2019, CADE completed the administrative proceedings which started in May 2014, confirming the reported misconduct. Due to its cooperation, Siemens was granted full immunity from administrative fines for the misconduct. In connection with the above mentioned metro and urban train projects, several



Brazilian authorities continue to investigate alleged criminal acts (corruptive payments, anti-competitive conduct, undue influence on public tenders).

In March 2014, Siemens was informed that in connection with the above mentioned metro and urban train projects the Public Prosecutor's Office São Paulo requested to initiate criminal proceedings as regards alleged violations of Brazilian antitrust law against a number of individuals including current and former Siemens employees. The proceedings are continuing; the Public Prosecutor's Office São Paulo has appealed all decisions where the courts denied opening criminal trials.

In May 2014, the Public Affairs Office (Ministério Público) São Paulo initiated a lawsuit against Siemens Ltda. as well as other companies and several individuals claiming, inter alia, damages in an amount of BRL 2.5 billion (September 30, 2019: €552 million, September 30, 2018: €537 million, September 30, 2017: €665 million) plus adjustments for inflation and related interest in relation to train refurbishment contracts entered into between 2008 and 2011. In January 2015, the district court of São Paulo admitted a lawsuit of the State of São Paulo and two customers against Siemens Ltda., Siemens AG and other companies and individuals claiming damages in an unspecified amount. In March 2015, the district court of São Paulo admitted a lawsuit of the Public Affairs Office (Ministério Público) São Paulo against Siemens Ltda. and other companies claiming, inter alia, damages in an amount of BRL 487 million (September 30, 2019: €108 million, September 30, 2018: €105 million, September 30, 2017: €130 million) plus adjustments for inflation and related interest in relation to train maintenance contracts entered into in 2000 and 2002. In September 2015, the district court of São Paulo admitted another lawsuit of the Public Affairs Office (Ministério Público) São Paulo against Siemens Ltda. and other companies claiming, inter alia, damages in an amount of BRL 918 million (September 30, 2019: €203 million, September 30, 2018: €197 million, September 30, 2017: €244 million) plus adjustments for inflation and related interest in relation to train maintenance contracts entered into in 2006 and 2007. Siemens is defending itself against these actions. It cannot be excluded that further significant damage claims will be brought by customers or the state against Siemens.

In June 2015, Siemens Ltda. appealed to the Supreme Court against a decision of a previous court to suspend Siemens Ltda. from participating in public tenders and signing contracts with public administrations in Brazil for a five year term based on alleged irregularities in calendar year 1999 and 2004 in public tenders with the Brazilian Postal authority. In July 2015, the court suspended enforcement of the debarment decision. In February 2018, the appeal of Siemens Ltda. was rejected. Siemens Ltda. has introduced another remedy against the decision. In June 2018, the court accepted Siemens' appeal and declared the earlier instance decision as void. In February 2018, the Public Affairs Office (Ministério Público) Brasilia filed a lawsuit based on the same set of alleged irregularities in calendar years 1999 and 2004 in public tenders with the Brazilian Postal authority, mainly claiming the exclusion of Siemens Ltda. from public tenders for a ten year term. Siemens Ltda. is defending itself against the lawsuit. Siemens Ltda. is currently not excluded from participating in public tenders.

### **Changes in pension-related assets and liabilities**

In most countries Siemens Energy employees historically participated in the Siemens Group pension plans. For these plans, pension benefits are administered by the Siemens Group, but the assets and liabilities are separated for each legal entity. As a result of the carve-out, most of the plan assets and obligations relating to Siemens Energy's employees have been transferred to separate Siemens Energy entities and pension plans and pension trusts have or will be transferred to Siemens Energy prior to spin-off.

In Germany, the Siemens Group provides pension benefits through the following plans: BSAV (Beitragsorientierte Siemens Altersversorgung), closed legacy plans and deferred compensation. Funding for such plans is currently provided via contractual trust arrangements ("CTAs"). In relation to Siemens Energy, Siemens Gas & Power GmbH & Co. KG has set up a CTA which acts as the pension trust (the "GP Trust") for Siemens Energy's German entities. Siemens Gas & Power GmbH & Co. KG acts as sole trustor for the BSAV and the legacy plans, while for the deferred

compensation plans the participating Group entities are acting as trustor. For the BSAV and the legacy plans this CTA has been funded with assets that had a fair value of approximately €915 million as at transfer date (January 2, 2020) and resulted in an equivalent increase in Siemens Energy's plan assets from that date.

### **Formation and future funding of the Siemens Energy Group**

In the period after the reporting date but prior to the issuance of the Combined Financial Statements, further transactions have occurred in connection with the formation as well as future funding of the Siemens Energy Group. The process is materially completed as of the issuance date of the Combined Financial Statements.

In May 2015, Siemens Group provided a USD loan to its subsidiary Dresser Rand Group Inc. maturing in May 2045 to finance the acquisition of Dresser Rand – partially reimbursed in fiscal 2019. *For further details please also refer to Note 26 – Related party transactions.* In the context of the future funding, the remainder amounting to €1,571 million has been terminated in February 2020. The termination did not have an impact on the income statement.

### **Senvion**

In January 2020, SGRE reported the acquisition of a 100% interest in Senvion Deutschland GmbH, Germany, including the carved-out European onshore service business of Senvion, related Intellectual Property as well as additional assets.

On April 30, 2020, SGRE closed the acquisition of all the shares in Ria Blades, S.A., Portugal, entity which owns and operates the business of the wind turbine blades production facility in Vagos (Portugal) and certain additional assets associated to said business. The acquisition is in line with SGRE's strategy to grow its multibrand service business, its production capacities and strengthens SGRE's competitive position in Europe.

### **Acquisition of Iberdrola's stake in SGRE**

In February 2020, Siemens AG acquired Iberdrola S.A.'s 8.1% stake in SGRE. Consequently, Siemens Energy will hold about 67% of the voting rights at SGRE after completion of the formation of the Siemens Energy Group.

### **Coronavirus (Corona)**

Siemens Energy's business and economic environment is adversely affected by the pandemic coronavirus spread, though certain mitigating effects may arise due to the various measures taken by Governments or States globally, including favorable financial support. As the outbreak continues to evolve, it is challenging to predict its duration and its magnitude of impacts on assets, liabilities, results of operations and cash flows. Siemens Energy's evaluation is based on existing knowledge and best information available and the assumption that the current coronavirus situation is of no long-term duration. Corona related impacts on Siemens Energy may inter alia result from interest rate adjustments in various countries, increasing volatility in foreign currency exchange rates, deteriorating creditworthiness, credit default or delayed payments, delays in order placements as well as in executing orders and contracts, termination of contracts, adjusted or modified revenue and cost patterns, limited usage of assets, volatility in financial and

commodity markets, limited or no access to customer facilities and hardship in preparing predictions and forecasts due to uncertainties in amount and timing of cash flows. Those factors may impact fair value and carrying amounts of assets and liabilities, amount and timing of results of operations and cash flows.

On April 21, 2020, SGRE, released an ad hoc notification withdrawing its financial guidance for fiscal 2020 due to the uncertainty associated with Corona, which is compounding challenges in India and Northern Europe.

**Brexit**

The United Kingdom ("U.K.") ceased to be an EU member on January 31, 2020. The trading relationship will remain the same until December 31, 2020. Negotiations determining the conditions of the future trading relationship between the EU and the U.K. are currently ongoing. If the EU and the U.K. fail to conclude a trading framework which provides for trading terms substantially similar to the current terms, this may materially affect our business operations and results.

**Changes of the Siemens Energy Management Board**

On March 19, 2020, the Supervisory Board of Siemens AG decided in its extraordinary meeting, to appoint Christian Bruch (49), who was Executive Vice President of Linde plc and CEO of Linde Engineering, to be the designated CEO of Siemens Energy, effective May 1, 2020. Maria Ferraro (46), who was CFO of the Siemens segment Digital Industries, has been appointed the designated CFO of Siemens Energy, effective May 1, 2020. Michael Sen and Klaus Patzak, Siemens Energy's former designated CEO and CFO, are leaving the company by mutual agreement.

## NOTE 28 Scope of Combination

The tables below contain a list of all 100% dedicated legal entities, Mixed Entities as well as entities considered as at equity investments and other investments in fiscal 2017, 2018 and 2019.

Mixed Entities are legal entities that comprised Siemens Energy business along with other Siemens Group activities. Their contribution to the Combined Financial Statements reflects their Siemens Energy related business activities.

### Fully consolidated (100% dedicated legal Entities)

Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Artadi S.A. ....	Argentina	X	X	X
Guascor Argentina, S.A. ....	Argentina	X	X	X
VA TECH International Argentina SA ....	Argentina	X	X	X
Siemens Gamesa Renewable Energy Australia Pty Ltd ....	Australia	X	X	X
Siemens Gamesa Renewable Energy Pty Ltd ....	Australia	X	X	X
CARMODY'S HILL INVESTMENT COMPANY PTY LTD ....	Australia	X		
Siemens Gamesa Renewable Energy GmbH ....	Austria	X	X	X
Trench Austria GmbH ....	Austria	X	X	X
Siemens Gas and Power GmbH ....	Austria	X [7]		
Siemens Gamesa Renewable Energy Limited Liability Company ....	Azerbaijan	X	X	X
Dresser-Rand Machinery Repair Belgie N.V. ....	Belgium	X [7]	X [7]	X [7]
Siemens Gamesa Renewable Energy Belgium BVBA ....	Belgium	X	X	X
Siemens Gamesa Renewable Energy BVBA ....	Belgium	X	X	X
Chemtech Servicos de Engenharia e Software Ltda. ....	Brazil	X	X	X
Cinco Rios Geracao de Energia Ltda. ..	Brazil		X [7]	X [7]
Dresser-Rand do Brasil, Ltda. ....	Brazil	X	X	X
Guascor do Brasil Ltda. ....	Brazil	X	X	X
Guascor Empreendimentos Energéticos, Ltda. ....	Brazil		X	X

[1] Control due to a majority of voting rights.

[2] Control due to rights to appoint, reassign or remove members of the key management personnel.

[3] Control due to contractual arrangements to determine the direction of the relevant activities.

[4] No control due to contractual arrangements or legal circumstances.

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Guascor Serviços Ltda. ....	Brazil		X	X
Guascor Solar do Brasil Ltda. ....	Brazil		X [7]	X [7]
Guascor Wind do Brasil, Ltda. ....	Brazil		X [7]	X [7]
Industrial Turbine Brasil Geracao de Energia Ltda. ....	Brazil	X	X	X
Jaguari Energética, S.A. ....	Brazil	X	X	X
MINUANO PROMOÇÕES E PARTICIPAÇÕES EÓLICAS LTDA. ....	Brazil		X [7]	X [7]
Siemens Gamesa Energia Renovável Ltda. ....	Brazil	X	X	X
Siemens Wind Power Energia Eólica Ltda. ....	Brazil	X	X	X
Siemens Gamesa Renewable Energy EOOD ....	Bulgaria	X	X	X
Siemens Gas and Power EOOD ....	Bulgaria	X [7]		
Dresser-Rand Canada, ULC ....	Canada	X	X	X
Siemens Gamesa Renewable Energy Canada ULC ....	Canada	X	X	X
Siemens Transformers Canada Inc. ....	Canada	X	X	X
Siemens Gamesa Renewable Energy Limited ....	Canada	X	X	X
Trench Limited ....	Canada	X	X	X
Wheelabrator Air Pollution Control (Canada) Inc. ....	Canada	X	X	X
S'Gas and Power Ltd., Oakville ....	Canada	X [7]		
Siemens Gamesa Renewable Energy Chile SpA ....	Chile	X	X	X
Siemens Wind Power SpA ....	Chile	X	X	X
Dresser-Rand Engineered Equipment (Shanghai) Co., Ltd. ....	China	X	X	X
Siemens Gamesa Renewable Energy (Beijing) Co., Ltd. ....	China	X	X	X
Gamesa Blade (Tianjin) Co., Ltd. ....	China	X	X	X
Siemens Gamesa Renewable Energy Technology (China) Co., Ltd. ....	China	X	X	X

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[3] Control due to contractual arrangements to determine the direction of the relevant activities.

[4] No control due to contractual arrangements or legal circumstances.

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.



Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Inner Mongolia Gamesa Wind Co., Ltd. ....	China	X	X	X
Jilin Gamesa Wind Co., Ltd. ....	China	X	X	X
MWB (Shanghai) Co Ltd. ....	China	X	X	X
Shuangpai Majiang Wuxingling Wind Power Co., Ltd. ....	China	X	X	X
Siemens Gas Turbine Components (Jiangsu) Co., Ltd. ....	China	X	X	X
Siemens Gas Turbine Parts Ltd., Shanghai ....	China		X	X
Siemens High Voltage Circuit Breaker Co., Ltd., Hangzhou ....	China	X	X	X
Siemens High Voltage Switchgear Co., Ltd., Shanghai ....	China	X	X	X
Siemens High Voltage Switchgear Guangzhou Ltd. ....	China			X
Siemens Industrial Turbomachinery (Huludao) Co. Ltd. ....	China	X	X	X
Siemens Power Plant Automation Ltd. ....	China	X	X	X
Siemens Surge Arresters Ltd. ....	China	X	X	X
Siemens Transformer (Guangzhou) Co., Ltd. ....	China	X	X	X
Siemens Transformer (Jinan) Co., Ltd. ....	China	X	X	X
Siemens Transformer (Wuhan) Company Ltd. ....	China	X	X	X
Siemens Gamesa Renewable Energy (Shanghai) Co., Ltd. ....	China	X	X	X
Trench High Voltage Products Ltd., Shenyang ....	China	X	X	X
Yangtze Delta Manufacturing Co. Ltd., Hangzhou ....	China	X	X	X
Ganquan Chaiguanshan Wind Power Co., Ltd. ....	China	X	X	
Tai'an Sanglin Wind Power Co. Ltd. ...	China		X	
Yongzhou Shuangpai Daguping Wind Power Co., Ltd. ....	China	X	X	

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[8] Not accounted for using the equity method due to immateriality.

Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Dresser-Rand Colombia S.A.S. ....	Colombia	X	X	X
SIEMENS GAMESA RENEWABLE ENERGY S.A.S. ....	Colombia	X		
Siemens Gas and Power S.A.S., Tenjo / Colombia ....	Colombia	X [7]		
SIEMENS GAMESA RENEWABLE ENERGY, S.R.L. ....	Costa Rica	X	X	X
Koncar-Energetski Transformatori, d.o.o. ....	Croatia	X	X	X
Siemens Gamesa Renewable Energy d.o.o. ....	Croatia	X	X	X
Siemens Gas and Power d.o.o. ....	Croatia	X [7]		
Siemens Gamesa Renewable Energy Limited ....	Cyprus	X	X	X
Siemens Gas and Power, s.r.o. ....	Czech Republic	X [7]		
Siemens Gamesa Renewable Energy A/S ....	Denmark	X	X	X
Siemens Gas & Power A/S ....	Denmark	X		
Gamesa Dominicana, S.A.S. ....	Dominican Republic	X	X	X
Parques Eólicos del Caribe, S.A. ....	Dominican Republic			X
Sociedad Energética Del Caribe, S.R.L. ....	Dominican Republic		X	X
Siemens Heat Transfer Techn. Free Zone LLC ....	Egypt		X	X
Siemens Gamesa Renewable Energy Egypt LLC ....	Egypt	X	X	X
Siemens Gamesa Renewable Energy Oy ....	Finland	X	X	X
Adwen France SAS ....	France	X	X	X
D-R Holdings (France) SAS ....	France	X	X	X
Dresser-Rand SAS ....	France	X	X	X
Siemens Gamesa Renewable Energy Wind SARL ....	France	X	X	X

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[8] Not accounted for using the equity method due to immateriality.

Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Société d'Exploitation du Parc Eolien de Bonboillon SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Bouclans SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Broyes SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Cernon SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Chaintrix-Bierges SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Champsevraine, SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Chepniers SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Clamanges SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Coupetz SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Dampierre Prudemanche SAS .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Germainville SAS .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Guerfand SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de la Brie des Etangs SARL .....	France	X	X	X
SEPE de la Cote du Cerisat SAS .....	France			X
Société d'Exploitation du Parc Eolien de la Loye SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de la Tête des Boucs SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Landresse SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Longueville-sur-Aube SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Mailly-le-Camp SARL .....	France	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Société d'Exploitation du Parc Eolien de Mantoche SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Margny SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Moulins du Puits SAS .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Orge et Ornain SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Plancy l'Abbaye SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Pouilly-sur-Vingeanne SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Pringy SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Romigny SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Saint Amand SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Saint Bon SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Saint Loup de Saintonge SAS .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Saint-Lumier en Champagne SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Sambourg SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Savoisy SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Sceaux SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Sommesous SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Songy SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Soude SARL .....	France	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Société d'Exploitation du Parc Eolien de Source de Séves SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Souvans SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Trépot SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Vaudrey SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien de Vernierfontaine SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien d'Orchamps SARL .....	France	X	X	X
Société d'Exploitation du Parc Eolien du Vireaux SAS .....	France	X	X	X
Siemens Gamesa Renewable Energy France SAS .....	France	X	X	X
Siemens Gamesa Renewable Energy S.A.S. ....	France	X	X	X
Trench France SAS .....	France	X	X	X
MG P&S France SAS .....	France	X [7]		
AD 8MW GmbH & Co. KG .....	Germany			X
Adwen Blades GmbH .....	Germany	X	X	X
Adwen GmbH .....	Germany	X	X	X
Adwen Verwaltungs GmbH .....	Germany			X
Dresser-Rand GmbH .....	Germany			X
EBV Holding Verwaltung GmbH .....	Germany	X	X	X
Gamesa Energie Deutschland GmbH ..	Germany		X	X
Gamesa Wind GmbH .....	Germany	X	X	X
HSP Hochspannungsgeräte GmbH ....	Germany	X	X	X
Siemens Compressor Systems GmbH ...	Germany	X	X	X
Siemens Fuel Gasification Technology GmbH & Co. KG .....	Germany			X
Siemens Fuel Gasification Technology Verwaltungs GmbH .....	Germany			X [7]
Siemens Insulation Center GmbH & Co. KG .....	Germany	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Siemens Insulation Center Verwaltungs-GmbH .....	Germany	X [7]	X [7]	X [7]
Siemens Power Control GmbH .....	Germany	X	X	X
Siemens Turbomachinery Equipment GmbH .....	Germany			X
Siemens Gamesa Renewable Energy GmbH & Co. KG .....	Germany	X	X	X
Siemens Gamesa Renewable Energy Management GmbH .....	Germany	X [7]	X [7]	X [7]
Trench Germany GmbH .....	Germany	X	X	X
Verwaltung SeaReenergy Offshore Projects GmbH i.L. ....	Germany			X
Windfarm 33 GmbH .....	Germany	X	X	X
Windfarm 35 GmbH .....	Germany	X	X	X
Windfarm 40 GmbH .....	Germany	X	X	X
Windfarm 41 GmbH .....	Germany	X	X	X
Windfarm Ganderkesee-Lemwerder GmbH .....	Germany		X	X
Windfarm Groß Haßlow GmbH .....	Germany	X	X	X
Windfarm Ringstedt II GmbH .....	Germany	X	X	X
Siemens Gas and Power Management GmbH .....	Germany	X [7]	X [7]	
Kyros 60 GmbH .....	Germany	X [7]		
Siemens Gas and Power GmbH & Co. KG .....	Germany	X [7]		
Siemens Gas and Power Real Estate GmbH & Co. KG .....	Germany	X [7]		
Siemens Gas and Power Real Estate Management GmbH .....	Germany	X [7]		
Windkraft Trinwillershagen Entwicklungsgesellschaft mbH .....	Germany	X		
Siemens Oil & Gas Equipment Limited .....	Ghana	X	X	X
Elliniki Eoliki Attikis Energiaki S.A. ....	Greece		X	X
Elliniki Eoliki Energiaki Pirgos S.A. ....	Greece		X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Elliniki Eoliki Kopriseza S.A. ....	Greece		X	X
Elliniki Eoliki Kseropousi S.A. ....	Greece		X	X
Elliniki Eoliki Likourdi S.A. ....	Greece		X	X
Energiaki Arvanikou M.E.P.E. ....	Greece			X
Eoliki Peloponnissou Lakka Energiaki S.A. ....	Greece		X	X
Siemens Gamesa Renewable Energy AE .....	Greece	X	X	X
Siemens Gamesa Renewable Energy Greece E.P.E. ....	Greece	X	X	X
SIEMENS GAMESA RENEWABLE ENERGY INSTALLATION & MAINTENANCE COMPAÑÍA LIMITADA .....	Guatemala	X	X	X [7]
SIEMENS GAMESA RENEWABLE ENERGY, S.A. ....	Honduras	X	X	X
International Wind Farm Development I Limited .....	Hong Kong	X	X	X [7]
International Wind Farm Development II Limited .....	Hong Kong	X	X	X [7]
International Wind Farm Development IV Limited .....	Hong Kong	X	X	X [7]
International Wind Farm Development V Limited .....	Hong Kong		X	X [7]
International Wind Farm Development VII Limited .....	Hong Kong	X	X	X [7]
Siemens Gas and Power Limited, Hong Kong / Hong Kong .....	Hong Kong	X [7]		
Siemens Gamesa Megújuló Energia Hungary Kft .....	Hungary	X	X	X
Siemens Gamesa Renewable Energy Kft. ....	Hungary	X	X	X
Siemens Gas and Power Kft. ....	Hungary	X [7]		
Anantapur Wind Farms Private Limited .....	India	X	X	X
Bapuram Renewable Private Limited ..	India	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Beed Renewable Energy Private Limited .....	India	X	X	X
Bhuj Renewable Private Limited .....	India	X	X	X
Bidwal Renewable Private Limited ....	India			X
Channapura Renewable Private Limited .....	India	X	X	X
Chikkodi Renewable Power Private Limited .....	India	X	X	X [7]
Devarabanda Renewable Energy Private Limited .....	India	X	X	X
Dhone Renewable Private Limited ....	India	X	X	X
Dresser-Rand India Private Limited ....	India	X	X	X
Gadag Renewable Private Limited ....	India	X	X	X
Gagodar Renewable Energy Private Limited .....	India	X	X	X
Ghatpimpri Renewable Private Limited .....	India	X	X	X
SIEMENS GAMESA RENEWABLE ENERGY PROJECTS PRIVATE LIMITED .....	India	X	X	X
Gudadanal Renewable Private Limited .....	India	X	X	X [7]
Hattarwat Renewable Private Limited .....	India	X	X	X [7]
Haveri Renewable Power Private Limited .....	India	X	X	X [7]
Hungund Renewable Energy Private Limited .....	India	X	X	X [7]
Jalore Wind Park Private Limited .....	India	X	X	X
Jodhpur Wind Farms Private Limited ..	India			X
Kadapa Wind Farms Private Limited ...	India	X	X	X
Kod Renewable Private Limited .....	India	X	X	X
Koppal Renewable Private Limited ....	India	X	X	X
Kurnool Wind Farms Private Limited ..	India	X	X	X
Kutch Renewable Private Limited .....	India	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Latur Renewable Private Limited . . . . .	India			X
Mathak Wind Farms Private Limited . . .	India	X	X	X
Neelagund Renewable Private Limited . . . . .	India	X	X	X [7]
Nellore Renewable Private Limited . . . .	India	X	X	X
Nirloomi Renewable Private Limited . . .	India	X	X	X [7]
Osmanabad Renewable Private Limited . . . . .	India	X	X	X
Poovani Wind Farms Private Limited . .	India	X	X	X
Powerplant Performance Improvement Ltd. . . . .	India	X [1]	X [1]	X [1]
Pugalur Renewable Private Limited . . .	India			X
Rajgarh Windpark Private Limited . . . .	India	X	X	X
Rangareddy Renewable Private Limited . . . . .	India	X	X	X
RSR Power Private Limited . . . . .	India	X	X	X
Santhore Renewable Private Limited . . . . .	India			X
Sankarur Renewable Energy Private Limited . . . . .	India	X	X	X
Saunshi Renewable Energy Private Limited . . . . .	India	X	X	X [7]
Siemens Gamesa Renewable Power Private Limited . . . . .	India	X	X	X
Siemens Gamesa Renewable Energy Engineering Centre Private Limited . . .	India	X	X	X
Thoothukudi Renewable Energy Private Limited . . . . .	India	X	X	X
Tirupur Renewable Energy Private Limited . . . . .	India	X	X	X
Tuljapur Wind Farms Private Limited . . . . .	India	X	X	X
Umrani Renewable Private Limited . . . .	India	X	X	X [7]
Uppal Renewable Private Limited . . . . .	India	X	X	X
Viralipatti Renewable Private Limited . . . . .	India	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Zalki Renewable Private Limited . . . . .	India	X	X	X [7]
Gangavathi Renewable Private Limited . . . . .	India	X	X	
Jamkhandi Renewable Private Limited . . . . .	India	X	X	
Kanigiri Renewable Private Limited . . .	India	X	X	
SANTALPUR RENEWABLE POWER PRIVATE LIMITED . . . . .	India	X	X	
Kollapur Renewable Private Limited . .	India	X	X	
Maski Renewable Energy Private Limited . . . . .	India	X	X	
Nandikeshwar Renewable Energy Private Limited . . . . .	India	X	X	
Rayachoty Renewable Private Limited . . . . .	India	X	X	
Shivamogga Renewable Energy Private Limited . . . . .	India	X	X	
Sindhanur Renewable Energy Private Limited . . . . .	India	X	X	
Vempalli Renewable Energy Private Limited . . . . .	India	X	X	
PT Dresser-Rand Services Indonesia . . .	Indonesia	X	X	X
PT. Siemens Industrial Power . . . . .	Indonesia	X	X	X
PT Siemens Gamesa Renewable Energy . . . . .	Indonesia	X	X	
Siemens Gamesa Energy Tajdidpazir SSK . . . . .	Iran, Islamic Republic of	X	X	
Siemens Gamesa Renewable Energy Ireland Limited . . . . .	Ireland	X	X	X
Siemens Gamesa Renewable Energy Limited . . . . .	Ireland	X	X	X
9REN Israel Ltd. . . . .	Israel		X	X
Siemens Gamesa Renewable Energy Ltd . . . . .	Israel	X	X	X
9REN Services Italia S.r.l. . . . .	Italy			X
Dresser-Rand Italia S.r.l. . . . .	Italy			X
Parco Eolico Banzy S.r.l. . . . .	Italy	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Parco Eolico Manca Vennarda S.r.l. . . . .	Italy	X	X	X
Siemens Gamesa Renewable Energy Italy, S.P.A. . . . .	Italy	X	X	X
Siemens Gamesa Renewable Energy Wind S.R.L. . . . .	Italy	X	X	X
Siemens Transformers S.r.l. . . . .	Italy	X	X	X
Siemens Gamesa Renewable Energy Italia S.r.l. . . . .	Italy	X	X	X
Trench Italia S.r.l. . . . .	Italy	X	X	X
Siemens Gas and Power S.r.l. . . . .	Italy	X [7]		
Dresser Rand Japan K.K. . . . .	Japan			X [7]
Siemens Gamesa Renewable Energy Japan K.K. . . . .	Japan	X	X	X
Siemens Gamesa Renewable Energy Limited . . . . .	Kenya	X	X	X
Siemens Gamesa Renewable Energy Limited . . . . .	Korea, Republic of	X	X	X
D-R Luxembourg International SARL . . . . .	Luxembourg	X	X	X
D-R Luxembourg Partners 1 SCS . . . . .	Luxembourg			X
Dresser-Rand & Enserv Services Sdn. Bhd. . . . .	Malaysia		X [2] [7]	X [2] [7]
Reyrolle (Malaysia) Sdn. Bhd. . . . .	Malaysia		X	X
Siemens Gas and Power Sdn. Bhd. . . . .	Malaysia	X [7]		
Siemens Gamesa Renewable Energy, SARL . . . . .	Mauritania	X	X	X
Siemens Gamesa Renewable Energy Ltd . . . . .	Mauritius	X	X	X
Central Eólica de México S.A. de C.V. . . . .	Mexico	X	X	X
Dresser-Rand de Mexico S.A. de C.V. . . . .	Mexico			X [7]
Siemens Gesa Renewable Energy México, S. de R.L. de C.V. . . . .	Mexico	X	X	X
Siemens Gesa Renewable Energy, S.A. de C.V. . . . .	Mexico	X	X	X
Gesa Oax I Sociedad Anonima de Capital Variable . . . . .	Mexico	X	X	X [7]

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[4] No control due to contractual arrangements or legal circumstances.

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Gesa Oax II Sociedad de Responsabilidad Limitada de Capital Variable .....	Mexico	X	X	X [7]
Gesa Oax III Sociedad Anonima de Capital Variable .....	Mexico	X	X	X [7]
Gesacisa Desarrolladora, S.A. de C.V. ...	Mexico	X	X	X
Gesan I S.A.P.I de C.V. ....	Mexico	X	X	X
Siemens Gesa Renewables Energy Services S. de R.L. de C.V. ....	Mexico	X	X	X
S'G&P Serv SRL CV, Mexiko City .....	Mexico	X [7]		
S'Gas&Pow S RL CV, Mexiko City .....	Mexico	X [7]		
Siemens Gamesa Renewable Energy Morocco SARL .....	Morocco	X	X	X
Guascor Maroc, S.A.R.L. ....	Morocco	X	X	X [7]
Siemens Plant Operations Tahaddart SARL .....	Morocco	X	X	X
Siemens Gamesa Renewable Energy SARL .....	Morocco	X	X	X
Siemens Gamesa Renewable Energy Blades, SARL AU .....	Morocco	X	X	X
D-R International Holdings (Netherlands) B.V. ....	Netherlands		X	X
Dresser-Rand B.V. ....	Netherlands	X	X	X
Siemens Heat Transfer Technology B.V. ....	Netherlands	X	X	X
Siemens D-R Holding B.V. ....	Netherlands	X	X	X
Siemens Gas Turbine Technologies Holding B.V. ....	Netherlands	X	X	X
Siemens Gamesa Renewable Energy B.V. ....	Netherlands	X	X	X
Siemens D-R Holding III B.V. ....	Netherlands	X	X	
Siemens Gas and Power Holding B.V. ....	Netherlands	X		
SIEMENS GAMESA RENEWABLE ENERGY SARL .....	New Caledonia	X	X	

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Siemens Gamesa Renewable Energy New Zealand Limited .....	New Zealand	X	X	X
Gamesa Eólica Nicaragua S.A. ....	Nicaragua	X	X	X
Dresser-Rand (Nigeria) Limited .....	Nigeria	X	X	X
Dresser-Rand AS .....	Norway	X	X	X
SIEMENS GAMESA RENEWABLE ENERGY AS .....	Norway	X	X	X
Siemens Gamesa Renewable Energy (Private) Limited .....	Pakistan	X	X	X [7]
Siemens Gamesa Renewable Energy S.A.C. ....	Peru	X	X	X
Siemens Power Operations, Inc. ....	Philippines	X	X	X
Siemens Gamesa Renewable Energy, Inc. ....	Philippines	X	X	X
Siemens Gamesa Renewable Energy Poland Sp. z o.o. ....	Poland	X	X	X
Lichnowy Windfarm Sp. z o.o. ....	Poland		X	X
Osiek Sp. z o.o. w Likwidacji .....	Poland	X	X	X
Siemens Gamesa Renewable Energy Sp.z.o.o. ....	Poland	X	X	X
Smardzewo Windfarm Sp. z o.o. ....	Poland	X	X	X
Ujazd Sp. z o.o. ....	Poland	X	X	X
Siemens Gas and Power Sp. z o.o. ....	Poland	X [7]		
Siemens Gamesa Renewable Energy, S.A. ....	Portugal	X	X	X
GAMESA Puerto Rico, CRL .....	Puerto Rico			X
Siemens Gamesa Renewable Energy Wind Farms S.R.L. ....	Romania	X	X	X
Siemens Gamesa Renewable Energy Romania S.R.L. ....	Romania	X	X	X
GER Baneasa, S.R.L. ....	Romania	X	X	X
GER Baraganu, S.R.L. ....	Romania	X	X	X
GER Independenta, S.R.L. ....	Romania	X	X	X
Siemens Gas and Power SRL .....	Romania	X [7]		

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
OOO Siemens Gas Turbine Technologies .....	Russian Federation	X	X	X
OOO Siemens Transformers .....	Russian Federation	X	X	X
Siemens Gamesa Renewable Energy LLC .....	Russian Federation	X		X
Dresser-Rand Arabia LLC .....	Saudi Arabia	X [1]	X [1]	X [1]
ISCOSA Industries and Maintenance Ltd. ....	Saudi Arabia	X	X	X
VA TECH T & D Co. Ltd. ....	Saudi Arabia	X	X	X
Siemens Gas and Power d.o.o. Beograd .....	Serbia	X [7]		
Siemens Gamesa Renewable Energy Singapore Private Limited .....	Singapore	X	X	X
Siemens Gas and Power Pte. Ltd. ....	Singapore	X [7]		
Siemens Gas and Power d.o.o. ....	Slovenia	X [7]		
Dresser-Rand Property (Pty) Ltd. ....	South Africa	X [7]	X [7]	X [7]
Dresser-Rand Service Centre (Pty) Ltd. ....	South Africa	X	X	X
Dresser-Rand Southern Africa (Pty) Ltd. ....	South Africa	X	X	X
Gamesa Wind South Africa (Proprietary) Limited .....	South Africa	X	X	X
SIEMENS GAMESA RENEWABLE ENERGY (PTY) LTD .....	South Africa	X	X	X
Siemens Wind Power Employee Share Owners .....	South Africa	X [3]	X [3]	X [3]
Siemens Gas & Power (Pty) Ltd, Midrand / South Africa .....	South Africa	X [7]		
Adwen Offshore, S.L. ....	Spain	X	X	X
Aljaraque Solar, S.L. ....	Spain		X	X
Convertidor Solar Ciento Veintisiete, S.L.U. ....	Spain		X	X
Convertidor Solar Doscientos Noventa y Nueve, S.L.U. ....	Spain			X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Convertidor Solar Doscientos Noventa y Siete, S.L.U. ....	Spain			X
Convertidor Solar G.F. Dos, S.L.U. ....	Spain			X
Convertidor Solar G.F. Tres, S.L.U. ....	Spain			X
Convertidor Solar G.F. Uno S.L.U., Madrid .....	Spain			X
Convertidor Solar Trescientos Diecinueve, S.L.U. ....	Spain			X
Convertidor Solar Trescientos Dieciocho, S.L.U. ....	Spain			X
Convertidor Solar Trescientos Diecisiete, S.L.U. ....	Spain		X	X
Convertidor Solar Trescientos Sesenta y Nueve, S.L.U. ....	Spain			X
Convertidor Solar Trescientos Sesenta y Ocho, S.L.U. ....	Spain			X
Convertidor Solar Trescientos Sesenta y Siete, S.L.U. ....	Spain			X
Convertidor Solar Trescientos Setenta, S.L.U. ....	Spain			X
Convertidor Solar Trescientos Veinte, S.L.U. ....	Spain			X
Convertidor Solar Trescientos, S.L.U. ..	Spain			X
Convertidor Solar Uno, S.L.U. ....	Spain			X
Desimpacto de Purines Altorricón S.A. ....	Spain			X
Desimpacto de Purines Turégano, S.A. ....	Spain			X
Dresser-Rand Holdings Spain S.L.U. ....	Spain	X	X	X
Empresa de Reciclajes de Residuos Ambientales, S.A. ....	Spain			X [7]
Estructuras Metalicas Singulares, S.A. Unipersonal .....	Spain	X	X	X
Gamesa Electric, S.A. Unipersonal ....	Spain	X	X	X
Gamesa Energy Transmission, S.A. Unipersonal .....	Spain	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Gerr Grupo Energético XXI, S.A. Unipersonal .....	Spain	X	X	X
Grupo Guascor, S.L. ....	Spain			X
Guascor Borja AIE .....	Spain			X [7]
Guascor Explotaciones Energéticas, S.A. ....	Spain	X	X	X
Guascor Ingenieria S.A. ....	Spain	X	X	X
Guascor Isolux AIE .....	Spain	X [7]	X [7]	X [7]
SIEMENS ENGINES R&D, S.A.U. ....	Spain	X	X	X
SIEMENS ENGINES SA .....	Spain	X	X	X
Guascor Promotora Solar, S.A. ....	Spain	X	X	X
Guascor Solar Corporation, S.A. ....	Spain			X
Guascor Solar S.A. ....	Spain		X	X
Guascor Wind, S.L. ....	Spain			X [7]
International Wind Farm Development IV, S.L. ....	Spain			X
International Wind Farm Development V, S.L. ....	Spain			X
International Wind Farm Development VI, S.L. ....	Spain			X
International Wind Farm Development VII, S.L. ....	Spain			X
International Wind Farm Developments II, S.L. ....	Spain	X	X	X
International Wind Farm Developments IX, S.L. ....	Spain	X	X	X
Microenergía 21, S.A. ....	Spain			X [7]
Parque Eolico Dos Picos, S.L.U. ....	Spain	X	X	X
Siemens Gamesa Renewable Energy 9REN, S.L. ....	Spain	X	X	X
Siemens Gamesa Renewable Energy Apac, S.L. ....	Spain	X	X	X
Siemens Gamesa Renewable Energy Eolica, S.L. ....	Spain	X	X	X
Siemens Gamesa Renewable Energy Europa S.L. ....	Spain	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Siemens Gamesa Renewable Energy Innovation & Technology, S.L. ....	Spain	X	X	X
Siemens Gamesa Renewable Energy International Wind Services, S.A. ....	Spain	X	X	X
Siemens Gamesa Renewable Energy Invest, S.A. ....	Spain	X	X	X
Siemens Gamesa Renewable Energy Latam, S.L. ....	Spain	X	X	X
Siemens Gamesa Renewable Energy S.A. ....	Spain	X	X	X
Siemens Gamesa Renewable Energy Wind Farms, S.A. ....	Spain	X	X	X
Siemens Gamesa Renewable Finance, S.A. ....	Spain		X	X
Siemens Gamesa Renewable Energy Iberica S.L. ....	Spain	X	X	X
Sistema Eléctrico de Conexión Montes Orientales, S.L. ....	Spain		X	X
Sistemas Energéticos Alcohujate, S.A. Unipersonal ....	Spain		X	X
Sistemas Energéticos Alto da Croa, S.A. Unipersonal ....	Spain			X
Sistemas Energéticos Argañoso, S.L. Unipersonal ....	Spain	X	X	X
Sistemas Energéticos Arinaga, S.A. Unipersonal ....	Spain	X	X	X
Sistemas Energéticos Balazote, S.A. Unipersonal ....	Spain	X	X	X
Sistemas Energéticos Barandon, S.A. ..	Spain		X	X
Sistemas Energéticos Boyal, S.L. ....	Spain	X	X	X
Sistemas Energéticos Cabanelas, S.A. Unipersonal ....	Spain	X	X	X
Sistemas Energéticos Cabezo Negro, S.A. Unipersonal ....	Spain	X	X	X
Sistemas Energéticos Campoliva, S.A. Unipersonal ....	Spain			X
Sistemas Energéticos Carril, S.L. Unipersonal ....	Spain	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Sistemas Energéticos Cuerda Gitana, S.A. Unipersonal .....	Spain	X	X	X
Sistemas Energéticos Cuntis, S.A. Unipersonal .....	Spain	X	X	X
Sistemas Energéticos de Tarifa, S.L. Unipersonal .....	Spain	X	X	X
Sistemas Energéticos del Sur S.A. ....	Spain	X	X	X
Sistemas Energéticos del Umia, S.A. Unipersonal .....	Spain			X
Sistemas Energéticos Edreira, S.A. Unipersonal .....	Spain			X
Sistemas Energéticos El Valle, S.L. ....	Spain	X	X	X
Sistemas Energéticos Finca San Juan, S.L.U. ....	Spain	X	X	X
Sistemas Energéticos Fonseca, S.A. Unipersonal .....	Spain	X	X	X
Sistemas Energéticos Fuerteventura, S.A. Unipersonal .....	Spain		X	X
Sistemas Energeticos Islas Canarias, S.L.U. ....	Spain			X
Sistemas Energéticos Jaralón, S.A. Unipersonal .....	Spain	X	X	X
Sistemas Energéticos La Cámara, S.L. ..	Spain	X	X	X
Sistemas Energéticos La Plana, S.A. ....	Spain	X	X	X
Sistemas Energéticos Ladera Negra, S.A. Unipersonal .....	Spain	X	X	X
Sistemas Energéticos Loma del Reposo, S.L. Unipersonal .....	Spain	X	X	X
Sistemas Energéticos Loma del Viento, S.A. Unipersonal .....	Spain	X	X	X
Sistemas Energéticos Mansilla, S.L. ....	Spain	X	X	X
Sistemas Energéticos Monte Genaro, S.L.U. ....	Spain	X	X	X
Sistemas Energéticos Serra de Lourenza, S.A. Unipersonal .....	Spain	X	X	X
Sistemas Energéticos Sierra de Las Estancias, S.A. Unipersonal .....	Spain	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Sistemas Energéticos Sierra de Valdefuentes, S.L.U. ....	Spain	X	X	X
Sistemas Energéticos Sierra del Carazo, S.L.U. ....	Spain		X	X
Sistemas Energéticos Tablero Tabordo, S.L. ....	Spain	X	X	X
Sistemas Energéticos Tomillo, S.A. Unipersonal ....	Spain	X	X	X
FLOVEA SOLAR, S.L.U. ....	Spain	X	X	
INVERSIONES SAMIAC 30, S.L.U. ....	Spain	X [7]	X [7]	
Siemens Gamesa Renewable Energy Lanka (Private) Limited ....	Sri Lanka	X	X	X
Fanbyn2 Vindenergi AB ....	Sweden	X	X	X
SIEMENS GAMESA RENEWABLE ENERGY SWEDEN AB ....	Sweden	X	X	X
Lindom Vindenergi AB ....	Sweden	X	X	X
Lingbo SPW AB ....	Sweden	X	X	X
Siemens Industrial Turbomachinery AB ....	Sweden	X	X	X
Siemens Gamesa Renewable Energy AB ....	Sweden	X	X	X
Dresser Rand Sales Company GmbH ...	Switzerland	X	X	X
Siemens Power Holding AG ....	Switzerland	X	X	X
Siemens Gamesa Renewable Energy Offshore Wind Limited ....	Taiwan, Province of China	X		
Siemens Gas and Power Limited ....	Taiwan, Province of China	X [7]		
Siemens Gamesa Renewable Energy (Thailand) Co., Ltd. ....	Thailand	X	X	X
Siemens Gamesa Renewable Energy Limited ....	Thailand	X	X	X
Dresser-Rand Trinidad & Tobago Unlimited ....	Trinidad and Tobago	X	X	X
Siemens Gamesa Turkey Yenilenebilir Enerji Limited Sirketi ....	Turkey	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
SIEMENS GAMESA RENEWABLE ENERJİ ANONİM ŞİRKETİ .....	Turkey	X	X	X
SIEMENS GAMESA YENİLENEBİLİR ENERJİ İÇ VE DİŞ TİCARET LİMİTED ŞİRKETİ .....	Turkey	X	X	
Siemens Gas and Power Enerji Anonim Şirketi .....	Turkey	X		
Dresser-Rand Turkmen Company .....	Turkmenistan	X	X	X
Siemens Gamesa Renewable Energy LLC .....	Ukraine	X	X	X
Siemens Gas and Power LLC, Kiev / Ukraine .....	Ukraine	X [7]		
Dresser-Rand Field Operations Middle East LLC .....	United Arab Emirates	X [2]	X [2]	X [2]
Gulf Steam Generators L.L.C. ....	United Arab Emirates	X	X	X
Adwen UK Limited .....	United Kingdom	X	X	X
Bargrennan Renewable Energy Park Limited .....	United Kingdom	X	X	X
D-R Dormant Ltd. ....	United Kingdom		X [7]	X [7]
D-R Holdings (UK) Ltd. ....	United Kingdom	X	X	X
Dresser-Rand (U.K.) Limited .....	United Kingdom	X	X	X
Dresser-Rand Company Ltd. ....	United Kingdom	X	X	X
Glenouther Renewables Energy Park Limited .....	United Kingdom	X	X	X
Industrial Turbine Company (UK) Limited .....	United Kingdom	X	X	X
Materials Solutions Holdings Limited .....	United Kingdom	X	X	X
Materials Solutions Limited .....	United Kingdom	X	X	X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Sellafrith Renewable Energy Park Limited .....	United Kingdom	X	X	X
Siemens Gamesa Renewable Energy B9 Limited .....	United Kingdom	X	X	X
Siemens Gamesa Renewable Energy Limited .....	United Kingdom	X	X	X
Siemens Gamesa Renewable Energy UK Limited .....	United Kingdom	X	X	X
Siemens Gamesa Renewable Energy Wind Limited .....	United Kingdom	X	X	X
Siemens Industrial Turbomachinery Ltd. ....	United Kingdom	X	X	X
Siemens Transmission & Distribution Limited .....	United Kingdom	X	X	X
VA TECH (UK) Ltd. ....	United Kingdom	X	X	X
VA Tech Reyrolle Distribution Ltd. ....	United Kingdom		X	X
Advanced Airfoil Components LLC ....	United States of America	X	X	X
Cedar Cap Wind, LLC .....	United States of America	X	X	X
Diversified Energy Transmissions, LLC .....	United States of America	X	X	X
D-R International Sales Inc. ....	United States of America		X	X
D-R Steam LLC .....	United States of America	X	X	X
Dresser-Rand Company .....	United States of America	X	X	X
Dresser-Rand Global Services, Inc. ....	United States of America	X	X	X
Dresser-Rand Group Inc. ....	United States of America	X	X	X
Dresser-Rand Holding (Luxembourg) LLC .....	United States of America		X	X
Dresser-Rand International Holdings, LLC .....	United States of America			X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Dresser-Rand International Inc. ....	United States of America			X
Dresser-Rand LLC .....	United States of America	X	X	X
EcoHarmony West Wind, LLC .....	United States of America	X	X	X
Navitas Energy Inc .....	United States of America			X
Siemens Heat Transfer Technology Corp. ....	United States of America	X	X	X
Pocahontas Prairie Holdings, LLC .....	United States of America	X	X	X
Pocahontas Prairie Wind, LLC .....	United States of America	X	X	X
Siemens Demag Delaval Turbomachinery, Inc. ....	United States of America	X	X	X
Siemens Energy, Inc. ....	United States of America	X	X	X
Siemens Field Staffing, Inc. ....	United States of America	X	X	X
Siemens Gamesa Renewable Energy, Inc. ....	United States of America	X	X	X
Siemens Gamesa Renewable Energy PA, LLC .....	United States of America	X	X	X
Gamesa Technology Corporation, INC .....	United States of America			X
Siemens Gamesa Renewable Energy, Inc. (dep ARE of 449T) .....	United States of America		X	X
Siemens Generation Services Company .....	United States of America	X	X	X
Siemens Power Generation Service Company, Ltd. ....	United States of America	X	X	X
Synchrony, Inc. ....	United States of America	X	X	X
Wheelabrator Air Pollution Control Inc. ....	United States of America	X	X	X
Whitehall Wind, LLC .....	United States of America			X

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Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Wind Portfolio Memberco, LLC .....	United States of America	X	X	X
Engines Rental, S.A. ....	Uruguay		X [7]	X [7]
SIEMENS GAMESA RENEWABLE ENERGY S.R.L. ....	Uruguay	X	X	X
Gamesa Eólica VE, C.A. ....	Venezuela	X	X	X
Guascor Venezuela S.A. ....	Venezuela			X [7]
Siemens Gamesa Renewable Energy LLC .....	Vietnam	X	X	X [7]

#### Fully consolidated (Mixed Entities)

Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Siemens S.A. ....	Angola	X	X	X
Siemens S.A. ....	Argentina	X	X	X
Siemens Ltd. ....	Australia	X	X	X
Siemens Aktiengesellschaft Österreich .....	Austria	X	X	X
Siemens Konzernbeteiligungen GmbH .....	Austria	X	X	X
Siemens Metals Technologies Vermögensverwaltungs GmbH .....	Austria	X	X	X
Siemens W.L.L. ....	Bahrain	X	X	X
Siemens Bangladesh Ltd. ....	Bangladesh	X	X	X
Limited Liability Company Siemens Technologies .....	Belarus	X	X	X
Siemens S.A./N.V. ....	Belgium	X	X	X
Siemens Soluciones Tecnologicas S.A. ....	Bolivia	X	X	X
Siemens d.o.o. Sarajevo - U Likvidaciji .....	Bosnia and Herzegovina	X	X	X
Siemens Ltda. ....	Brazil	X	X	X
Siemens Participações Ltda. ....	Brazil	X	X	X [7]
Siemens EOOD .....	Bulgaria	X	X	X

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[4] No control due to contractual arrangements or legal circumstances.

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Siemens Canada Limited . . . . .	Canada	X	X	X
Siemens S.A. . . . .	Chile	X	X	X
Siemens Factory Automation Engineering Ltd. . . . .	China	X	X	X
Siemens International Trading Ltd., Shanghai . . . . .	China	X	X	X
Siemens Ltd., China . . . . .	China	X	X	X
Siemens Manufacturing and Engineering Centre Ltd. . . . .	China	X	X	X
Siemens S.A. . . . .	Colombia	X	X	X
Siemens SARL . . . . .	Côte d'Ivoire	X	X	X
Siemens d.d. . . . .	Croatia	X	X	X
Siemens, s.r.o. . . . .	Czech Republic	X	X	X
Siemens A/S . . . . .	Denmark	X	X	X
Siemens, S.R.L. . . . .	Dominican Republic	X	X	X
Siemens S.A. . . . .	Ecuador	X	X	X
Siemens Healthcare Logistics LLC . . . . .	Egypt	X	X	X
Siemens Technologies S.A.E. . . . .	Egypt	X	X	X
Siemens Osakeyhtiö . . . . .	Finland	X	X	X
Siemens France Holding SAS . . . . .	France	X	X	X
Siemens SAS . . . . .	France	X	X	X
Next47 GmbH . . . . .	Germany	X	X	X
Next47 Services GmbH . . . . .	Germany	X	X	X
Siemens Bank GmbH . . . . .	Germany	X	X	X
Siemens Beteiligungen Inland GmbH . . . . .	Germany	X	X	X
Siemens Beteiligungen USA GmbH . . . . .	Germany	X	X	X
Siemens Beteiligungsverwaltung GmbH & Co. OHG . . . . .	Germany	X	X	X
Siemens Project Ventures GmbH . . . . .	Germany	X	X	X

[1] Control due to a majority of voting rights.

[2] Control due to rights to appoint, reassign or remove members of the key management personnel.

[3] Control due to contractual arrangements to determine the direction of the relevant activities.

[4] No control due to contractual arrangements or legal circumstances.

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Siemens AG - Zentrale Themen, Muenchen . . . . .	Germany	X	X	X
Siemens Limited . . . . .	Hong Kong	X	X	X
Siemens Zrt. . . . .	Hungary	X	X	X
Siemens Technology and Services Private Limited . . . . .	India	X	X	X
Siemens Sherkate Sahami (Khash) . . . . .	Iran, Islamic Republic of	X	X	X
Siemens Limited . . . . .	Ireland	X	X	X
Siemens Israel Ltd. . . . .	Israel	X	X	X
Siemens S.p.A. . . . .	Italy	X	X	X
Siemens K.K. . . . .	Japan	X	X	X
Siemens TOO . . . . .	Kazakhstan	X	X	X
Siemens Ltd. Seoul . . . . .	Korea, Republic of	X	X	X
Siemens Electrical & Electronic Services K.S.C.C. . . . .	Kuwait	X [2]	X [2]	X [2]
D-R Luxembourg Holding 1, SARL . . . . .	Luxembourg	X	X	X
D-R Luxembourg Holding 2, SARL . . . . .	Luxembourg	X	X	X
D-R Luxembourg Holding 3, SARL . . . . .	Luxembourg	X	X	X
Dresser-Rand Holding (Delaware) LLC, SARL . . . . .	Luxembourg	X	X	X
Dresser-Rand Asia Pacific Sdn. Bhd. . . . .	Malaysia	X	X	X
Siemens Malaysia Sdn. Bhd. . . . .	Malaysia	X	X	X
VA TECH Malaysia Sdn. Bhd. . . . .	Malaysia		X	X
Siemens Servicios S.A. de C.V. . . . .	Mexico	X	X	X
Siemens, S.A. de C.V. . . . .	Mexico	X	X	X
Siemens d.o.o. . . . .	Montenegro	X	X	X
Siemens S.A. . . . .	Morocco	X	X	X
Dresser-Rand International B.V. . . . .	Netherlands	X	X	X
Dresser-Rand Services B.V. . . . .	Netherlands	X	X	X
Siemens D-R Holding II B.V. . . . .	Netherlands	X	X	X

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[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.



Company name	Country	Sep 30, 2019	Sep 30, 2018	Sep 30, 2017
Siemens Tanzania Ltd. i.L. ....	Tanzania, United Republic of	X	X	X
Dresser-Rand (Thailand) Limited .....	Thailand	X	X	X
Siemens Limited .....	Thailand	X	X	X
Siemens Sanayi ve Ticaret Anonim Sirketi .....	Turkey	X	X	X
100% foreign owned subsidiary "Siemens Ukraine" .....	Ukraine	X	X	X
Siemens LLC .....	United Arab Emirates	X [2]	X [2]	X [2]
Siemens Middle East Limited .....	United Arab Emirates	X	X	X
Siemens Holdings plc .....	United Kingdom	X	X	X
Siemens plc .....	United Kingdom	X	X	X
Siemens Corporation .....	United States of America	X	X	X
Siemens Financial Services, Inc. ....	United States of America	X	X	X
Siemens Government Technologies, Inc. ....	United States of America	X	X	X
Siemens Industry, Inc. ....	United States of America	X	X	X
Siemens USA Holdings, Inc. ....	United States of America	X	X	X
Siemens S.A. ....	Uruguay	X	X	X
Siemens Uruguay S.A. ....	Uruguay	X	X	X
Dresser-Rand de Venezuela, S.A. ....	Venezuela	X	X	X
Siemens S.A. ....	Venezuela	X	X	X
Siemens Ltd. ....	Vietnam	X	X	X

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[4] No control due to contractual arrangements or legal circumstances.

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

## Associated companies and joint ventures

Company name	Country	Equity interest in %			
		Sep 30, 2019		Sep 30, 2018	
				Sep 30, 2017	
Aspern Smart City Research GmbH . . . .	Austria	44	[8]	44	[8]
Aspern Smart City Research GmbH & Co KG . . . . .	Austria	44		44	
OIL AND GAS PROSERV LLC . . . . .	Azerbaijan	25	[8]	25	[8]
Gas Natural Acu Infraestructura S.A . . .	Brazil	5	[6]	33	
Beijing Jingneng International Energy Technology Co., Ltd. . . . .	China	45			
EBV Windpark Almstedt-Breinum GmbH & Co. Betriebs-KG . . . . .	Germany			64	[4]
				[8]	[8]
Infineon Technologies Bipolar GmbH & Co. KG . . . . .	Germany	40		40	
Infineon Technologies Bipolar Verwaltungs-GmbH . . . . .	Germany	40	[8]	40	[8]
Maschinenfabrik Reinhausen GmbH . . .	Germany	20		26	
Voith Hydro Holding GmbH & Co. KG . . . . .	Germany	35		35	
Voith Hydro Holding Verwaltungs GmbH . . . . .	Germany	35	[8]	35	[8]
Windkraft Trinwillershagen Entwicklungsgesellschaft mbH . . . . .	Germany			50	
Siemens Ltd. . . . .	India	24		24	
Kintech Santalpur Wind Park Private Limited . . . . .	India				49
PT Trafoindo Power Indonesia . . . . .	Indonesia	49			
COELME - Costruzioni Elettromeccaniche S.p.A. . . . .	Italy	25			
Advance Gas Turbine Solutions SDN. BHD. . . . .	Malaysia	43		43	
Energia Eólica de Mexico S.A. de C.V. . . . .	Mexico	50		50	
GLT-PLUS V.O.F . . . . .	Netherlands	40	[8]	40	[8]
Wirescan AS . . . . .	Norway	36	[8]	36	[8]

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[4] No control due to contractual arrangements or legal circumstances.

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.



Company name	Country	Equity interest in %			
		Sep 30, 2019	Sep 30, 2018	Sep 30, 2017	
OOO VIS Automation mit Zusatz „Ein Gemeinschaftsunternehmen von VIS und Siemens“ .....	Russian Federation	49	49	49	
ZAO Interautomatika .....	Russian Federation	46	46	46	
Ardora, S.A. ....	Spain	35 [8]	35 [8]	35 [8]	
Desgasificación de Vertederos, S.A ....	Spain	50 [8]	50 [8]	50 [8]	
Energías Renovables San Adrián de Juarros, S.A. ....	Spain	45	45	45	
EXPLOTACIONES Y MANTEMIENTOS INTEGRALES S.L. ....	Spain	50 [8]	50 [8]	50 [8]	
Gate Solar Gestión, S.L. Unipersonal ...	Spain	50 [8]	50 [8]	50 [8]	
Generación Eólica Extremeña, S.L. ....	Spain		30 [8]	30 [8]	
Hydrophytic, S.L. ....	Spain	50 [8]	50 [8]	50 [8]	
Nuevas Estrategias de Mantenimiento, S.L. ....	Spain	50	50	50	
Sistemas Electricos Espluga, S.A. ....	Spain	50	50	50	
Tusso Energía, S.L. ....	Spain	50 [8]	50 [8]	50 [8]	
Windar Renovables, S.L. ....	Spain	32	32	32	
SIGLO XXI SOLAR, SOCIEDAD ANONIMA .....	Spain	25 [8]	25 [8]		
SISTEMAS ENERGETICOS DE TENERIFE, S.A. ....	Spain	20 [8]	20 [8]		
Ethos Energy Group Limited .....	United Kingdom	49	49	49	
RWG (Repair & Overhauls) Limited ....	United Kingdom	50	50	50	
Baja Wind US LLC .....	United States of America	50 [8]	50 [8]	50 [8]	
Echogen Power Systems, Inc. ....	United States of America		29	32	

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[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

Company name	Country	Equity interest in %					
		Sep 30, 2019		Sep 30, 2018		Sep 30, 2017	
First State Marine Wind, LLC . . . . .	United States of America	31	[8]	31	[8]	31	[8]
Joint Venture Service Center . . . . .	Uzbekistan	49	[8]	49	[8]	49	[8]
Empresa Nacional De Maquinas Eléctricas ENME, S.A. . . . .	Venezuela	40	[8]	40	[8]	40	[8]

#### Other investments

Company name	Country	Sep 30, 2019		Sep 30, 2018		Sep 30, 2017	
Uhre Vindmollelaug I/S . . . . .	Denmark	X		X		X	
Gestion de Evacuacion La Serna, S.L. . .	Spain	X		X	[8]		

[1] Control due to a majority of voting rights.

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[3] Control due to contractual arrangements to determine the direction of the relevant activities.

[4] No control due to contractual arrangements or legal circumstances.

[5] –

[6] Significant influence due to contractual arrangements or legal circumstances.

[7] Not consolidated due to immateriality.

[8] Not accounted for using the equity method due to immateriality.

*This is a translation of the German language original.*

## **INDEPENDENT AUDITOR'S REPORT**

To Siemens Aktiengesellschaft, Berlin and Munich

### **Opinion**

We have audited the combined financial statements of the Siemens Energy business (entirety of entities and business activities included in the combined financial statements, together "Siemens Energy"), which comprise the combined statements of income, combined statements of comprehensive income, combined statements of financial position, combined statements of cash flows, combined statements of changes in invested equity and the notes to the combined financial statements, including a summary of significant accounting policies, for the fiscal years from October 1, 2018 to September 30, 2019, October 1, 2017 to September 30, 2018 and October 1, 2016 to September 30, 2017.

In our opinion, on the basis of the knowledge obtained in the audit, the accompanying combined financial statements comply, in all material respects, with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and, in compliance with these requirements, give a true and fair view of the assets and liabilities and financial position of Siemens Energy as of September 30, 2019, September 30, 2018 and September 30, 2017 and its financial performance for the fiscal years from October 1, 2018 to September 30, 2019, October 1, 2017 to September 30, 2018 and October 1, 2016 to September 30, 2017.

Pursuant to Sec. 322 (3) Sentence 1 HGB ("Handelsgesetzbuch": German Commercial Code), we declare that our audit has not led to any reservations relating to the legal compliance of the combined financial statements.

### **Basis for the opinion**

We conducted our audit of the combined financial statements in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the combined financial statements" section of our auditor's report. We are independent of the entirety of entities and business activities included in the combined financial statements in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the combined financial statements.

### **Responsibilities of management and the Supervisory Board for the combined financial statements**

Management of Siemens Aktiengesellschaft is responsible for the preparation of the combined financial statements that comply, in all material respects, with IFRSs as adopted by the EU and that the combined financial statements, in compliance with these requirements, give a true and fair view of the assets and liabilities, financial position and financial performance of Siemens Energy. In addition, management of Siemens Aktiengesellschaft is responsible for such internal control as management has determined necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management of Siemens Aktiengesellschaft is responsible for assessing Siemens Energy's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, management is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate Siemens Energy or to cease operations, or there is no realistic alternative but to do so.

The Supervisory Board of Siemens Aktiengesellschaft is responsible for overseeing Siemens Energy's financial reporting process for the preparation of the combined financial statements.

#### **Auditor's responsibilities for the audit of the combined financial statements**

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the combined financial statements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the IDW will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Siemens Energy's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Siemens Energy to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements present the underlying transactions and events in a manner that the combined financial statements give a true and fair view of the assets and liabilities, financial position and financial performance of Siemens Energy in compliance with IFRSs as adopted by the EU.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Siemens Energy to express an audit opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**German Public Auditor responsible for the engagement**

The German Public Auditor responsible for the engagement is Thomas Spannagl.

Munich, May 6, 2020

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Spannagl  
Wirtschaftsprüfer  
[German Public Auditor]

Orlov  
Wirtschaftsprüfer  
[German Public Auditor]

**Audited Unconsolidated Financial Statements of  
Siemens Energy AG prepared in accordance with the  
German Commercial Code (*Handelsgesetzbuch*) as of and  
for the Fiscal Year Ended September 30, 2019**



Kyros 52 Aktiengesellschaft (until 25 September 2019: Kyros 52 GmbH)  
Company's seat: Munich (until 5 November 2019: Hanover)  
Local Court: Munich, HRB 252581 (until 5 November 2019: Hanover, HRB 218841)  
Balance sheet as at 30 September 2019

	Sep 30, 2019 EUR	Sept 30, 2018 EUR
<b>Assets</b>		
<b>A. Current assets</b>		
<b>I. Receivables and other assets</b>		
Receivables from affiliated companies .....	87,724.67	84,293.89
<b>II. Cash in banks</b> .....	100,839.86	93,069.10
	<u>188,564.53</u>	<u>177,362.99</u>
<b>Shareholders' equity and liabilities</b>	<b>Sep 30, 2019 EUR</b>	<b>Sept 30, 2018 EUR</b>
<b>A. Shareholders' equity</b>		
<b>I. Common stock</b> .....	100,000.00	93,000.00
<b>II. Additional paid-in capital</b> .....	100,000.00	100,000.00
<b>III. Accumulated loss</b> .....	(14,881.53)	(15,654.01)
	<u>185,118.47</u>	<u>177,345.99</u>
<b>B. Liabilities</b>		
Liabilities to banks .....	17.00	17.00
Trade payables .....	3,429.06	0.00
	<u>3,446.06</u>	<u>17.00</u>
	<u>188,564.53</u>	<u>177,362.99</u>

As of September 30, 2018, Receivables against the parent company amounted to EUR 11.134,37.  
The remaining term of receivables from affiliated companies is below one year  
The remaining term of trade payables and liabilities to banks is below one year

Munich, this 27th day of March 2020

sgd. Wolfgang Seltmann

sgd. Martin Rohbogner

Kyros 52 Aktiengesellschaft (until 25 September 2019: Kyros 52 GmbH)  
 Company's seat: Munich (until 5 November 2019: Hanover)  
 Local Court: Munich, HRB 252581 (until 5 November 2019: Hanover, HRB 218841)  
 Income statement for fiscal year ended 30 September 2019

	FY 2018/19 EUR	FY 2017/18 EUR
1. General administrative expenses .....	(14,302.92)	(10,556.09)
2. Other income .....	15,654.01	0.00
3. Income from operations .....	1,351.09	(10,556.09)
4. Interest income .....	(578.61)	(578.28)
<i>thereof from affiliated companies EUR -578,61 (prior year</i>		
<i>EUR -578,28)</i>		
<i>thereof negative interest from financial investment EUR -578,61</i>		
<i>(prior year EUR -578,28)</i>		
5. Income after tax .....	772.48	(11,134.37)
6. Income from profit and loss transfer agreements .....	0.00	11,134.37
7. Net income .....	772.48	0.00
8. Loss carryforward .....	(15,654.01)	(15,654.01)
9. Accumulated loss .....	(14,881.53)	(15,654.01)

Munich, this 27th day of March 2020

sgd. Wolfgang Seltmann

sgd. Martin Rohbogner

*Translation of the German language original concerning the audit of the original German language annual financial statements.*

## **Independent auditor's report**

To Kyros 52 Aktiengesellschaft

### **Opinion**

We have audited the annual financial statements of Kyros 52 Aktiengesellschaft (formerly: Kyros 52 GmbH), Munich, which comprise the balance sheet as of 30 September 2019 and the income statement for the fiscal year from 1 October 2018 to 30 September 2019.

In our opinion, on the basis of the knowledge obtained in the audit, the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of 30 September 2019 and of its financial performance for the fiscal year from 1 October 2018 to 30 September 2019 in compliance with German legally required accounting principles and the partial application of the exemption for micro-entities pursuant to Sec. 264 (1) Sentence 5 HGB ["Handelsgesetzbuch": German Commercial Code].

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements.

### **Basis for the opinion**

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements" section of our auditor's report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the annual financial statements.

### **Responsibilities of the executive directors and the supervisory board for the annual financial statements**

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles and partially applying the exemption for micro-entities pursuant to Sec. 264 (1) Sentence 5 HGB. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements.

## **Auditor's responsibilities for the audit of the annual financial statements**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the annual financial statements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of this system of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles and partially applying the exemption for micro-entities pursuant to Sec. 264 (1) Sentence 5 HGB.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Munich, 27 March 2020

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Spannagl  
Wirtschaftsprüfer  
[German Public Auditor]

Müller  
Wirtschaftsprüferin  
[German Public Auditor]

## 22 RECENT DEVELOPMENTS AND OUTLOOK

### 22.1 Recent Developments

On July 2, 2020, S&P Global assigned a preliminary long-term investment grade rating of BBB with a stable outlook to Siemens Energy. On the same day, S&P Global announced that the rating of SGRE is foreseen to be upgraded to BBB upon Spin-Off Completion. Further, on August 6, 2020, S&P Global assigned a preliminary long-term investment grade rating of BBB with a stable outlook to SE Global GmbH & Co. KG. After Spin-Off Completion, the preliminary long-term ratings are expected to become the long-term issuer credit ratings of Siemens Energy AG and SE Global GmbH & Co. KG.

On July 7, 2020, Siemens Energy concluded the Facility Agreement regarding a revolving credit facility with a maximum total volume of € 3 billion (see *"12.9.1 Siemens Energy Facility Agreement"*).

On July 22, 2020, the Ordinary General Meeting of Shareholders of SGRE, S.A. ratified the appointment of the SGRE's CEO, Andreas Nauen. This meeting also passed a motion to reduce the size of the Board of Directors from 13 to 10 directors. On July 30, 2020, SGRE announced the appointment of Beatriz Puente as its incumbent Chief Financial Officer.

On September 1, 2020, we announced a restructuring of our Gas and Power segment's Le Havre facilities. The current plan foresees a headcount reduction of approximately 300, the closure of production activities while keeping certain operations. We estimate to incur personnel and non-personnel costs of € 70 million to € 100 million associated with the transformation measures. The announced plan is still subject to change, especially following the outcome of the just started negotiations as per statutory requirements.

On September 1, 2020, the increase of the Company's share capital from € 100,000 by € 326,890,337 to € 326,990,337 became effective. Furthermore, the Company expects that on September 25, 2020 the increase of its share capital from € 326,990,337 by € 399,654,856 to € 726,645,193 by issuing the 399,654,856 New Shares will become effective. For more information, see *"16.2 Development of the Share Capital over the Last Three Years and in the Course of the Spin-Off"*.

Increasing costs for project-related guarantees, primarily for guarantees issued by Siemens AG, are expected to result in a cumulative catch-up effect that will negatively impact our profitability in the fourth quarter of the fiscal year 2020 with € 75 million to € 125 million.

In the fourth quarter of the fiscal year 2020, we further expect:

- our Gas and Power segment to recognize extraordinary expenses of up to € 50 million predominantly due to write-offs and supplier related contracts, which were a consequence of our strategic portfolio decision to streamline our offering of aero-derivative gas turbines with a view to increasing profitability in this field of business (see *"12.3.3 Industrial Applications Division"*); and
- our SGRE segment to recognize Special Items of € 75 million to € 125 million.

In the fourth quarter of fiscal year 2020, we expect to incur stand-alone costs of € 75 million to € 100 million (for information regarding stand-alone costs incurred in the nine-month period ended June 30, 2020, see *"9.4.10.3 Special Items"*).

Most of our businesses continue to be negatively impacted by the deteriorated business environment due to COVID-19 and/or low oil price levels. In our Gas and Power segment, the effects varied widely. Our Gas and Power segment's Transmission division experienced a negative impact mainly due to COVID-19 and oil price developments causing postponements of single large orders as well as an intermediate reduction of production capacities at Transmission factories. Further, construction at some project sites was slowed down as travel restrictions and lock-down situations made site access difficult in some countries. Our Gas and Power segment's Generation division experienced a negative impact mainly due to COVID-19 caused by

postponements of orders due to project and service outage shifts. Furthermore, due to construction site closures the division incurred prolongation costs. Our Gas and Power segment's Industrial Applications division experienced a negative impact mainly due to COVID-19 and oil price developments causing delays in contract negotiations resulting in postponements of orders, lower transactional business and service outage shifts due to travel restrictions. The Industrial Applications division experienced only a limited impact on its manufacturing facilities as the majority of its production sites remained open and operational. Our SGRE segment's business continues to be negatively impacted mainly by the effects of COVID-19, challenges in the onshore business related to the slowdown of the Indian and Mexican markets and execution issues related to projects in Northern Europe.

Except as described above, between June 30, 2020 and the date of the Prospectus, there have been no significant changes in our financial position.

## 22.2 Outlook

Immediately after the Listing, Siemens Energy AG will implement a share repurchase program as part of which it may buy back Shares for up to € 393 million, but not more than 72,664,519 Shares, until March 31, 2021. Depending on prevailing trading volumes and conditions, Siemens Energy AG intends to repurchase a substantial part of the volume at the beginning of the repurchase period. For more information, see "*17.6.1.2.4(3) Share Buy Back Program*".

Upon Spin-Off Completion, Stock Entitlements of Beneficiaries of the Siemens Energy Group who leave the Siemens Group as a direct consequence of the Spin-Off will be forfeited and such Beneficiaries are entitled to cash compensation. As of August 26, 2020, we expect that the net cash outflow for the cash compensation to be paid by Siemens Energy Group will amount to approximately € 229 million, with a lower impact expected on Special Items since the vested portion is already reflected in the balance sheet. For more information, see "*17.2.3.5 Treatment of Siemens Entitlements after the Spin-Off Completion*".

We currently expect:

- our Group's Adjusted EBITA Margin before Special Items in the fiscal years 2020 and 2021 to range from (1)% to 1% and 3% to 5%, respectively,
- our Segment's Adjusted EBITA Margin before Special Items for the Gas and Power Segment in the fiscal years 2020 and 2021 to range from 0% to 2% and 3.5% to 5.5%, respectively, and
- our Segment's Adjusted EBITA Margin before Special Items for the SGRE Segment in the fiscal years 2020 and 2021 to range from (3)% to (1)% and 3% to 5%, respectively.

For the purpose of these forecasts, we assumed:

- our Group's Revenue Growth Rate in the fiscal years 2020 and 2021 to range from (5)% to (2)% and 2% to 12%, respectively,
- our Segment's Revenue Growth Rate for the Gas and Power Segment in the fiscal years 2020 and 2021 to range from (5)% to (3)% and 2% to 11%, respectively, and
- our Segment's Revenue Growth Rate for the SGRE Segment in the fiscal years 2020 and 2021 to range from (7)% to (2)% and 3% to 12%, respectively.

For additional information, see "*10 Profit Forecast*".

For the fiscal year 2023, we target our Adjusted EBITA Margin before Special Items in a range from 6.5% to 8.5%. For the fiscal year 2023, we target Adjusted EBITA Margin before Special Items for our Gas and Power segment in a range from 6% to 8% and for our SGRE segment in a range from 8% to 10%.

In the mid-term, we target an Adjusted EBITA Margin of at least 8% and our revenue to grow over a rolling three year average in a range from 0% to 3% (excluding portfolio and currency effects).



In setting our targets for fiscal year 2023 and our mid-term targets we have assumed, among other things:

- market trends to materialize as described in *"11 Industry Overview"*, including an impact of COVID-19 on market developments not exceeding the magnitude as outlined therein, no second wave of COVID-19 or a significant prolongation of the current pandemic leading to comprehensive lockdown measures as experienced in the first half of 2020. Further, we assume a recovery of a part of the negative impact of COVID-19 on our business experienced in the fiscal year 2020 by the fiscal year 2023, with first recoveries in our Gas and Power segment's Transmission and Generation divisions already in the fiscal year 2021, as well as a recovery of oil prices to pre-COVID-19 levels in the mid-term to around USD 65-70 bbl and an overall positive impact from the trend towards decarbonization which is expected to benefit our related offerings, including our New Energy Business;
- that there will be no significant changes in existing political, legal, fiscal, market or economic conditions, or in applicable legislation, regulations or rules (including, but not limited to, accounting policies, accounting treatments and tax rules and interpretative guidance) and that foreign exchange rates will not change materially, in each case except as described in this section and elsewhere in this Prospectus, and that we will not become party to any litigation or administrative proceeding or proceedings that might have a material impact on us of which we are not currently aware;
- a successful execution of our strategies, including the successful implementation of current and the introduction of potential further reorganization and cost saving programs, the successful growth of our service revenue share, the successful implementation of operational improvement programs aimed at supporting a focus on high-margin projects and a reduction of non-conformance costs (for more information, see *"12.2 Investment Highlights"*);
- that, compared to the fiscal year 2018, our Gas and Power segment's restructuring and optimization programs and potential further measures achieve annual global gross cost savings of around € 700 million by the fiscal year 2021. The originally targeted annual global gross cost savings for the fiscal year 2023 of around € 1 billion are exceeded by at least € 300 million, these programs and measures, deliver additional annual global gross cost savings in the low triple digit euro million range by the fiscal year 2025; and the costs incurred in connection with the implementation of these programs and measures do not to exceed our current expectations. For more information, see *"9.4.10.1 Restructuring and Integration Measures in our Gas and Power Segment"*;
- regarding our SGRE segment, the successful implementation of its new "LEAP" program. For more information, see *"9.4.10.2 Restructuring and Integration Measures in our SGRE Segment"* and *"12.4 SGRE Segment"*;
- that our SGRE segment achieves annual cost savings of up to € 100 million in particular due to intensified cooperation between Siemens Energy, Siemens and our SGRE segment (see also *"18.1.1.2 Relationships with and Services Provided by the Siemens Group to SGRE"*);
- that we will successfully transition to our stand-alone setup. In the fiscal year 2021, we expect a high double-digit euro million amount as stand-alone costs. In the fiscal years 2022 and 2023, we expect a mid double-digit million euro amount as stand-alone costs per annum. Thereafter, we do not expect to incur further stand-alone costs.

**Certain statements in this section, including, in particular, the targets described above, constitute forward-looking statements. These forward-looking statements are not guarantees of future financial performance, and our actual results could differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including but not limited to those described under *"4.4 Forward-Looking Statements"*, *"3 Risk Factors"* and *"10 Profit Forecast"*. Investors are urged not to place undue reliance on any of the statements set forth above.**

## 23 GLOSSARY

AC .....	refers to alternating current ( <i>Wechselstrom</i> ), an electric current which periodically reverses direction.
ADRs .....	American Depositary Receipts.
AEP .....	Annual Energy Production. The AEP of a wind turbine is the total amount of electrical energy it produces over a year, measured in kilowatt hours or megawatt hours (kWh or MWh). The actual (net) AEP of a wind turbine may be less than the theoretical (gross) AEP, for example in case of downtime for repairs, curtailment to protect the grid, inefficiencies of the rotor, lower wind speeds than projected, etc.
Aero-derivative gas turbines .....	Aero-derivative gas turbines are turbines which are used for applications that require flexible, compact and lightweight equipment, such as applications in the onshore and offshore oil & gas industry. The technical design of aero-derivative gas turbines is based on turbine designs used in aviation. Compared with industrial gas turbines, aero-derivative turbines have significantly faster start-up times.
Air-insulated switchgear .....	To ensure their proper functioning, the electrical components of a switchgear must be duly insulated. An air-insulated switchgear is a switchgear in which the different components are insulated by air and which can be used for voltages of up to 1,200 kV. Air-insulated switchgear comprise circuit breakers, disconnectors, surge arresters, insulators and earthing switches.
Articles of Association .....	refers to the articles of association of Siemens Energy AG.
BaFin .....	German Federal Financial Supervisory Authority ( <i>Bundesanstalt für Finanzdienstleistungsaufsicht</i> ).
bar .....	unit of pressure; 1 bar approximately corresponds to the current atmospheric pressure at sea level.
BCGs .....	refers to business conduct guidelines.
BNEF .....	refers to Bloomberg New Energy Finance.
BNetzA .....	Federal Network Agency ( <i>Bundesnetzagentur</i> ), the German regulatory office for electricity, gas, telecommunications, post and railway.
Brexit .....	refers to the withdrawal of the United Kingdom from the EU which occurred on January 31, 2020.
Brownfield sites .....	refer to previously developed and now abandoned land that has the potential for being redeveloped.
Bushings .....	Bushings are electrical components that insulate a high-voltage conductor carrying current passing through a metal enclosure or a building. Bushings are needed for transformers, gas-insulated switchgear, air-insulated switchgear and other

	electrical equipment. They are used for both alternating and direct current applications. We offer several types of bushings ranging from 24 kV to 1,200 kV voltage levels.
CAGR .....	refers to compound annual growth rate.
CCS .....	refers to carbon capture and storage, a process in which waste CO <sub>2</sub> is captured and transported to a storage site where it is deposited so that it cannot enter the atmosphere.
Charter of Trust .....	Charter of Trust is an initiative of Siemens which calls for binding rules and standards to build trust in cybersecurity and further advance digitalization. The Charter of Trust has currently 17 members, including large corporates as signatories (such as Airbus, Allianz, Cisco, Dell, IBM, Deutsche Telekom and Total, among others, and, as first Asian partner, Mitsubishi Heavy Industries
CO2 .....	Carbon dioxide, a greenhouse gas.
Combined-cycle power plant (CCPP) ...	In a combined cycle power plant (CCPP) a gas turbine generator generates electricity while the waste heat from the gas turbine is used to produce steam to generate additional electricity via a steam turbine. The exhaust heat of the gas turbine is utilized to generate steam by passing it through a heat recovery steam generator, so it can be used to drive the steam turbine. This combination of two power generation cycles enhances the efficiency of the plant.
Combined heat and power (CHP) plants .....	In CHPs the waste heat produced in a plant facility is utilized in other industrial processes, extracted to cover the heat demand of individual buildings, or exported to a district heating system. CHP plants are typically based on gas and/or steam turbines in simple or combined cycle configuration. In simple-cycle, the waste heat generated by a gas turbine is captured in a heat recovery steam generator or waste heat recovery boiler and used for heating or to produce process steam. In combined cycle CHP it is initially used to fuel a second turbine producing additional power.
Compressor .....	A compressor is a device which is used to compress gases, <i>i.e.</i> , increasing the pressure of a gas by reducing its volume.
Control cabinet .....	In wind turbines, a control cabinet monitors certain parameters in order to operate the turbine in the most efficient way. Depending on the direction and the speed of the wind, the position of the nacelle and the blades are modified to maximize production, as well as to control the loads

	transmitted by the wind through the rest of wind turbine.
COVID-19 .....	COVID-19 is an infectious disease which is caused by the virus SARS-CoV-2 (severe acute respiratory syndrome coronavirus 2).
CSR .....	Corporate social responsibility.
DC .....	refers to direct current ( <i>Gleichstrom</i> ), the unidirectional flow of an electrical charge.
Direct drive (technology) .....	Direct drive is SGRE's technology of choice for offshore wind turbines. In the offshore (gearless) direct drive turbine, a low-speed permanent magnet replaces the gearbox, the coupling and the high-speed generator. Besides reducing the likelihood of failures, the use of fewer moving parts in the direct drive technology (compared to geared machines) also means fewer spare parts are needed over the course of a wind power plant's lifetime. Lower tonnage translates into a higher power production at a low life cycle cost.
Distribution transformers .....	Distribution transformers are mainly used to transform the distributed high or medium voltage to low voltage levels that can be used in industries, infrastructure and households. Therefore, distribution transformers are used at the last step in the conversion chain that brings electricity to the consumers. However, distribution transformers can also be used at the first transformation step to feed power generated at lower voltage level by renewable sources into the electricity grid.
D&O liability insurance .....	Directors' and officers' liability insurance.
Doubly-fed induction generator .....	An induction generator is a type of alternating current (AC) electrical generator that uses the principles of induction motors to produce power. Induction generators operate by mechanically turning their rotors faster than synchronous speed. Induction generators are often used in wind turbines because they allow producing power at varying rotor speeds. They are mechanically and electrically simpler than other generator types. In a doubly-fed induction generator, the rotor windings are connected to the grid via slip rings and a back-to-back voltage source converter that controls both the rotor and the grid currents.
Downstream part of the oil & gas value chain .....	The downstream part of the oil & gas value chain comprises a wide variety of applications used in refining and petrochemicals such as olefins and polyolefins, syngas (synthesis gas, a fuel gas mixture consisting primarily of hydrogen, carbon monoxide, and very often some CO <sub>2</sub> ), and coal gasification.

DSO .....	refers to distribution system operator ( <i>Verteilnetzbetreiber</i> ). DSOs usually distribute electricity to customers in a particular municipality or geographic area and may also supply electricity to other DSOs. DSOs own and operate distribution assets such as distribution stations, transformers, switchgear, distribution cables as well as overhead lines, masts, poles and switches, and use telecommunication lines to control the distribution grid to support system operation, smart metering and smart grid systems. The main task of the DSOs is the operation of the distribution grid, which allows distribution of power from TSOs/DSOs or small and medium-sized power producers to customers, including the integration of distributed (renewable) energy sources into the system and the management of electricity demand.
E-houses .....	Electrical houses (e-houses) are customized, pre-assembled and pre-tested modular power substations. They are ideally suited for use in situations where interim solutions are needed, or in locations that are difficult to access.
EHS .....	refers to environmental, health and safety regulations.
EIB .....	European Investment Bank.
EJ .....	Exajoule, equivalent to 1 quintillion joule (SI derived unit of energy).
Electric thermal energy storage (ETES) .....	ETES is an energy storage system that draws electricity from the power grid and uses it to heat stones to temperatures of up to 600°C and potentially higher. Later, that heat can be converted back into electricity using a conventional steam turbine. ETES allows for high-power, high-capacity storage.
Energy Thrust Solution .....	Through its Energy Thrust Solution, SGRE updates older wind turbines with the latest state-of-the-art technology, which enables those wind turbines to perform like new ones. This results in improved wind turbine performance, which can increase annual energy production by up to 5%.
EnWG .....	German Energy Industry Act ( <i>Energiewirtschaftsgesetz</i> ).
E&P .....	refers to exploration and production. E&P is part of the upstream segment of the oil & gas value chain, including onshore and offshore drilling, unconventional production (pumping and compression), conventional onshore and offshore production and processing.

EPC .....	refers to engineering, procurement and construction.
ERM .....	refers to enterprise risk management. Siemens Energy's ERM process aims for early identification and evaluation of, and response regarding, risks and opportunities that could materially affect the achievement of Siemens Energy's strategic, operational, financial and compliance objectives.
ESG .....	refers to environmental, social and governance standards.
ETS .....	European Emission Trading System.
EU Plan on Climate Change .....	The EU Plan on Climate Change is a plan of the European Union to foster renewable energy. This plan provided that by 2020, 20% of total energy consumption (EU-wide) should come from renewable energy sources, emissions of greenhouse gases should be reduced by 20% from 1990 levels and energy efficiency should be increased by 20%.
EURIBOR .....	Euro Interbank Offered Rate.
EV .....	refers to electric vehicle. EVs use electric or traction motors for propulsion. The EV technology has evolved rapidly over the past years, including in terms of range and in terms of the lower cost of batteries.
Excitation system .....	The system which is used for providing the necessary field current to the rotor winding of a certain machine.
Feed-in tariffs (FIT) .....	A feed-in tariff (or "FIT") is a policy mechanism designed to accelerate investment in renewable energy technologies, by offering long-term contracts to renewable energy producers, typically based on the cost of generation of each technology. For example, technologies such as wind power and solar PV are often awarded a lower price per-kWh, while technologies such as tidal power are offered a higher price, reflecting costs that are higher at the moment and allowing a government to encourage development of one technology over another.
Flexible alternating current transmission systems (FACTS) .....	Flexible alternating current transmission systems (FACTS) are a family of power transmission solutions that contribute to enhanced grid stability and power quality by handling unpredictable load situations caused by a shift of the energy mix towards an increasing share of renewable energy sources.
FSE .....	Frankfurt Stock Exchange ( <i>Frankfurter Wertpapierbörse</i> ).
FWB .....	Frankfurter Wertpapierbörse.



Gas-insulated switchgear .....	To ensure their proper functioning, the electrical components of a switchgear must be duly insulated. A gas-insulated switchgear is a switchgear in which the different components are insulated by gas. In our conventional gas-insulated switchgears we use SF <sub>6</sub> as the insulating gas; conventional gas-insulated switchgears are available for rated voltages from 72.5 kV up to 800 kV. In our blue gas-insulated switchgears, a proven vacuum interrupter technology with compressed synthetic air (clean air) is used as the insulating medium; blue gas-insulated switchgears are available for rated voltages up to 145 kV.
Gas turbines .....	Gas turbines convert the chemical energy of a fuel into mechanical energy of a rotating shaft whereby a variety of fuels can be utilized, including natural gas, fuel oils, synthetic fuels, and mixtures of hydrogen.
Gearbox .....	In a wind turbine, a gearbox is used to increase rotational speed from a low-speed rotor to a higher speed electrical generator.
Generator .....	A generator produces electric energy by utilizing mechanical rotational energy, for example from a gas turbine or a steam turbine. It consists of a rotating part (rotor) and a stationary part (stator). One part, usually the rotor, generates a magnetic field. Wire windings in the other part (usually the stator) induce an electric current as a response to the changing magnetic field.
Greenfield sites .....	refer to undeveloped land which is earmarked for commercial development, industrial projects or other construction projects. In contrast to a brownfield site, a greenfield has never been built on.
GHG .....	refers to greenhouse gas.
GW .....	Gigawatt, a unit of power, equivalent to 1,000 megawatts.
GWEC .....	Global Wind Energy Council.
GWh .....	Gigawatt-hour, a composite unit of energy with 1 GWh being equivalent to 1 GW of power sustained for one hour.
High-voltage direct current (HVDC) transformers .....	HVDC transformers are key components of direct current transmission networks that enable the transmission of large energy amounts with high efficiency. HVDC converter transformers are most efficient for overhead transmission lines above 1,000 MW and 600 km.
HRSG .....	Heat-recovery steam generator.

HV .....	refers to high-voltage.
Hybrid power solutions .....	Hybrid power solutions by SGRE combine multiple power generation sources with storage. Hybrid power leverages the advantages of the complementary energy profiles of wind and solar power, by balancing the energy generated by solar power during the day with the wind, which is usually stronger at night. Depending on the location and hourly profile, a hybrid system can optimize energy feed-in, grid stability and capacity factor.
Hz .....	Hertz, a unit for the frequency which is defined as one cycle per second.
IAS .....	International Accounting Standards.
IATA .....	International Air Traffic Association, an international trade association of airlines with approximately 290 member airlines which was founded in 1945. IATAs headquarter is in Montreal, Canada.
I&C .....	refers to instrumentation & controls.
IDC .....	International Data Corporation.
IEA .....	International Energy Agency, an intergovernmental organization established in 1974 with currently 30 member states. Its central office is located in Paris, France.
IEC .....	International Electrotechnical Commission, a non-profit, quasi-governmental organization, founded in 1906. Its central office is located in Geneva, Switzerland. The IEC's members are national committees that appoint experts and delegates coming from industry, government bodies, associations and academia to participate in the technical and conformity assessment work of the IEC. The IEC publishes international standards for the electrical, electronic and related technologies. Among others, the IEC sets international standards for the wind speeds each wind class must withstand; the latest version thereof is contained in the "IEC 61400 – Edition 4" (2019).
ILS .....	refers to the Israeli new shekel which is the official currency in Israel.
IMO .....	International Maritime Organization. IMO, which was established in 1948, is the UNs specialized agency with responsibility for the safety and security of shipping and the prevention of marine and atmospheric pollution by ship. Its central office is located in London, United Kingdom.
Independent power producers (IPPs) ...	Independent power producers (IPPs) are entities other than public utilities which owns and/or operates facilities to generate electric power for sale to a third party (e.g., public utilities or end users).

IOC .....	refers to international oil companies.
IP .....	refers to intellectual property.
IPCC .....	Intergovernmental Panel on Climate Change, a body of the UN assessing the science relating to climate change. The IPCC provides regular assessments of the scientific basis of climate change, its impacts and future risks, and options for adaptation and mitigation. The IPCC was created in 1988 and has its office in Geneva, Switzerland.
I&R .....	refers to integration and restructuring costs.
IRENA .....	International Renewable Energy Agency, an intergovernmental organization that supports countries in their transition to a sustainable energy future, and serves as the principal platform for international cooperation, a center of excellence, and a repository of policy, technology, resource and financial knowledge on renewable energy. IRENA was founded in 2009 and has its office in Masdar, United Arab Emirates.
ISOs .....	Independent system operators.
Jack-up vessel .....	Jack-up vessels used, for example, in the wind energy business are self-elevating platforms used for complex heavy-lift tasks. In the wind energy business, jack-up vessels tackle tasks such as main bearing, gearbox, and blade exchanges.
kV .....	Kilovolt, a unit for the electric potential, equivalent to 1,000 volts.
kW .....	Kilowatt, a unit of power, equivalent to 1,000 watts.
kWh .....	Kilowatt-hour, a composite unit of energy with 1 kWh being equivalent to 1 kW of power sustained for one hour.
KWKG .....	German Combined Heat and Power Act ( <i>Kraft-Wärme-Kopplungsgesetz</i> ).
Levelized Cost of Energy (LCoE) .....	The Levelized Cost of Energy (sometimes referred to as "Levelized Cost of Electricity") is one of the primary metrics used in the energy markets in connection with the cost of electricity produced by a generator. It is calculated by accounting for all of a system's expected lifetime costs (including construction, financing, fuel, maintenance, taxes, insurance and incentives, if any), which are then divided by the system's expected power output over its lifetime. LCoE is typically expressed in € or USD per megawatt-hour or in € cent or USD cent per kilowatt-hour.
Liquefied natural gas (LNG) .....	Liquefied natural gas (LNG) is natural gas that has been cooled to a liquid state for ease and safety of storage and transport.

LV .....	refers to low-voltage.
Midstream part of the oil & gas value chain .....	The midstream part of the oil & gas value chain involves the transportation, storage and distribution of oil and gas. Crude oil that is produced must be transported from the well head to a refinery. Transportation is carried out through shipping (tankers), railroad, truck and pipelines. Natural gas must also be transported from production sites to downstream markets and distributors via pipelines (land or under the sea) or ships in form of LNG.
Mtoe .....	Million tonnes (or: million metric tons) of oil equivalent, a unit of energy. 1 tonne of oil equivalent is defined as the amount of energy released by burning one ton of crude oil.
Mt .....	Million metric tons.
MV .....	refers to medium-voltage.
MVA .....	Megavoltampere, a unit used for the apparent power in an electrical circuit, equivalent to 1 million volt-ampere.
MW .....	Megawatt, a unit of power, equivalent to 1 million watts or 1,000 kilowatts.
MWh .....	Megawatt-hour, a composite unit of energy with 1 MWh being equivalent to 1 MW of power sustained for one hour.
Nacelle .....	A nacelle is a part of a wind turbine. The nacelle is the structure placed upon the tower, housing the gearbox, generator, transformer, electronics and other components. Attached to the nacelle is the rotor consisting of a hub and three blades.
NOC .....	National oil companies.
OEM .....	Original equipment manufacturer, a company that produces parts and equipment that may be marketed by another manufacturer.
O&M .....	Operation & maintenance, a term including the day-to-day activities necessary for systems and equipment to perform their intended function as well as planned (e.g., preventive) and unplanned (e.g., due to a system failure) maintenance activities.
OPEC .....	refers to the Organization of Petroleum Exporting Countries.
Paris Agreement .....	refers to an agreement which was concluded in December 2015 between 197 parties (196 states and the European Union) under the auspices of the United Nations Framework Convention on Climate Change and in which it was agreed, among others, to limit global warming “well below 2°C” above pre-industrial levels and to pursue efforts to limit

	warming to 1.5°C. The Paris Agreement entered into force on November 4, 2016 after the ratification threshold was reached in October 2016.
Planetary gearbox . . . . .	A planetary gearbox consists of a “sun” (or solar) gear, a “satellite” (ring) gear and two or more “planet” gears. Normally, the sun-gear is driven and thus moves the planet gears locked in the planet carrier and form the output shaft. The satellite gears have a fixed position in relation to the outside world. This looks similar to our planetary solar system and that is where the name comes from. A planetary gearbox is used to transfer the largest torque in the most compact form (known as torque density).
“Power-to-x” solutions . . . . .	“Power-to-x” solutions refer to methods which convert and store excess electricity in other mediums such as hydrogen for later use.
Power transformers . . . . .	Power transformers are a core component of power transmission systems. Power transformers either transform voltage from the generator voltage level up to the transmission voltage level (step-up transformer) or transform the voltage down from the transmission voltage level to a required distribution voltage level. Further, there are system interconnecting transformers which provide connection between different voltage systems, so that active as well as reactive power can be exchanged between the systems.
Production tax credits (PTC) . . . . .	A production tax credit (PTC) provides a tax rebate based on the amount of production by a certain business. For example, PTC is a mechanism used in the United States to incentivize wind energy producers of wind and producers of energy based on other renewable energy sources, among others. The PTC provides a 2.2% per kilowatt-hour benefit for the first ten years of a renewable energy facility’s operation, subject to certain conditions, and unused credits may be carried forward for a certain period following generation.
Proton-exchange-membrane (PEM) . . . .	A proton-exchange-membran (PEM) is an essential part of electrolyzer systems which are used to produce hydrogen. The offering of electrolyzer systems for the production of hydrogen is part of Siemens Energy’s New Energy Business.
PTA . . . . .	refers to purified terephthalic acid.
PV . . . . .	refers to photovoltaic.
RES . . . . .	refers to renewable energy sources.
Rpm . . . . .	Revolutions per minute, a measure of rotation frequency.

Science-Based Targets Initiative (SBTI) .....	The Science-Based Targets Initiative (SBTI) is an initiative through which companies around the world are committing to climate goals. Science-Based Targets (SBTs) provide companies with a clearly defined pathway to sustainable growth by specifying how much and how quickly they need to reduce their greenhouse gas emissions. Targets adopted by companies to reduce greenhouse gas emissions are considered “science-based” if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement.
Sector coupling .....	The concept of sector coupling (also referred to as “sector integration”) takes renewable energy from the power sector and brings it to the other sectors; thus, the power sector contributes to decarbonize these other sectors. Examples include the use of dissipative heat from thermal power generation for district heating (CHP), e-mobility (e-vehicles), but also more innovative technologies such as “power-to-hydrogen” with electrolysis and re-electrification with fuel cells, both for mobility solutions and stationary applications.
Siemens Wind Power .....	Siemens Wind Power refers to the wind power business of Siemens AG before the merger with Gamesa Corporación Tecnológica, S.A., Zamudio, Spain.
Simple-cycle power plant (SCPP) .....	A simple-cycle power plant (SCPP) consists of a gas turbine and a generator to produce electricity. Heat decoupling for process steam, for example, is optional.
Steam turbines .....	Steam turbines convert the thermal energy of steam into mechanical energy of a rotating shaft. High-pressure steam expands in multiple stages and sections of a steam turbine and condenses at a low pressure in a condenser. During the expansion process, energy is transferred to the steam turbine blades of the rotor. The rotating shaft, in turn, is connected to a generator.
Substation .....	Substations are the node points of the power transmission infrastructure which connects different voltage levels by, inter alia, transforming voltage from a high level to a low level or the reverse.
Sustainable Development Goals (SDG) .....	The sustainable development goals (SDG) are a collection of 17 political objectives of the United Nations which are intended to ensure sustainable development on an economic, social and ecological level.
Switchgear .....	A switchgear is the switching part of a substation which is used to control, protect and isolate



	<p>electrical equipment. In electricity grids, voltage levels are increased or decreased at substations, and this change in voltage levels is realized by the main transformer. The various equipment parts, including circuit breakers, disconnectors, surge arresters, current and voltage transformers as well as earthing switches, are measuring and switching on or off the electric power for the main transformer and power line, are collectively referred to as a switchgear. Typically, switchgears are located on both the primary and secondary voltage sides of the main transformer. The main purpose of switchgear is to connect or disconnect power paths, <i>i.e.</i>, power lines or consumers.</p>
Transformer .....	<p>An electric energy converter without moving parts that changes voltages and currents associated with electric energy without change of frequency. Transformers play a key role in the reliable transmission and distribution of power. Siemens Energy provides different types of transformers for varying needs – from compact distribution transformers to large power transformers.</p>
Transmission system operator (TSO) ...	<p>The main task of TSOs (<i>Übertragungsnetzbetreiber</i>) is to ensure the transport of electricity and to secure the system's stability and availability. TSOs own and/or operate alternating current and direct current transmission assets such as transmission lines, power cables, AC substations, transformers, interconnector and AC to DC converter stations.</p>
Turbines .....	<p>Turbines are rotary mechanical devices that extract energy from a fluid flow and convert it into work. The work produced by a turbine can be used for generating electrical power in a generator.</p>
TW .....	<p>Terawatt, a unit of power, equivalent to 1,000 GW.</p>
TWh .....	<p>Terawatt-hour, a composite unit of energy with 1 TWh being equivalent to 1 TW of power sustained for one hour.</p>
UN Framework Convention on Climate Change (UNFCCC) .....	<p>United Nations Framework Convention on Climate Change, an international environmental treaty adopted in May 1992. The UNFCCC entered into force on March 21, 1994. UNFCCs aim is to stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. The UNFCCC sets non-binding limits on greenhouse gas emissions for individual countries and contains no enforcement mechanisms.</p>
UNCTAD .....	<p>United Nations Conference on Trade and Development, a permanent intergovernmental body established by the United Nations General Assembly</p>

in 1964. UNCTAD's headquarter is located in Geneva, Switzerland.

Upstream part of the oil & gas value chain .....

The upstream part of the oil & gas value chain comprises products, systems, solutions and services for floating and fixed platforms, as well as the subsea business (relating to upstream offshore oil & gas). It further includes process solutions for offshore drilling that are part of our business scope, *i.e.*, onshore gas and oil production and processing applications, as well as gas injection, and, with respect to unconventional onshore, gas compression as well as electric fracturing products, systems, solutions and services.

Wind turbine .....

A wind turbine is a device which converts the kinetic energy of the wind into electrical energy. The wind turbines offered by SGRE are suitable for a broad range of wind speeds and a full spectrum of weather conditions.

WTO .....

World Trade Organization.