A.1 Business and economic environment

A.1.1 The Siemens Group

A.1.1.1 ORGANIZATION AND BASIS OF PRESENTATION

We are a technology company with core activities in the fields of electrification, automation and digitalization, and activities in nearly all countries of the world. Siemens comprises Siemens AG, a stock corporation under the Federal laws of Germany, as the parent company and its subsidiaries. Our Company is incorporated in Germany, with our corporate headquarters situated in Munich. As of September 30, 2017, Siemens had around 372,000 employees (part time employees are included proportionally).

Siemens has the following reportable segments: the Divisions **Power and Gas; Energy Management; Building Technologies; Mobility; Digital Factory** and **Process Industries and Drives;** as well as the Strategic Units **Healthineers** and **Siemens Gamesa Renewable Energy**, which together form our Industrial Business. The Division **Financial Services (SFS)** supports the activities of our Industrial Business and also conducts its own business with external customers. As "global entrepreneurs" our Divisions and Strategic Units carry business responsibility worldwide, including with regard to their operating results.

Our reportable segments may do business with each other, leading to corresponding orders and revenue. Such orders and revenue are eliminated on the Group level.

A.1.1.2 BUSINESS DESCRIPTION

The **Power and Gas** Division offers a broad spectrum of products and solutions for generating electricity from fossil fuels and for producing and transporting oil and gas. The portfolio includes gas turbines, steam turbines, generators to be applied to gas or steam power plants, compressor trains, integrated power plant solutions, and instrumentation and control systems for power generation. Customers include public utilities and independent power producers; companies in engineering, procurement and construction that serve utilities and power producers; sovereign and multinational oil companies; and industrial customers that generate power for their own consumption (prosumers). Due to the broad range of its offerings, the Division's revenue mix may vary from reporting period to reporting period depending on the share of revenue attributable to products, solutions and services. Because typical profitability levels differ among these three revenue sources, the revenue mix in a reporting period accordingly affects Division profit for that period. Several trends are affecting the Division's businesses. The ongoing strong growth in demand for renewable power generation and the associated volatility in power generation shift market demand from fossil baseload generation to highly flexible, highly efficient and affordable gas power plants with low emissions, in particularly in Europe, China, and the U.S. A second trend is that the development and execution of large projects increasingly requires financing by the original equipment manufacturer (OEM), including equity participation, particularly in Latin America, the Middle East and Africa. For the Division, this role is fulfilled by Financial Services, which can offer customers a range of financing and equity options backed by domain know-how. In addition, the markets of the Division are strongly affected by changes in national energy regulations, such as support of renewable energy, the security of supply through capacity markets or strategic reserve capacity, carbon pricing and climate change targets, and energy and electricity market design. After years of strong public sector support for renewable energy, the cost of energy and electricity as a competitive factor is gaining more relevance in investment decisions involving choices between renewable and fossil generation.

The **Power Generation Services** Division offers a comprehensive set of services for products, solutions and technologies of the Power and Gas Division, covering performance enhancements, maintenance services, customer training and professional consulting. Financial results of the Power and Gas Division include the financial results of the Power Generation Services Division, which itself is not a reportable segment. Based on this business model, all discussions of the services business for Power and Gas concern the Power Generation Services Division.

The **Energy Management** Division offers a wide spectrum of software, products, systems, solutions, and services for transmitting, distributing and managing electrical power and for providing intelligent power infrastructure. The Division's customers encompass a wide range of direct customers and channel partners including power providers, transmission and distribution system operators, industrial companies, infrastructure developers, construction companies, distributors and OEMs. Its activities across many regional and vertical markets as well as its participation in long-cycle and short-cycle businesses provide a balanced and resilient business mix. The Division's revenue and portfolio mix may vary across reporting periods. In particular, orders, revenue and profit development can be influenced by the relative contribution from its transmission solutions business. End customers and OEMs use the Division's offerings to process, transmit and manage electrical power from the source down to various load points along multiple voltage levels. The Division's distributed, intelligent solutions for smart grids enable a bidirectional flow of energy and information, which, among other things, is required for integrating fluctuating renewable energy sources, electrical storage or manageable loads. Energy Management generally benefits from major trends and changes in global electrical power systems, in particular decarbonization, decentralization and digitalization. Decarbonization involves the buildup of generation capacities from renewable sources and the electrification of heat and transport sectors. Another trend is decentralization – the integration of wind power, photovoltaics, biomass, storage and other intermittent or distributed energy resources into highly efficient and reliable power networks. The digitalization trend involves providing intelligent solutions for connectivity, the management of complex energy networks, and services that are enabled by digital technologies.

The **Building Technologies** Division is a leading provider of automation technologies and digital services for safe, secure and efficient buildings and infrastructures throughout their lifecycles. The Division offers products, solutions, services and software for fire safety, security, building automation, heating, ventilation, air conditioning and energy management. The large customer base is widely dispersed. It includes owners, operators and tenants for both public and commercial buildings; building construction general contractors; and system houses. Changes in the overall economic environment generally have a delayed effect on the Division's business activities. Particularly in the solutions and service businesses, Building Technologies is affected by changes in the non-residential construction markets with a time lag of two to four quarters.

The **Mobility** Division combines all Siemens businesses in the area of passenger and freight transportation, including rail vehicles, rail automation systems, rail electrification systems, road traffic technology, digital solutions and related services. The Division also provides its customers with consulting, planning, financing, construction, service and operation of turnkey mobility systems. Moreover, Mobility offers integrated mobility solutions for networking of different types of traffic systems. The principal customers of the Mobility Division are public and state-owned companies in the transportation and logistics sectors. Markets served by Mobility are driven primarily by public spending. Customers usually have multi-year planning and implementation horizons, and their contract tenders therefore tend to be independent of short-term economic trends.

In September 2017, Siemens and Alstom SA, France (Alstom) signed a memorandum of understanding to combine Siemens' mobility business including the rail traction drives business, which is included in the Process Industries and Drives Division, with the publicly listed company Alstom. The two businesses are largely complementary in terms of activities and geographies. The combined entity is expected to offer a significantly increased range of diversified product and solution offerings to meet multi-facetted, customer-specific needs. According to the memorandum, Siemens will receive newly issued shares in the combined company representing 50% of Alstom's share capital assuming full dilution through exercise of all potentially dilutive securities and share-based payment plans. Further, Siemens will receive warrants allowing it to acquire Alstom shares representing 2% of its share capital, which can be exercised earliest four years after closing of the transaction. The transaction will be subject to Alstom's shareholders' approval, anticipated in the second quarter of calendar 2018. The transaction is also subject to clearance from relevant antitrust and regulatory authorities. Closing of the transaction is expected at the end of calendar 2018.

The **Digital Factory** Division offers a comprehensive product portfolio and system solutions used in manufacturing industries, complemented by product lifecycle and data-driven services. These offerings enable customers to optimize entire value chains from product design and development to production and services. This is supplemented by the MindSphere platform that connects machines and physical infrastructure to the digital world. With its comprehensive offering, the Division supports manufacturing companies with their transformation towards the "Digital Enterprise," resulting in increased flexibility and efficiency of production processes and reduced time to market for new products. The Division supplies customers mainly in discrete and hybrid manufacturing industries. Changes in the level of customer demand are strongly driven by macroeconomic cycles, and can lead to significant short-term variation in the Division's profitability. In the second quarter of fiscal 2017, Digital Factory further strengthened and expanded its industrial software business by acquiring Mentor Graphics Corporation (Mentor Graphics), a U.S.-based provider of electronic design automation software. For more information on the acquisition of Mentor Graphics, see → NOTE 3 in B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. In the first quarter of fiscal 2017, Digital Factory contributed its eCar business to a newly formed joint venture, Valeo Siemens eAutomotive; Siemens' share in the joint venture is reported within Centrally managed portfolio activities (CMPA).

The **Process Industries and Drives** Division offers a comprehensive product, software, solution and service portfolio for moving, measuring, controlling and optimizing all kinds of mass flows. With its know-how in vertical industries including oil and gas, shipbuilding, mining, cement, fiber, chemicals, food and beverage, and pharmaceuticals, the Division increases productivity, reliability and flexibility of machinery and installations along their entire life cycle jointly with its customers. Based on data models and analysis methods, Process Industries and Drives paves the way together with its customers to create a "Digital Enterprise," from process simulation via plant design and documentation through to asset and performance management. The Division's offerings include an integrated portfolio with products, components and systems such as couplings, gears, motors and converters, process instrumentation systems, process analytics devices, wired and wireless communication, industrial identification and power supplies up to systems level with decentralized control systems, industrial software as well as customized, application-specific systems and solutions. It also sells gears, couplings and drive solutions to other Siemens Divisions and Strategic Units, which use them in rail transport and wind turbines. Demand within the industries served by the Division generally shows a delayed response to changes in the overall economic environment. Even so, the Division is strongly dependent on investment cycles in its key industries. In commodity-based process industries such as oil and gas or mining, these cycles are driven mainly by commodity price fluctuations rather than changes in produced volumes.

As part of the above-mentioned memorandum of understanding to combine Siemens' mobility businesses with Alstom, Process Industries and Drives will transfer its rail traction drives business to the combined company.

Healthineers is one of the world's largest suppliers of technology to the healthcare industry and a leader in diagnostic imaging and laboratory diagnostics. It provides medical technology and software solutions as well as clinical consulting services, supported by a complete set of training and service offerings. This comprehensive portfolio supports customers along the continuum of care – from prevention and early detection to diagnosis, treatment and follow-up care. Its business activities are to a certain extent resilient to short-term economic trends as large portions of its revenue stem from recurring business. They are, however, dependent on regulatory and public policy developments around the world. The global healthcare market served by Healthineers is transforming, putting healthcare providers under pressure for better outcomes at lower cost. Drivers of this transformation include increasing societal resistance to healthcare costs, payers becoming more professional, a shift to value-based reimbursement, chronic disease burdens, and rapid scientific progress. As a result, healthcare providers are consolidating into networked structures, resulting in larger clinic and laboratory chains – often internationally – which act increasingly like large enterprises. Applying this industrial logic to the healthcare market can lead to systematic improvements in quality, while at the same time reducing costs. To capture these benefits, regulatory schemes around the world increasingly seek to shift healthcare incentive systems away from a basis in number of procedures to a basis in outcomes achieved. In fiscal 2017, Healthineers was organized into six business areas: Diagnostic Imaging, Laboratory Diagnostics, Advanced Therapies, Ultrasound, Point of Care Diagnostics and Services. During fiscal 2017, the Managing Board of Siemens AG announced that it intends to publicly list a minority stake in the Healthineers business in the first half of calendar 2018, depending on market conditions.

Siemens Gamesa Renewable Energy (SGRE) – In April 2017, Siemens 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. Siemens as majority shareholder holds 59% of the shares of the combined entity. For more information on the merger, see → NOTE 3 in B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. The merged businesses are highly complementary regarding global footprint, existing product portfolios and technologies. SGRE offers wind turbines utilizing various pitch and speed technologies, and is active in the development, construction and sale of wind farms. The current product offering comprises geared as well as direct drive turbines, both for onshore and offshore application. In addition, SGRE provides services for the management, operation and maintenance of wind farms. Its primary customers are large utilities and independent power producers. SGRE's revenue mix may vary from reporting period to reporting period depending on the mix of onshore and offshore projects in the respective periods. The share of renewable energy in the global energy mix will continue to increase, but the trend toward evaluating competing power sources using life-cycle costs will continue to put pressure on the prices of wind power providers. To address this trend, SGRE focuses on improving its supply chain and significantly decreasing costs by leveraging synergies in the manufacturing footprint subsequent to the merger. 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, which SGRE addresses by pursuing innovation areas such as digitalization.

The **Financial Services (SFS)** Division supports its customers' investments with leasing solutions and equipment, project and structured financing in the form of debt and equity investments. Based on its comprehensive financing know-how and specialist technology expertise in the areas of Siemens businesses, SFS provides financial solutions for Siemens customers as well as other companies, and also manages financial risks of Siemens. SFS operates the Corporate Treasury of the Siemens Group, which includes managing liquidity, cash and interest risks as well as certain foreign exchange, credit and commodities risks. Business activities and tasks of Corporate Treasury are reported in the segment information within Reconciliation to Consolidated Financial Statements.

A.1.1.3 RESEARCH AND DEVELOPMENT

Our research and development (R&D) activities are ultimately geared to developing innovative, sustainable solutions for our customers – and the Siemens businesses – and simultaneously safeguarding our competitiveness. To this end, we are focusing our R&D activities on a number of selected technologies and innovation fields. Examples include the following:

- The stable operating of power grids in the presence of intermittent, renewable power generation depends, amongst other factors, on further advances in power electronics as well as the availability of economically viable large energy storage units. These are also key ingredients for distributed energy systems, which combine onsite generation with local consumption to offer secure power supply at lower cost.

- Turbo machinery, switching gear and other power equipment stand to benefit from novel materials enabling higher generation efficiency and fewer losses in power transmission and distribution. In particular, the ability to print parts with novel topologies using 3D printers embedded in an integrated, digital tool chain is a key innovation driver.
- Automation technologies continue to evolve. Our R&D activities aim to reduce engineering efforts, enhance flexibility and increase our customers' productivity.
- Future mobility systems will be increasingly electrified and connected. Amongst others, our R&D efforts are aiming for ubiquitous electric charging as well as the digitally supported integration and management of multi-modal transportation systems.
- An example of a disruptive development is electrically powered flight. In cooperation with Airbus, Siemens intends to demonstrate by 2020 that electricity can be used to power large planes.
- We are continuously adopting and developing foundational digital technologies, such as data analytics and artificial intelligence or modeling and simulation technologies. The former are essential to generate value and impact out of the growing amount of data generated in the field; the latter enable the creation of a digital twin for physical products, systems and infrastructures, e.g. for the purpose of virtually testing and commissioning a system prior to building it.
- The growing connectivity of field devices gives rise to the Industrial Internet of Things (IIoT), and hence to the potential for massively distributed industrial systems. With MindSphere, we have introduced an open, cloud-based operating system for this IIoT. MindSphere allows our businesses, customers and partners to develop and deploy applications and digital services based on data gathered from assets, such as a product or in the field, e.g. to predict equipment failure, increase asset availability, improve product designs or increase product or plant performances.
- We also invest in industrial cyber security – a key enabler for the digitalization of industries as well as a growing source of competitive advantage – and test the emerging blockchain technology in various application scenarios.

Both within and beyond these focus areas, R&D activities are carried out by cross-functional teams involving both our businesses and our central R&D department Corporate Technology (CT). In addition, we work closely with scholars from leading universities and research institutions. These partnerships, along with close collaborations with start-up companies and the use of crowd innovation methods, are an important part of Siemens' open innovation concept.

Siemens' unit for partnership with start-ups, next47, is focusing on three pillars: Capital, Catalyst and Create. The unit provides capital to help start-ups expand and scale. As a catalyst, next47 can accelerate growth for start-ups by making it easy to access and use the powerful Siemens ecosystem. And next47 serves as the creator of next-generation businesses for Siemens by building, buying and partnering with start-ups at any stage. The next47 unit is focused on anticipating how technologies including 3D printing, robotics and drones, artificial intelligence and virtual reality will impact and potentially disrupt our end markets. This intelligence enables Siemens and Siemens' customers to grow and thrive in the age of digitalization.

In fiscal 2017, we reported research and development expenses of €5.2 billion, compared to €4.7 billion in fiscal 2016. The resulting R&D intensity, defined as the ratio of R&D expenses and revenue, was 6.2%, thus above the R&D intensity of 5.9% in fiscal 2016. Additions to capitalized development expenses amounted to €0.4 billion in fiscal 2017, compared to €0.3 billion in fiscal 2016. As of September 30, 2017, Siemens held approximately 63,000 granted patents worldwide in its continuing operations. As of September 30, 2016, we held approximately 59,800 granted patents. On average, we had 37,800 R&D employees in fiscal 2017.

Research and Development in our Businesses

R&D at the **Power and Gas** Division concentrates on developing products and solutions for enhancing efficiency, flexibility and economy in power generation as well as in the oil and gas industry. These products and solutions include turbomachinery – primarily high-performance, low-emission gas turbines for single operation or for combined cycle power plants – and compressor solutions for various process industries. The Division's current technology initiative, which started in fiscal 2015, is aimed at intensifying R&D in innovative materials, advanced manufacturing methods and plant optimization. In fiscal 2017, Siemens introduced a new 44-megawatt aeroderivative gas turbine for mobile power generation which currently is the most powerful mobile unit on the market. The Division announced that it will test and validate its largest gas turbine (HL-class) under real-world conditions. This will pave the way for achieving the next level of efficiency; we aim for 63 percent efficiency near-term, with a mid-term goal to reach 65 percent.

The R&D activities of our **Energy Management** Division focus on preparing our portfolio for changes on all voltage levels in the world of electricity. The increasing infeed of renewable energy to power grids requires that those grids become more flexible and efficient, particularly with distributed generation on the rise. The digitalization of future grids will enable intelligent grid operation and data-driven services. Our innovations are centered on power electronics, digitalization and grid stabilization. The development of new technologies, e.g. Process Bus communication for applications in energy management or NCITs (Non-Conventional Instrument Transformer), enables a cost-effective investment and economic operation of digital substations as well as a secure and reliable grid operation.

R&D work at the **Building Technologies** Division focuses on optimizing comfort and operational and energy efficiency in buildings and infrastructures, protecting against fire and security hazards, and minimizing related risks. We drive the digital transformation of the building industry by creating open-standards-based Building Information Modeling (BIM)-ready products and services. Digitalization improves productivity across the entire building life cycle, enabling new product ordering and configuration options through our online store Siemens Industry Mall. New mobile device apps close the feedback loop to building occupants, enabling increased comfort and safety with lower energy consumption. The digitalization portfolio will expand on the basis of Siemens MindSphere.

The **Mobility** Division's R&D strategy aims to fulfill customers' demand for maximum availability, high throughput and enhanced passenger experience. Although there is a growing need for mobility worldwide, possibilities for building new roads and railways are limited. Meeting the demand for mobility requires intelligent solutions that make transport more efficient, safe and environmentally friendly. Decarbonization and seamlessly connected intermodal (e)mobility are key factors for the future of transportation. Reflecting this, Mobility's R&D activities emphasize digitalization in developing state-of-the art mobility solutions for rail and road combined with new business models such as availability-as-a-service (AaaS) via our data analytics platform Railigent and other MindSphere based applications. Together with next47, Mobility invests in the future mobility landscape together with other partners in areas such as sensor technologies, connectivity/IoT solutions, software for intermodal transport and additive manufacturing.

R&D activities at the **Digital Factory** Division are aimed at further enhancing speed, flexibility, quality and efficiency within companies of the discrete manufacturing industry. The key lever is to automate and digitalize the entire value-added process – from product development through production design to actual production – with the highest possible IT security. The focus of research lies on further developing the Digital Enterprise portfolio. This involves preparing an integrated digital twin for physical products, production processes and production facilities and then implementing these facilities and efficiently manufacturing the products in the real world. This close dovetailing between the virtual and real worlds enables customers to simulate and optimize their products, their machinery and facilities at an early stage, while assuring high-performance production. The acquisition of Mentor Graphics further extends the possibilities of the digital twin: In addition to designing and testing the mechanics and software of new products, it is now also possible to develop and simulate electrical and electronic systems in an integrated way. A further core area of development is MindSphere, the open, cloud-based operating system for the Industrial Internet of Things (IIoT). MindSphere is used as a basis for innovative applications (MindApps) and new digital services based on these apps, such as predictive maintenance. Open application programming interfaces (APIs) enable MindSphere users to easily and efficiently develop and sell their own apps. MindSphere therefore makes it possible for customers to clearly expand their portfolios and tap into the additional business potential offered by their installed base. A network of partners in the fields of app development, connectivity and technology further enriches the open ecosystem.

The R&D activities in the **Process Industries and Drives** Division are continuously concentrating on the digital transformation of products, solutions and services, especially via focused integration of information and communication technologies. The digital enhancement of automation and drives platforms is a key enabler for additional customer value for all verticals in the process industry, such as oil & gas, chemicals and pharmaceuticals. Examples are connecting motors to MindSphere and Digital Enterprise for process industries. Increased operational efficiency and digital services such as condition monitoring or predictive maintenance are examples for benefits in process plant operation. The digitalization of our process automation and industrial communication portfolio includes a holistic industrial security concept. Another central objective of our R&D activities is to further increase energy efficiency while reducing the consumption of raw materials and cutting emissions.

Healthineers' R&D activities are strongly focused on the development of innovative product lines which use new technologies such as artificial intelligence. This will, amongst other results, enable faster handling of medical information and can lead to more precise and personalized clinical decisions. It also promises added value: New computer algorithms can detect hidden patterns in the data and give physicians valuable support for diagnosis and therapy decisions. Besides constantly innovating its portfolio, Healthineers continuously extends existing products and solutions. Diagnostics performance for customers improves with systems such as the recently launched Atellica. This laboratory diagnostics platform transports samples ten times faster than previous systems and it is also more flexible. Expanding the innovation map beyond the established portfolio, and investing in new ideas, strengthen the ability to tap opportunities in new fields. The services business is expanding beyond product related services by adding a digital services portfolio and increasing enterprise transformation services to help customers in their transition to outcome-focused care. A major step forward is the Digital Ecosystem platform to link healthcare providers and solution providers with one another as well as to bring together their data, applications and services. Users gain new insights through data analytics and use it to network with their peers.

The R&D efforts of **Siemens Gamesa Renewable Energy** are focused on innovative products and solutions that allow it to take the lead in wind power performance, improve competitiveness, and build a stronger business case for its customers. Using digitalization, among other efforts, includes more intelligent monitoring and analysis of turbine conditions as well as smart diagnostic services.

A.1.2 Economic environment

A.1.2.1 WORLDWIDE ECONOMIC ENVIRONMENT

The global economy started to accelerate at the beginning of fiscal 2017 and gained further momentum in the subsequent quarters. Expansion of world gross domestic product (GDP), which in 2016 was the weakest since the global financial crisis at 2.5%, is projected to rise to 3.1% in 2017 (based on market exchange rates).

The global upswing was broad-based on a regional and structural basis. In both emerging markets and advanced countries, economic activity gained strength. Growth forecasts for 2017 improved in particular for Europe from 1.5% at the beginning of fiscal 2017 to 2.3% and for China from 6.3% to 6.8%. The only negative surprise was the Middle East region. The 2017 growth projection decreased to 1.4% after starting at 2.8% at the beginning of fiscal 2017. Lower oil prices and oil production cuts had bigger impact than anticipated.

From a structural perspective, all components of GDP – private consumption, fixed investment, trade and to a lesser extent government expenditure – contributed to growth, giving the acceleration of the global economy a solid and well balanced foundation.

Uncertainties mainly stemming from (geo)political risks had very limited effects on the global economy: International tensions with North Korea and Iran increased; negotiations regarding the U.K. leaving the European Union are complicated and separatist tensions in Spain added significant uncertainty. These developments potentially weigh on investment decisions but this barely materialized in fiscal 2017.

The partly estimated figures presented here for GDP and fixed investments are based on an IHS Markit report dated October 15, 2017.

A.1.2.2 MARKET DEVELOPMENT

In a highly competitive market environment, markets served by the **Power and Gas** Division declined significantly in fiscal 2017. This development was again particularly evident in the market for steam turbines where volume shrank substantially year-over-year due to an ongoing shift from coal-fired to gas-fired and renewable power generation and due to emission regulation such as in China. Volume in the market segment for large gas turbines also declined substantially due mainly to delays of large projects in the Middle East and customer restraint due to ongoing uncertainty regarding changes in the market design and weak power demand growth. Volume in compression markets remained on a low level as customers continued to hold back investments. The Division's competition consists mainly of two groups: a relatively small number of equipment manufacturers, some with very strong positions in their domestic markets, and on the other hand a large number of engineering, procurement and construction contractors. The gas turbine market is experiencing overcapacity among OEMs and engineering, procurement and construction contractors, which is leading to market consolidation.

Global markets addressed by the **Energy Management** Division grew slightly in fiscal 2017. Weaknesses in the Middle East and global commodity markets including oil and gas, metals and mining were offset by growth in transmission interconnections, intelligent energy and storage solutions and critical infrastructure such as data centers. North America and Asia were key growth contributors. Markets in Europe showed stable development, with pockets of growth such as integration of renewable energy sources into the grid. Competitors of the Energy Management Division consist mainly of a small number of large multinational companies. International competition is increasing from manufacturers in emerging countries including China, India and Korea.

Markets for the **Building Technologies** Division grew solidly in fiscal 2017. Growth was driven by solid demand from the U.S. and Asia. Within the Europe, C.I.S., Africa, Middle East region, markets in the Middle East grew more strongly than the region overall. The recovery of the European market was weaker than expected but included stable growth in Germany. The Division's principal competitors are multinational companies. Its solutions and services business also competes with system integrators and small local companies. The Division faces continuing price pressure, particularly in its solutions business, due to strong competition from system houses and some larger competitors.

Overall, markets for the **Mobility** Division remained strong in fiscal 2017, with different dynamics among the regions. Market development in the Europe, C.I.S., Africa, Middle East region was characterized by continuing awards of mid-size and large orders, particularly in Germany and the U.K. Demand in the Middle East and Africa was held back by ongoing uncertainties related to budget constraints and political climates. In the Americas region, stable investment activities were driven by demand for urban transport, especially in the U.S. Within the Asia, Australia region, Chinese markets saw ongoing investments in high-speed trains, urban transport and rail infrastructure, while India continues to invest in modernizing the country's transportation infrastructure. The Division's principal competitors are multinational companies. Consolidation among Mobility's competitors is continuing. This has already led to the formation of a strong market leader in China, which is changing global market dynamics.

Markets served by the **Digital Factory** Division returned to growth in fiscal 2017. Within its main markets, global manufacturing production grew moderately in real terms, driven mainly by consumer-related industries such as electronics and automotive and by demand from infrastructure-related production industries. Growth in the machine-building and equipment industries benefited from a growing investment propensity. On a geographic basis, the Division's markets grew in all three reporting regions, with the highest growth rates in the region Asia, Australia, particularly including China, where strong market growth also benefited from governmental investment programs. The competition for Digital Factory's business activities can be grouped into two categories: multinational companies that offer a relatively broad portfolio and companies that are active only in certain geographic or product markets.

Market volume for the markets addressed by the **Process Industries and Drives Division** grew moderately in fiscal 2017. This was due mainly to improved market conditions in global manufacturing production, particularly in China. Consumer-related industries, such as food and beverage and pharmaceuticals, continued on their growth path. Growth in the Division's markets overall continued to be held back by weakness in commodity-related industries such as oil and gas, metals and mining. Following a recovery in raw materials prices at low levels in the first half of fiscal 2017 and stable price development thereafter, the environment for capital expenditures began to improve towards the end of the fiscal year in mining, oil and gas and, to a lesser extent, the metals industry. The Division's competitors can be grouped into two categories: multinational companies that offer a relatively broad portfolio and companies that are active only in certain geographic or product markets. Consolidation is taking place mostly in particular market segments and not across the broad base of the Division's portfolio. In particular, consolidation in solution-driven markets is going in the direction of in-depth niche market expertise. Most major competitors have established global bases for their businesses. In addition, the competition has become increasingly focused on technological improvements and cost position.

Markets served by **Healthineers** grew moderately in fiscal 2017 driven by growth in Latin America and Asia, Australia, including further stabilization in China. In contrast, market volume in Europe and the U.S. remained near prior-year levels. The diagnostic imaging market segment grew moderately. While demand for imaging procedures continued to grow, this trend was partly offset by price pressure on new purchases and increased utilization rates for installed systems. The markets for ultrasound and in-vitro diagnostics grew even more strongly. The development in the ultrasound market segment benefits from a wider range of applications and increasing patient access to diagnostic imaging technology. The market for in-vitro diagnostics is expanding due to population and income growth in emerging markets and the rising importance of diagnostics in improving healthcare quality. Growth in the area of molecular diagnostics was particularly strong, driven by technological advances and a broader spectrum of applications. For the healthcare industry as a whole, the trend towards consolidation continues. Competition among the leading companies is strong, including with respect to price.

Following a decline in market volume in fiscal 2016, the market served by **SGRE** grew in fiscal 2017 due to higher demand in both the onshore and the offshore markets, with the latter growing faster. On a regional basis, growth was driven by the U.S. Market growth in the region Asia, Australia, was held back by lower demand in China, where the largest national wind market in the world remains largely closed to foreign manufacturers, as well as by a halt in the Indian market during the fiscal year following the introduction of an auction system for new power generation contracts. Market volume in the region Europe, C.I.S., Africa, Middle East came in slightly lower year-over-year. The competitive situation in wind power differs in the two major market segments. In the markets for onshore wind farms, competition is widely dispersed without any one company holding a dominant share of the market, while markets for offshore wind farms continue to be served by a few experienced players. Consolidation is moving forward in both on- and offshore segments, including exits of smaller players. The key drivers of consolidation are increasing price pressure as well as technology challenges and market access challenges, which increase development costs and the importance of risk-sharing in offshore wind power. Market development continues to depend strongly on energy policy, including tax incentives in the U.S. and regulatory frameworks in Germany and the U.K. With continued technological progress and cost reduction, dependency on subsidy schemes is expected to decrease even further.

A.2 Financial performance system

A.2.1 Overview

Within One Siemens, we have established a financial framework – for revenue growth, for profitability and capital efficiency, for our capital structure, and for our dividend policy.

A.2.2 Revenue growth

Within the framework of One Siemens, we aim to grow our revenue faster than the average weighted revenue growth of our most relevant competitors. Our primary measure for managing and controlling our revenue growth is comparable growth, because it shows the development in our business net of currency translation effects, which arise from the external environment outside of our control, and portfolio effects, which involve business activities which are either new to or no longer a part of our business.

Currency translation effects are the difference between revenue for the current period calculated using the exchange rates of the current period and revenue for the current period calculated using the exchange rates of the comparison period. For calculating the percentage change year-over-year, this absolute difference is divided by revenue for the comparison period. A portfolio effect arises in the case of an acquisition or a disposition and is calculated as the change year-over-year in revenue of the relevant business resulting specifically from the acquisition or disposition. For calculating the percentage change, this absolute change is divided by revenue for the comparison period. For orders, we apply the same calculations for currency translation and portfolio effects as described above.

A.2.3 Profitability and capital efficiency

Within the framework of One Siemens, we aim to achieve margins through the entire business cycle that are comparable to those of our relevant competitors. Therefore, we have defined profit margin ranges for our industrial businesses, which are based on the profit margins of the respective relevant competitors. Profit margin is defined as profit of the respective business divided by its revenue.

Profit margin ranges

	Margin range
Power and Gas	11 – 15%
Energy Management	7 – 10%
Building Technologies	8 – 11%
Mobility	6 – 9%
Digital Factory	14 – 20%
Process Industries and Drives	8 – 12%
Healthineers	15 – 19%
Siemens Gamesa Renewable Energy	5 – 8%
SFS (ROE after tax)	15 – 20%

In line with common practice in the financial services business, our financial indicator for measuring capital efficiency at the Financial Services Division (SFS) is return on equity after tax, or ROE after tax. ROE is defined as SFS' profit after tax, divided by the Division's average allocated equity.

For purposes of managing and controlling profitability at the Group level, we use net income as our primary measure. This measure is the main driver of basic earnings per share (EPS) from net income, which we use in communication to the capital markets.

To emphasize and evaluate our continuous efforts to improve productivity, we incorporated a measure called total cost productivity into our One Siemens framework. We define this measure as the ratio of cost savings from defined productivity improvement measures to the aggregate of functional costs for the Siemens Group. We aim to achieve an annual value of 3% to 5% for total cost productivity.

Within the framework of One Siemens, we seek to work profitably and as efficiently as possible with the capital provided by our shareholders and lenders. For purposes of managing and controlling our capital efficiency, we use return on capital employed, or ROCE, as our primary measure. We aim to achieve ROCE within a range of 15% to 20%.

A.2.4 Capital structure

Sustainable revenue and profit development is supported by a healthy capital structure. Accordingly, a key consideration within the framework of One Siemens is to maintain ready access to the capital markets through various debt products and preserve our ability to repay and service our debt obligations over time. Our primary measure for managing and controlling our capital structure is the ratio of industrial net debt to EBITDA. This financial measure indicates the approximate amount of time in years that would be needed to cover industrial net debt through income from continuing operations, without taking into account interest, taxes, depreciation and amortization. We aim to achieve a ratio of up to 1.0.

A.2.5 Dividend

We intend to continue providing an attractive return to our shareholders. Therefore, we intend to propose a dividend whose distribution volume is within a dividend payout range of 40% to 60% of net income, which we may adjust for this purpose to exclude selected exceptional non-cash effects. As in the past, we intend to fund the dividend payout from Free cash flow.

At the Annual Shareholders' Meeting, the Managing Board, in agreement with the Supervisory Board, will submit the following proposal to allocate the unappropriated net income of Siemens AG for fiscal 2017: to distribute a dividend of €3.70 on each share of no par value entitled to the dividend for fiscal year 2017 existing at the date of the Annual Shareholders' Meeting, with the remaining amount to be carried forward. Payment of the proposed dividend is contingent upon approval by Siemens shareholders at the Annual Shareholders' Meeting on January 31, 2018. The prior-year dividend was €3.60 per share.

The proposed dividend of €3.70 per share for fiscal 2017 represents a total payout of €3.0 billion based on the estimated number of shares entitled to dividend at the date of the Annual Shareholders' Meeting. Based on net income of €6.2 billion for fiscal 2017, the dividend payout percentage is 49%.

A.2.6 Calculation of return on capital employed

Calculation of ROCE

	Fiscal year	
(in millions of €)	2017	2016
Net income	**6,179**	5,584
Less: Other interest expenses/income, net[1]	**(568)**	(544)
Plus: SFS Other interest expenses/income	**799**	784
Plus: Net interest expenses from post-employment benefits	**198**	282
Less: Interest adjustments (discontinued operations)	**–**	–
Less: Taxes on interest adjustments (tax rate (flat) 30%)	**(129)**	(156)
(I) Income before interest after tax	**6,479**	5,949
(II) Average capital employed	**47,836**	41,573
(I)/(II) ROCE	**13.5%**	14.3%

1 Item Other interest expenses/income, net primarily consists of interest relating to corporate debt, and related hedging activities, as well as interest income on corporate assets.

For purposes of calculating ROCE in interim periods, income before interest after tax is annualized. Average capital employed is determined using the average of the respective balances as of the quarterly reporting dates in the period under review.

Calculation of capital employed

Total equity
Plus: Long-term debt
Plus: Short-term debt and current maturities of long-term debt
Less: Cash and cash equivalents
Less: Current available-for-sale financial assets
Plus: Post-employment benefits
Less: SFS Debt
Less: Fair value hedge accounting adjustment
Plus: Adjustments from assets classified as held for disposal and liabilities associated with assets classified as held for disposal
Less: Adjustment for deferred taxes on net accumulated actuarial gains/losses on post-employment benefits
Capital employed (continuing and discontinued operations)

A.3 Results of operations

A.3.1 Orders and revenue by region

Negative currency translation effects took one percentage point each from order development and revenue growth; portfolio transactions, primarily the merger of the wind power business with Gamesa and the acquisition of Mentor Graphics, added two percentage points to order development and three percentage points to revenue growth. The resulting ratio of orders to revenue (book-to-bill) for Siemens in fiscal 2017 was 1.03.

Orders (location of customer)

(in millions of €)	Fiscal year 2017	2016	% Change Actual	Comp.
Europe, C.I.S., Africa, Middle East	**45,048**	46,185	(2)%	(2)%
therein: Germany	*13,943*	*10,525*	*32%*	*32%*
Americas	**22,921**	24,794	(8)%	(10)%
therein: U.S.	*16,905*	*18,162*	*(7)%*	*(9)%*
Asia, Australia	**17,700**	15,501	14%	13%
therein: China	*7,484*	*6,850*	*9%*	*10%*
Siemens	**85,669**	**86,480**	**(1)%**	**(2)%**
therein: emerging markets[1]	*27,239*	*30,448*	*(11)%*	*(11)%*

1 As defined by the International Monetary Fund.

Orders related to external customers came in only slightly below the high level a year ago despite substantial, ongoing contraction in markets for Power and Gas. The Division reported a sharply lower volume from large orders compared to the prior year, when it had won large contracts totaling €4.7 billion in Egypt. This factor also influenced the decline in emerging markets. All other industrial businesses took in higher orders year-over-year. Digital Factory and Mobility recorded double-digit order growth, while higher orders at SGRE benefited from significant portfolio effects.

In the **Europe, C.I.S., Africa, Middle East** region, with the exception of Power and Gas, all industrial businesses posted order growth, including double-digit growth in Mobility and Energy Management. Orders came in substantially higher in Germany, due to higher levels of large orders in SGRE, Energy Management and Mobility compared to fiscal 2016.

Orders in the **Americas** region were down clearly year-over-year on a substantial decline in Power and Gas. In addition, order intake at Mobility declined significantly, while Building Technologies and Digital Factory posted double-digit growth, the latter primarily due to portfolio effects from the acquisition of Mentor Graphics. The pattern of order development in the U.S. was roughly the same as in the Americas region, with double-digit growth at Building Technologies and Digital Factory more than offset by substantial declines in Power and Gas, Mobility and SGRE.

Orders were up significantly in the **Asia, Australia** region due to growth in all industrial businesses other than Power and Gas, with SGRE and Digital Factory recording the largest increases. A number of countries within the region posted significant growth. China posted the largest increase, with order growth at Digital Factory, SGRE and Process Industries and Drives partly offset by a substantial decline in Energy Management.

Revenue (location of customer)

(in millions of €)	Fiscal year 2017	2016	% Change Actual	Comp.
Europe, C.I.S., Africa, Middle East	**43,367**	41,819	4%	4%
therein: Germany	*11,142*	*10,739*	*4%*	*2%*
Americas	**23,516**	22,707	4%	(1)%
therein: U.S.	*16,976*	*16,769*	*1%*	*(1)%*
Asia, Australia	**16,166**	15,118	7%	6%
therein: China	*7,209*	*6,439*	*12%*	*13%*
Siemens	**83,049**	**79,644**	**4%**	**3%**
therein: emerging markets[1]	*28,464*	*27,195*	*5%*	*3%*

1 As defined by the International Monetary Fund.

Revenue related to external customers went up moderately year-over-year and increased in the majority of industrial businesses, offsetting declines in Power and Gas and Process Industries and Drives. Higher revenue at SGRE benefited from substantial portfolio effects following the merger.

Growth drivers in **Europe, C.I.S., Africa, Middle East** included SGRE, Digital Factory and Mobility. These increases were partly offset by a clear revenue decline in Power and Gas. In Germany, revenue was up with increases in the majority of industrial businesses partly offset by declines at Energy Management and Power and Gas.

In the **Americas**, revenue came in higher year-over-year, driven primarily by the merger with Gamesa, which brought new volume in Latin America, and revenue growth in Digital Factory and Building Technologies. In the U.S., increases in Digital Factory, Building Technologies and Mobility were offset by declines in Power and Gas and in Process Industries and Drives.

Revenue in **Asia, Australia** was up clearly year-over-year, as growth in Digital Factory, SGRE, Energy Management and Healthineers was partly offset by declines in Power and Gas and Mobility. China's growth outpaced the region overall, as all industrial businesses except Mobility recorded higher revenue, with Digital Factory, SGRE and Energy Management posting the highest increases.

A.3.2 Segment information analysis

A.3.2.1 POWER AND GAS

(in millions of €)	Fiscal year 2017	2016	% Change Actual	Comp.
Orders	**13,422**	19,454	(31)%	(30)%
Revenue	**15,467**	16,471	(6)%	(5)%
Profit	**1,591**	1,872	(15)%	
Profit margin	**10.3%**	11.4%		

Orders declined substantially year-over-year, due mainly to a sharply lower volume from large orders in the solutions business, which had recorded large orders for power plants, including service, from Egypt totaling €4.7 billion in fiscal 2016. In contracting markets for the Division's offerings, order intake was down in all businesses and in all three reporting regions. As a result of this continuing market weakness, revenue declined clearly and in all reporting regions, as a decrease in the new-unit business was only partly offset by an increase in the service business. Profit was significantly lower year-over-year despite a continuing strong contribution from the service business, on reduced capacity utilization following the weaker order intake, price declines, and higher net charges related to project execution and completion year-over-year. In addition, profit in fiscal 2016 benefited from positive effects totaling €130 million from revised estimates related to resumption of long-term construction and service contracts in Iran following the ending or easing of EU and U.S. sanctions and €118 million from the measurement of inventories. Costs for the integration of Dresser-Rand were €33 million in fiscal 2017 compared to €59 million in fiscal 2016. Finally, severance charges were lower in fiscal 2017, at €19 million compared to €69 million in fiscal 2016. Global energy trends continue to structurally reduce overall demand in markets for the Division's offerings, resulting in declining new-unit business and corresponding price pressure due to current overcapacities.

A.3.2.2 ENERGY MANAGEMENT

(in millions of €)	Fiscal year 2017	2016	% Change Actual	Comp.
Orders	**13,628**	12,963	5%	5%
Revenue	**12,277**	11,940	3%	3%
Profit	**932**	895	4%	
Profit margin	**7.6%**	7.5%		

Orders grew moderately year-over-year, due mainly to a higher volume from large orders in the solutions business, including an order totaling €0.8 billion for an offshore grid connection project in Germany, an order totaling €0.6 billion for substations in Qatar and a high-voltage direct current (HVDC) order totaling €0.4 billion in India. The medium voltage and systems business and the low voltage and products business also posted higher orders year-over-year. These increases were partly offset by declines in the Division's other businesses. On a regional basis, orders were up in all three reporting regions, predominantly in Europe, C.I.S., Africa, Middle East. Revenue was also up moderately with most of the Division's businesses recording moderate to clear increases. On a regional basis, revenue increased in all three reporting regions, with significant growth in Asia, Australia. All of the Division's businesses delivered a positive contribution to profit, benefiting from lower severance charges that were €39 million and €71 million in fiscal 2017 and fiscal 2016, respectively. The high voltage products and transformer businesses showed significant improvement year-over-year.

A.3.2.3 BUILDING TECHNOLOGIES

(in millions of €)	Fiscal year 2017	2016	% Change Actual	Comp.
Orders	**6,913**	6,435	7%	8%
Revenue	**6,523**	6,156	6%	7%
Profit	**784**	577	36%	
Profit margin	**12.0%**	9.4%		

Successfully executing its growth initiatives in both the regions and across its businesses, Building Technologies increased orders and revenue and grew faster than its market and major competitors. On a geographic basis, orders and revenue were up in all three reporting regions with the strongest growth contribution coming from the U.S. Profit and profitability increased due mainly to higher revenue and improvements in productivity. Profit development in fiscal 2017 benefited from a €94 million gain related to pension plan amendments. Severance charges were similar in both periods, at €18 million in fiscal 2017 and €16 million a year earlier.

A.3.2.4 MOBILITY

(in millions of €)	Fiscal year 2017	2016	% Change Actual	Comp.
Orders	**8,963**	7,875	14%	16%
Revenue	**8,099**	7,825	4%	6%
Profit	**743**	678	10%	
Profit margin	**9.2%**	8.7%		

Order growth at Mobility was driven primarily by the rolling stock business and supported by a higher volume from large orders. The current period included a number of significant contract wins in all three reporting regions, most notably in the region Europe, C.I.S. Africa, Middle East region, including an order for commuter rail and an order for a driverless metro, both in Austria, and large orders for the Division's new commuter rail platform Mireo in Germany. In the Asia, Australia region, the Division won a large turnkey project for the extension of a rapid transit system in Thailand. The largest contract wins in fiscal 2016 included an order for light rail vehicles in the U.S., a commuter rail contract in Germany and a rail automation order in Algeria. While revenue in the rolling stock business declined in the first half of the fiscal year due mainly to timing factors related to large rail projects, Mobility successfully executed on its large rolling stock and locomotive orders, resulting in double-digit revenue growth in the rolling stock business in the second half. The Division's rail infrastructure business also contributed to revenue growth for the whole fiscal year. On a geographic basis, revenue increases in Europe, C.I.S., Africa, Middle East and the Americas more than offset a decline in Asia, Australia, which reported a sharp drop in China. Profit improved in the majority of the businesses, driven by higher revenue and successful project execution. The increase in severance charges, which were €46 million in the current period up from €16 million a year earlier, was largely offset by a €28 million gain related to pension plan amendments.

A.3.2.5 DIGITAL FACTORY

(in millions of €)	Fiscal year 2017	2016	% Change Actual	Comp.
Orders	**11,532**	10,332	12%	8%
Revenue	**11,378**	10,172	12%	9%
Profit	**2,135**	1,690	26%	
Profit margin	**18.8%**	16.6%		

In a more favorable market environment, Digital Factory increased order intake and revenue in all its businesses year-over-year. Improvements in the market conditions were most notable in the automotive and the machine building industries, supporting an excellent performance by the Division's short-cycle businesses, which expanded their leading market positions during the fiscal year. Orders and revenue in the product lifecycle management software (PLM) business grew substantially due to strong demand combined with new volume resulting from the acquisition of Mentor Graphics at the end of the second quarter of fiscal 2017. On a geographic basis, orders and revenue were up in all reporting regions, with the strongest increase from Asia, Australia, particularly including China. The Division's profit improvement was driven by the short-cycle businesses. Profit in the PLM business was held back by ongoing expenses related to further advancing Siemens' MindSphere platform. Furthermore, the business' profitability was impacted by deferred revenue adjustments and transaction and integration costs related to the acquisition of Mentor Graphics, totaling €104 million. In fiscal 2016, deferred revenue adjustments and transaction and integration costs related to the acquisition of CD-adapco totaled €43 million. Profit for the Division benefited from a gain of €175 million related to the eCar business, which Digital Factory contributed to the joint venture Valeo Siemens eAutomotive. This positive effect was partly offset by higher severance charges, which increased to €134 million in fiscal 2017, up from €49 million in fiscal 2016.

A.3.2.6 PROCESS INDUSTRIES AND DRIVES

(in millions of €)	Fiscal year 2017	2016	% Change Actual	Comp.
Orders	**9,034**	8,939	1%	2%
Revenue	**8,876**	9,038	(2)%	(1)%
Profit	**440**	243	81%	
Profit margin	**5.0%**	2.7%		

Orders for Process Industries and Drives increased slightly, as growth in the process automation and solution businesses and stabilization in demand for the Division's offerings in oil and gas and other commodity-related markets towards the end of the fiscal year more than offset a decline in demand for wind power components during the course of fiscal 2017. A decline in revenue in the solutions and the large drives businesses more than offset revenue growth in the process automation business. On a geographic basis, order growth came mainly from China, while the decline in revenue was due to the Americas region. Profit for the Division increased due primarily to sharply lower severance charges year-over-year, which were €48 million in fiscal 2017, down from €254 million in fiscal 2016. Within the Division's businesses, the process automation business showed a strong operating performance. Overall, profit and profitability for the Division were held back by ongoing operational challenges, particularly in the large drives business, and by charges related to capacity adjustments.

A.3.2.7 HEALTHINEERS

(in millions of €)	Fiscal year 2017	2016	% Change Actual	Comp.
Orders	**14,218**	13,830	3%	4%
Revenue	**13,789**	13,535	2%	3%
Profit	**2,490**	2,325	7%	
Profit margin	**18.1%**	17.2%		

Order intake grew moderately on increases in a majority of the businesses, led by the diagnostic imaging business. On a regional basis, Europe, C.I.S., Africa and Middle East posted the highest increase, followed by growth in Asia, Australia, driven by China. Revenue was also up in a majority of the businesses, again led by the diagnostic imaging business. On a geographic basis, China accounted for more than half of the revenue increase year-over-year. Profit growth was driven by the diagnostic imaging business, which continued to account for the largest share of Healthineers profit overall, and by the advanced therapies business. Profit benefited from currency tailwinds in both periods. Severance charges were €57 million in fiscal 2017 and €61 million in fiscal 2016.

A.3.2.8 SIEMENS GAMESA RENEWABLE ENERGY

(in millions of €)	Fiscal year 2017	2016	% Change Actual	Comp.
Orders	**8,768**	7,973	10%	(2)%
Revenue	**7,922**	5,976	33%	7%
Profit	**338**	464	(27)%	
Profit margin	**4.3%**	7.8%		

Portfolio effects from the merger added 13 percentage points to order growth and 28 percentage points to revenue growth. Reported orders were up year-over-year on growth in Asia, Australia, while orders in Europe, C.I.S., Africa, Middle East and the Americas were close to the prior-year level. Order intake in the major onshore market India was impacted by the introduction of an auction system for new wind-farm tenders. Reported revenue was up in all three reporting regions. Lower profit year-over-year included burdens of €134 million, primarily from inventory write-downs, and €103 million for integration costs and capacity adjustments including severance. Profitability was held back by sharp price declines in India and the U.S.

A.3.2.9 FINANCIAL SERVICES

(in millions of €)	2017	Fiscal year 2016
Income before income taxes	**639**	653
ROE (after taxes)	**19.9%**	21.6%

(in millions of €)	2017	Sep 30, 2016
Total assets	**26,390**	26,446

Financial Services (SFS) again delivered strong earnings including lower credit hits. Within the equity business, the current year included a gain from the sale of SFS's stake in an offshore windfarm project, while the prior year included a larger positive effect, €92 million, resulting from an at-equity investment. Despite growth in new business, total assets were on the level of the end of fiscal 2016, due mainly to substantial early terminations of financings along with negative currency translation effects.

A.3.2.10 RECONCILIATION TO CONSOLIDATED FINANCIAL STATEMENTS

Profit

(in millions of €)	2017	Fiscal year 2016
Centrally managed portfolio activities	**488**	(215)
Siemens Real Estate	**187**	132
Corporate items	**(714)**	(449)
Centrally carried pension expense	**(407)**	(439)
Amortization of intangible assets acquired in business combinations	**(1,016)**	(674)
Eliminations, Corporate Treasury and other reconciling items	**(323)**	(349)
Reconciliation to Consolidated Financial Statements	**(1,785)**	(1,994)

The positive swing at **Centrally managed portfolio activities (CMPA)** related primarily to the measurement of a major asset retirement obligation, including a net gain of €364 million resulting from interest rate effects and €312 million attributable mainly to a reduced expected inflation rate. These positive effects were partly offset by higher losses from at-equity investments including a €230 million impairment of Siemens' stake in Primetals Technologies Ltd. in fiscal 2017, related to continuing adverse conditions in the market environment. Additionally in the current period we recorded gains from reversals of provisions for guarantees related to a previous divestment. Effective with the beginning of fiscal 2018, CMPA includes the Olkiluoto project in Finland which was formerly part of Power and Gas.

Corporate items were influenced by a number of factors, including severance charges of €71 million (€43 million in fiscal 2016) for corporate reorganization of support functions as well as expenses in connection with creation of next47 beginning in October 2016.

The increase of **Amortization of intangible assets acquired in business combinations** related mainly to the merger with Gamesa and the acquisition of Mentor Graphics.

A.3.3 Income

(in millions of €, earnings per share in €)	Fiscal year 2017	2016	% Change
Power and Gas	**1,591**	1,872	(15)%
Energy Management	**932**	895	4%
Building Technologies	**784**	577	36%
Mobility	**743**	678	10%
Digital Factory	**2,135**	1,690	26%
Process Industries and Drives	**440**	243	81%
Healthineers	**2,490**	2,325	7%
Siemens Gamesa Renewable Energy	**338**	464	(27)%
Industrial Business	**9,453**	**8,744**	**8%**
Profit margin Industrial Business	***11.2%***	*10.8%*	
Financial Services (SFS)	**639**	653	(2)%
Reconciliation to Consolidated Financial Statements	**(1,785)**	(1,994)	10%
Income from continuing operations before income taxes	**8,306**	**7,404**	**12%**
Income tax expenses	**(2,180)**	(2,008)	(9)%
Income from continuing operations	**6,126**	**5,396**	**14%**
Income from discontinued operations, net of income taxes	**53**	188	(72)%
Net income	**6,179**	**5,584**	**11%**
Basic earnings per share	**7.44**	6.74	10%
ROCE	**13.5%**	14.3%	

As a result of the development described for the segments, **Income from continuing operations before income taxes** increased 12%. This amount also included higher expenses – as planned – for selling and R&D, primarily at Digital Factory and Healthineers, as we continued targeted investments aimed at organic volume growth and strengthening our capacities for innovation, such as for MindSphere at Digital Factory and Atellica at Healthineers. Severance charges for continuing operations were €466 million, of which €385 million were in the Industrial Business. In fiscal 2016, severance charges for continuing operations were €598 million, of which €541 million were in the Industrial Business.

The tax rate for fiscal 2017 was 26%, positively influenced by utilization of previously impaired tax loss carryforwards and by decisions arising from tax audits. The tax rate 27% in the prior year was positively influenced by successful appeals of tax decisions for prior years. As a result, **Income from continuing operations** increased 14%.

Income from discontinued operations, net of income taxes was sharply lower compared to the prior year. In fiscal 2016, it primarily included a gain of €102 million from the sale of the remaining assets in the hearing aid business and €76 million related to the former Siemens IT Solutions and Services activities.

The increase in **Basic earnings per share** reflects the higher net income compared to fiscal 2016, while the weighted average number of shares outstanding increased slightly year-over-year. At 13.5%, **ROCE** was below the range established in our One Siemens financial framework, as expected. The decline year-over-year was due primarily to the merger with Gamesa and the acquisition of Mentor Graphics, which led to a significant increase in average capital employed (the denominator for ROCE). Net income, the main component for the numerator, was also negatively affected by burdens related to these transactions.

A.4 Net assets position

(in millions of €)	Sep 30, 2017	2016	% Change
Cash and cash equivalents	**8,375**	10,604	(21)%
Available-for-sale financial assets	**1,242**	1,293	(4)%
Trade and other receivables	**17,160**	16,287	5%
Other current financial assets	**7,664**	6,800	13%
Inventories	**19,942**	18,160	10%
Current income tax assets	**1,098**	790	39%
Other current assets	**1,467**	1,204	22%
Assets classified as held for disposal	**1,482**	190	>200%
Total current assets	**58,429**	**55,329**	**6%**
Goodwill	**27,906**	24,159	16%
Other intangible assets	**10,926**	7,742	41%
Property, plant and equipment	**10,977**	10,157	8%
Investments accounted for using the equity method	**2,727**	3,012	(9)%
Other financial assets	**19,044**	20,610	(8)%
Deferred tax assets	**2,297**	3,431	(33)%
Other assets	**1,498**	1,279	17%
Total non-current assets	**75,375**	**70,388**	**7%**
Total assets	**133,804**	**125,717**	**6%**

Our total assets in fiscal 2017 were influenced by negative currency translation effects of €4.7 billion, led by the U.S. dollar.

In fiscal 2017, the acquisition of Mentor Graphics and the merger with Gamesa were the major factors related to the increase in **trade and other receivables**, partly offset by the Power and Gas Division due to declining business volume. While these transactions were also the largest factors for the increased **goodwill** and **other intangible assets**, the increase in **inventories** was mainly driven by the merger with Gamesa.

The increase in **other current financial assets** was driven by higher loans receivable at SFS, which were mainly due to new business and reclassification of non-current loans receivable.

Assets classified as held for disposal increased mainly due to reclassification of shares in OSRAM Licht AG (OSRAM) in an amount of €1.2 billion from other financial assets.

Deferred tax assets decreased mainly due to income tax effects related to remeasurement of defined benefits plans.

A.5 Financial position

A.5.1 Capital structure

Our capital structure developed as follows:

(in millions of €)	Sep 30, 2017	2016	% Change
Short-term debt and current maturities of long-term debt	**5,447**	6,206	(12)%
Trade payables	**9,755**	8,048	21%
Other current financial liabilities	**1,444**	1,933	(25)%
Current provisions	**4,247**	4,166	2%
Current income tax liabilities	**2,355**	2,085	13%
Other current liabilities	**20,049**	20,437	(2)%
Liabilities associated with assets classified as held for disposal	**97**	40	139%
Total current liabilities	**43,394**	**42,916**	**1%**
Long-term debt	**26,777**	24,761	8%
Provisions for pensions and similar obligations	**9,582**	13,695	(30)%
Deferred tax liabilities	**1,599**	829	93%
Provisions	**4,579**	5,087	(10)%
Other financial liabilities	**902**	1,142	(21)%
Other liabilities	**2,445**	2,471	(1)%
Total non-current liabilities	**45,884**	**47,986**	**(4)%**
Total liabilities	**89,278**	**90,901**	**(2)%**
Debt ratio	***67%***	*72%*	
Total equity attributable to shareholders of Siemens AG	**43,089**	34,211	26%
Equity ratio	***33%***	*28%*	
Non-controlling interests	**1,438**	605	138%
Total liabilities and equity	**133,804**	125,717	6%

The decrease in **short-term debt and current maturities of long-term debt** was due mainly to the repayment of fixed-rate instruments totaling €4.9 billion. This was partly offset by reclassifications of long-term fixed-/floating-rate instruments totaling €3.7 billion.

The increase in **trade payables** was due mainly to the merger with Gamesa.

Long-term debt increased mainly due to the issuance of fixed-/floating-rate instruments totaling US$7.5 billion (€7.0 billion) in seven tranches with different maturities of up to 30 years. This was partly offset by the above mentioned reclassifications to short-term debt and current maturities of long-term debt.

Provisions for pensions and similar obligations fell on a reduction of Siemens' defined benefit obligation (DBO) mainly due to increased discount rate assumptions.

The merger with Gamesa and the acquisition of Mentor Graphics were the primary factors in the increase in **deferred tax liabilities**. While the merger with Gamesa also brought substantial new **provisions**, this effect was more than offset by positive factors – mainly related to a major asset retirement obligation – resulting in a net decrease.

The main factors for the change in **total equity attributable to shareholders of Siemens AG** were €6.0 billion in net income attributable to shareholders of Siemens AG, €2.5 billion in other comprehensive income, net of income taxes, mainly due to remeasurements of defined benefit plans, and €2.5 billion in changes in equity resulting from the merger with Gamesa. This increase was partly offset by dividend payments of €2.9 billion (for fiscal 2016).

The increase in **non-controlling interests** was due mainly to the merger with Gamesa.

Capital structure ratio

Our capital structure ratio as of September 30, 2017 decreased to 0.9 from 1.0 a year earlier, both results being in line with the target established in our One Siemens financial framework. The change was due primarily to the above-mentioned decrease of provisions for pensions and similar obligations.

In November 2015, we announced a share buyback of up to €3 billion ending at the latest on November 15, 2018. The buybacks will be made under the current authorization granted at the Annual Shareholders' Meeting on January 27, 2015. Shares repurchased may be used solely for retirement; for issuing shares to employees, to members of the Managing Board and board members of affiliated companies; and for servicing/securing the obligations or rights from or in connection with convertible bonds or warrant bonds. In fiscal 2017 we repurchased 7,922,129 treasury shares under the program at an average cost per share of €117.85, totaling €0.9 billion (including incidental transaction charges).

Debt and credit facilities

As of September 30, 2017 we recorded, in total, €28.8 billion in notes and bonds (maturing until 2047), €2.5 billion in loans from banks (maturing until 2027), €0.8 billion in other financial indebtedness (maturing until 2029) and €0.1 billion in obligations under finance leases. Notes, bonds and loans from banks were issued mainly in U.S. dollar and euro, and to a lower extent in the British pound.

We have credit facilities totaling €7.8 billion which were unused as of September 30, 2017.

For further information about our debt see → NOTE 15 in B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. For further information about the functions and objectives of our financial risk management see → NOTE 24 in B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Off-balance-sheet commitments

As of September 30, 2017 the undiscounted amount of maximum potential future payments related primarily to credit guarantees and guarantees of third-party performance amounted to €3.1 billion (September 30, 2016: €3.7 billion).

In addition to these commitments, we issued other guarantees. To the extent future claims are not considered remote, maximum future payments from these commitments amount to €0.6 billion (September 30, 2016: €0.9 billion). The decrease in other guarantees is related to indemnifications issued in connection with dispositions of businesses.

Future payment obligations under non-cancellable operating leases amounted to €3.3 billion (September 30, 2016: €3.5 billion).

Irrevocable loan commitments amounted to €3.4 billion (September 30, 2016: €3.4 billion). A considerable portion of these commitments resulted from asset-based lending transactions, meaning that the respective loans can be drawn only after the borrower has provided sufficient collateral.

A.5.2 Cash flows

(in millions of €)	Fiscal year 2017
Cash flows from operating activities	
Net income	6,179
Change in operating net working capital	(1,595)
Other reconciling items to cash flows from operating activities – continuing operations	2,641
Cash flows from operating activities – continuing operations	**7,225**
Cash flows from operating activities – discontinued operations	(50)
Cash flows from operating activities – continuing and discontinued operations	**7,176**
Cash flows from investing activities	
Additions to intangible assets and property, plant and equipment	(2,406)
Acquisitions of businesses, net of cash acquired	(4,385)
Change in receivables from financing activities of SFS	(686)
Other purchases of assets	(1,382)
Other disposals of assets	1,404
Cash flows from investing activities – continuing operations	**(7,456)**
Cash flows from investing activities – discontinued operations	(1)
Cash flows from investing activities – continuing and discontinued operations	**(7,457)**
Cash flows from financing activities	
Purchase of treasury shares	(931)
Re-issuance of treasury shares and other transactions with owners	1,123
Issuance of long-term debt	6,958
Repayment of long-term debt (including current maturities of long-term debt)	(4,868)
Change in short-term debt and other financing activities	260
Interest paid	(1,000)
Dividends paid to shareholders of Siemens AG	(2,914)
Dividends attributable to non-controlling interests	(187)
Cash flows from financing activities – continuing operations	**(1,560)**
Cash flows from financing activities – discontinued operations	–
Cash flows from financing activities – continuing and discontinued operations	**(1,560)**

The conversion of profit into **cash inflows from operating activities** was mainly driven by Healthineers and the Digital Factory Division. This conversion was held back by a **build-up of operating net working capital** primarily due to an increase in inventories at SGRE and a decrease in billings in excess of costs and estimated earnings on uncompleted contracts and related advances at the Power and Gas Division.

The cash outflows for **acquisitions of businesses, net of cash acquired**, primarily included payments totaling €4.1 billion related to the acquisition of Mentor Graphics.

The cash outflows for **other purchases of assets** primarily included additions of assets eligible as central bank collateral and to payments related to several investments such as in connection with our Bentley Systems strategic alliance and the Valeo Siemens eAutomotive joint venture.

The cash inflows from **other disposals of assets** primarily included disposals from above-mentioned eligible collateral, proceeds from real estate disposals at SRE and from the sale of investments such as the stake in an offshore windfarm project at SFS.

The cash inflows from the **re-issuance of treasury shares and other transactions with owners** resulted from the exercise of warrants in connection with the redemption of the US$1.5 billion bonds with warrant units.

We report Free cash flow as a supplemental liquidity measure:

Free cash flow

			Fiscal year 2017
(in millions of €)	Continuing operations	Discontinued operations	Continuing and discontinued operations
Cash flows from operating activities	7,225	(50)	7,176
Additions to intangible assets and property, plant and equipment	(2,406)	–	(2,406)
Free cash flow	**4,819**	**(50)**	**4,769**

With our ability to generate positive operating cash flows, our total liquidity (defined as cash and cash equivalents as well as available-for-sale financial assets) of €9.6 billion, our €7.8 billion in unused lines of credit, and our credit ratings at year-end, we believe that we have sufficient flexibility to fund our capital requirements. Also in our opinion, our operating net working capital is sufficient for our present requirements.

Investing activities

Additions to intangible assets and property, plant and equipment from continuing operations totaled €2.4 billion in fiscal 2017. Within the Industrial Business, ongoing investments related mainly to technological innovations; extending our capacities for designing, manufacturing and marketing new solutions; improving productivity; and replacements of fixed assets. These investments amounted to €1.8 billion in fiscal 2017. The remaining portion in fiscal 2017 related mainly to SRE, including significant amounts related to office projects such as new office buildings in Germany. SRE is responsible for uniform and comprehensive management of Company real estate worldwide (except for SGRE), and supports the Industrial Business and corporate activities with customer-specific real estate solutions.

With regard to capital expenditures for continuing operations, we expect a significant spending increase in fiscal 2018. In addition, we plan to invest significant amounts in coming years in attractive innovation fields in connection with next47.

Focus areas of ongoing investing activities of the Industrial Business are:

The investments of **Power and Gas** are focused on the enhancement of productivity and selective strategic localization. Investing activities mainly relate to our gas turbines and turbine components.

Energy Management is spending the larger portion of its capital expenditures for innovation, particularly in digital and low-voltage grid edge products and solutions. Further investments are primarily related to the replacement of fixed assets, the expansion or relocation of factories and technical equipment.

The investments of **Building Technologies** relate mainly to the products and systems business, particularly innovation projects such as control and digital platforms.

Mobility's investments focus mainly on meeting project demands and maintaining or enhancing its production facilities.

Major spending of **Digital Factory** in fiscal 2017 related to the factory automation, motion control systems, software and control products businesses, including investments in production facilities in China. The portion of capital expenditures associated with software is expected to increase considerably in fiscal 2018.

Process Industries and Drives makes most of its capital expenditures for the purpose of rationalization, replacement, and adjustment of innovative new or successor products, particularly in Europe.

Healthineers' investments are driven mainly by enhancing competitiveness and innovation notably in the diagnostics businesses, including large amounts relating to intangible assets, particularly capitalized development expenses for new platforms. Healthineers is also spending for factories, especially in China and the United States.

The investments of **Siemens Gamesa Renewable Energy** continue to focus on the expansion of production capacity in Germany for offshore wind turbines as well as in Morocco for onshore blades, while in parallel the production capacities in other regions are reduced to address changing market conditions. Further investments relate to the emerging markets India and China to allow for the production of the next turbine generation.

A.6 Overall assessment of the economic position

In fiscal 2017, we continued to stringently execute on our "Vision 2020" concept. We reached significant milestones for the strategic development of Siemens and initiated important measures to further strengthen our portfolio. At the beginning of fiscal 2017, we founded next47, which pools our existing startup activities to foster disruptive ideas more vigorously and accelerate the development of new technologies. In the second quarter, we acquired Mentor Graphics, an electronic design automation software provider, to further strengthen and expand our industrial software portfolio. At the beginning of the third quarter we closed the merger of our wind power business with Gamesa to form SGRE, a leading global wind power player in the onshore and offshore markets. In the fourth quarter, we announced our plans to publicly list a minority stake in the Healthineers business in the first half of calendar year 2018, depending on market conditions, in order to strengthen this Strategic Unit within Siemens by increasing the entrepreneurial and capital flexibility it needs to drive its strategic growth plans. Also in the fourth quarter, we signed a memorandum of understanding to combine our mobility business, including the rail traction drives business, with Alstom SA, France, in order to provide our customers around the world with an even more innovative and competitive product and solution portfolio. This transaction is expected to close at the end of calendar year 2018.

Also with regard to executing our financial target system, fiscal 2017 was another very successful year for Siemens and for most of our industrial businesses and SFS. We raised our guidance for basic earnings per share (EPS) from net income after the first quarter. After the second quarter, we confirmed this raised forecast and included in the EPS guidance previously excluded burdens resulting from portfolio changes. We reached or exceeded all the targets set for our primary measures for fiscal 2017. We achieved revenue growth of 3% net of currency translation and portfolio effects. Net income and basic EPS from net income rose 11% and 10%, respectively. Excluding burdens related to the acquisition of Mentor Graphics and the merger with Gamesa, Return on capital employed (ROCE) was slightly above the lower end of our target range of 15% to 20%. Our capital structure ratio came in slightly below 1.

Orders for fiscal 2017 were €85.7 billion, down 1% year-over-year. The decline was due to contracting markets for Power and Gas, which in the prior fiscal year had recorded large orders for power plants in Egypt. All other industrial businesses recorded increases. Orders grew at double-digit rates at Mobility and Digital Factory, the latter on the particular strength of its short-cycle businesses and supported by new volume from the Mentor Graphics acquisition. Order growth at SGRE was due to new volume from the merger with Gamesa. At 1.03, our book-to-bill ratio fulfilled our expectation of a ratio above 1.0.

Revenue rose to €83.0 billion, up 4% year-over-year. Except for Power and Gas and Process Industries and Drives, all industrial businesses contributed to revenue growth. Revenue growth was led by substantial growth at SGRE, due mainly to new volume from the merger with Gamesa, and by significant growth at Digital Factory due to the strength of the Division's short-cycle businesses and to the Mentor Graphics acquisition. Excluding currency translation and portfolio effects, overall revenue grew 3%. For fiscal 2017, we had forecast modest growth in revenue, net of currency translation and portfolio effects.

Industrial Business profit rose 8% to €9.5 billion. All industrial businesses except Power and Gas and SGRE increased their profit year-over-year. The strongest increases came from Digital Factory and Building Technologies, which together with Healthineers and Mobility achieved excellent results for the fiscal year. Energy Management continued its solid improvement. While profit at Process Industries and Drives grew, this increase was due primarily to lower severance charges year-over-year. As planned, we increased R&D and selling expenses in our industrial businesses, with a strong emphasis on digitalization, including the further advancement of our MindSphere platform.

The profit margin of our Industrial Business increased to 11.2%, up from 10.8% in the prior fiscal year. We thus reached our forecast as of the end of the first quarter of fiscal 2017, which was raised from a range of between 10.5% and 11.5% to a range of between 11.0% and 12.0%. Six of our eight industrial businesses improved their margins year-over-year, and five reached or exceeded their margin ranges. In challenging market environments, Power and Gas, SGRE and Process Industries and Drives missed their target ranges in fiscal 2017. With a return on equity after tax of 19.9%, SFS, which is reported outside our Industrial Business, reached the upper end of its margin range.

The loss outside the Industrial Business came in lower year-over-year. This was due mainly to positive effects related to the measurement of a major asset retirement. These effects were partly offset by higher amortization of intangible assets acquired in business combinations, mainly related to the merger with Gamesa and to the Mentor Graphics acquisition.

Net income in fiscal 2017 rose 11% to €6.2 billion, and basic EPS from net income was up 10% to €7.44. We thus reached our raised forecast, which was for an increase in basic EPS from net income in the range of €7.20 to €7.70, up from the range of €6.80 to €7.20 that was forecast in our Annual Report for fiscal 2016. Net income development benefited from our continuous efforts to increase productivity. In fiscal 2017, total cost productivity improved 5%, reaching the upper end of our fiscal 2017 target of 3% to 5%.

ROCE for fiscal 2017 was 13.5%, down from 14.3% in fiscal 2016. This decline was due primarily to burdens related to the merger with Gamesa and the acquisition of Mentor Graphics, which we had excluded from our ROCE forecast for fiscal 2017. Excluding these burdens, ROCE reached the lower end of the 15% to 20% range that we generally aim to achieve. We thus reached our forecast, which was to come close to or reach the lower end of our target range.

We evaluate our capital structure using the ratio of industrial net debt to EBITDA. For fiscal 2017, this ratio was 0.9, compared to 1.0 in fiscal 2016. We thus reached our forecast, which was to achieve a ratio of up to 1.0.

Free cash flow from continuing and discontinued operations for fiscal 2017 was €4.8 billion, down 13% compared to the prior fiscal year.

We intend to continue providing an attractive return to shareholders. As in the past, we intend to fund our dividend payout from Free cash flow. The Siemens Managing Board, in agreement with the Supervisory Board, proposes a dividend of €3.70 per share, up from €3.60 a year earlier.

A.7 Non-financial matters

Siemens has policies for environmental, employee and social matters, for the respect of human rights, and anti-corruption and bribery matters, among others. Reportable information which also relates to these non-financial matters is included in the → COMBINED MANAGEMENT REPORT, in → NOTES 16, 17, 21, 25, and 26 OF B.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, and in ↗ NOTES 16, 17, 20, 21, and 25 OF THE NOTES TO THE FINANCIAL STATEMENTS in the ANNUAL FINANCIAL STATEMENTS OF SIEMENS AG AS OF SEPTEMBER 30, 2017. These disclosures are – contrary to the disclosures in our separately available "Sustainability Information 2017" document – not subject to a specific framework to inform the users of the financial reports in a focused manner.

A.8 Report on expected developments and associated material opportunities and risks

A.8.1 Report on expected developments

A.8.1.1 WORLDWIDE ECONOMY

In fiscal 2018, the world economy is expected to grow slightly faster than in fiscal 2017. Global GDP is projected to expand by 3.2% in calendar 2018, the highest growth rate since 2010. Fixed investments are anticipated to grow by 3.6%, with a higher rate in emerging countries than in advanced economies. Emerging markets are forecast to benefit from stronger global growth and rising commodity prices.

The U.S. economy is anticipated to see moderate growth of 2.4% even without stimulus in the form of substantial tax cuts or a big infrastructure program. GDP growth is driven by consumer spending, which is supported by declining unemployment, rising incomes and household wealth. Fixed investments are expected to increase by 2.7% and should benefit from firming global markets. Interest rates are anticipated to continue to gradually rise led by central bank rates.

The expansion in Europe is expected to continue, with GDP forecast to grow 2.5%; especially the Eurozone should proceed with its recovery after a prolonged period of stagnation and recession. Supportive factors include continued monetary stimulus, reduced headwinds from fiscal policy and improving confidence of companies and households.

GDP growth in China is expected to moderate further in calendar 2018 to 6.5%, down from 6.8% in 2017. However, the near-term strength masks longer-term fragilities, especially very high debt levels. Also, the government has made only slow progress in reducing overcapacities.

The forecasts presented here for GDP and fixed investments are based on a report from IHS Markit dated October 15, 2017.

A.8.1.2 MARKET DEVELOPMENT

In fiscal 2018, market volume measured in Euro is expected to be held back by negative currency translation effects.

For fiscal 2018, we expect the markets served by our **Power and Gas** Division to remain challenging with market volume potentially declining again, even below the low level of fiscal 2017. However, the need for small and medium gas turbines, particularly in countries with a less developed energy infrastructure, is anticipated to continue. Volume in the compression market is expected to remain on a low level but we expect to see growing signs of a recovery during fiscal 2018 as some customers in the oil and gas industry revive investment plans. The steam turbine market is expected to continue to be impacted by the shift from coal to gas and renewable sources for power generation.

In fiscal 2018, markets served by the **Energy Management** Division are expected to provide moderate, low single-digit growth excluding currency translation effects. We expect negative currency translation effects from a weaker US$ and related currencies. Customers are expected to continue their effort to strengthen transmission and distribution grids to integrate the growing amount of decentralized renewable energy. We expect first signs of stabilization in the oil and gas and the metals and mining markets, though from low levels.

For the markets served by the **Building Technologies** Division, we expect solid growth again in fiscal 2018. Highest growth dynamics are forecast for Asia, with above-average growth in China and India. Markets in the Middle East are also expected to grow faster than the Division's markets overall. The U.S. is expected to grow in line with the global average and the majority of European countries are anticipated to continue their recovery, led by Spain and some Eastern European countries.

For fiscal 2018, we expect markets served by the **Mobility** Division to grow moderately. We anticipate that rail operators in Europe, particularly in Germany and the U.K., will continue to make significant investments. Markets in the Americas region are expected to remain strong, especially due to ongoing investments in urban transport and infrastructure in the U.S. as well as demand for commuter transport in Argentina. In the Middle East and Africa, we expect tenders of further rolling stock and turnkey projects. In China, we expect investments in high-speed trains, urban transport and rail infrastructure to continue to drive growth. In India, market growth should continue from projects for commuter and urban transport as well as high-speed passenger lines, freight rail, and related infrastructure as part of the country's transportation infrastructure modernization. Overall, local rail transport and intermodal mobility solutions are expected to gain importance as urbanization continues to progress around the world. In emerging countries, rising incomes are expected to result in greater demand for public transport solutions.

For fiscal 2018, markets addressed by the **Digital Factory** Division are expected to continue to grow. Global manufacturing production is forecast to grow moderately again, although growth rates in the automotive industries are expected to slow following strong growth in prior years. The machine-building industry is also forecast to grow as customers upgrade and modernize production facilities in an increasingly dynamic market environment. The trend towards digitalization is expected to continue to drive growth in the industrial software market. On a geographic basis, the strong growth rates experienced in China in fiscal 2017 are not expected to continue in fiscal 2018.

In fiscal 2018, nominal volume for the markets served by the **Process Industries and Drives** Division is expected to decline slightly due to currency translation effects. Excluding this effect, market volume is anticipated to grow slightly. Within commodity-related markets (e.g. oil and gas, mining, minerals), a gradual recovery in capital expenditures is expected to continue on a low level. Chemicals market is expected to further stabilize, whereas we expect challenging market conditions for our wind-related components due to higher pricing pressure resulting from the ongoing transition towards mature, fully competitive wind energy markets. On a geographic basis, the market growth momentum in China is expected to moderate in fiscal 2018 year-over-year, while markets in Europe and in the U.S. are expected to improve.

For fiscal 2018, markets for **Healthineers** are expected to stay on a moderate growth path. Healthineers' markets continue to benefit from long-term trends such as growing and aging populations and from broader access to healthcare, but are restricted by public spending constraints and by consolidation of healthcare providers. On a geographic basis, we expect slight growth in the U.S., held back by continued pressure to increase utilization of existing equipment, reduced reimbursement rates and policy uncertainty. For Europe, we also expect slight growth, with equipment replacement and business with large customers such as hospital chains gaining further importance. For China, we expect moderate growth due to continuously growing government spending on healthcare, promoting the private segment and expanding access on county level, pronounced effects of aging and growing incidence of chronic disease, partly held back by governmental restrictions such as centralized tendering and regulatory oversight of large-scale equipment allocation and use. Governments in a number of countries show the intention to establish protectionist initiatives and policies which support local suppliers.

For **SGRE**, we expect global wind installations to grow in fiscal 2018, with growth driven by higher demand for onshore installations, while offshore installations are expected to remain near the prior-year level. Some of the SGRE more relevant onshore markets like India and the U.S. will continue to experience higher than normal levels of volatility driven by the transition to fully competitive wind markets. This transition is expected to result in a low double-digit price decline in the onshore markets in fiscal 2018. As a result volume for SGRE's markets measured in Euro is expected to decline year-over-year.

Our **SFS** Division is geared to Siemens' Industrial Business and its markets. As such SFS is influenced by the business development of the markets served by our Industrial Business, among other factors. SFS will continue to focus its business scope on areas of intense domain know-how.

A.8.1.3 SIEMENS GROUP

We are basing our outlook for fiscal 2018 for the Siemens Group and its segments on the above-mentioned expectations and assumptions regarding the overall economic situation and specific market conditions for the next fiscal year. We plan to publicly list a minority stake in Healthineers in the first half of calendar 2018, depending on market conditions, to further strengthen Healthineers in Siemens for the future. The public listing of a minority stake in Healthineers will among others result in an increase in non-controlling interests, which reduces net income attributable to Siemens AG's shareholders and corresponding EPS. Effects on EPS associated with minorities holding shares in Healthineers following the planned IPO are excluded from this outlook. Furthermore, charges related to legal and regulatory matters are excluded from this outlook.

For fiscal 2018, we expect market-driven headwinds to continue to significantly impact volume development and profitability of Power and Gas, SGRE and Process Industries and Drives. These units are in the process of preparing capacity adjustment measures, which we expect to result in significant severance charges. There are high uncertainties regarding the extent of the financial burdens for fiscal 2018, as these depend on the results of consultations with the relevant employee representatives and the implementation of the planned measures is expected to take several years. Therefore, we exclude all severance charges from this outlook. Severance charges in fiscal 2017 were €385 million for our Industrial Business and €466 million (pre-tax) for Siemens. We assume that severance charges in fiscal 2018 will be higher than in fiscal 2017. Furthermore, this outlook excludes potential effects which may follow the introduction of a new strategic program, which we expect to announce during fiscal 2018.

We are exposed to currency translation effects, particularly involving the US$, the British £ and currencies of emerging markets, particularly the Chinese yuan. While we expect volatility in global currency markets to continue in fiscal 2018, we have improved our natural hedge on a global basis through geographic distribution of our production facilities during the past. Nevertheless, Siemens is still a net exporter from the Euro zone to the rest of the world, so a weak Euro is principally favorable for our business and a strong Euro is principally unfavorable. In addition to the natural hedging strategy just mentioned, we also hedge currency risk in our export business using derivative financial instruments. We expect these steps to help us limit effects on income related to currency in fiscal 2018. Based on currency exchange rates as of beginning of November 2017, we nevertheless expect negative currency effects to significantly influence nominal order and revenue development, and to adversely affect Industrial Business profit with an impact in the mid-triple-digit millions of Euros.

We are basing this outlook on our preliminary numbers under IFRS 15, Revenue from Contracts with Customers, which we will adopt beginning with fiscal 2018 retrospectively, i.e. results for fiscal 2017 will be presented on a comparable basis. We do not expect the adoption of IFRS 15 to have a significant effect on Siemens' Consolidated Financial Statements. On a preliminary basis, the adoption of IFRS 15 is expected to reduce reported revenue for fiscal 2017 by approximately €0.2 billion and reported basic EPS for fiscal 2017 by approximately €0.10, resulting mainly from Profit Industrial Business. Reported Industrial Business profit margin for fiscal 2017 is expected to decline by approximately 0.1 percentage points. As a result of the IFRS 15 adoption, below we report the backlog of the Siemens Group which, compared to the previous definition, now also includes the order backlog in businesses outside the Industrial

Business, eliminations for transactions between the businesses, and changes arising from the adoption of IFRS 15.

Based on these assumptions and exclusions, our outlook is as follows:

Revenue growth

We expect a mixed picture in our market environment in fiscal 2018, ranging from strong markets for our short-cycle businesses to unfavorable dynamics in our energy generation markets, as well as geopolitical uncertainties that may restrict investment sentiment. Therefore, for fiscal 2018 we expect modest growth in revenue, net of effects from currency translation and portfolio transactions.

In fiscal 2017, most of our industrial businesses contributed to organic revenue growth, and we expect a similar development in fiscal 2018. The principal exceptions are Power and Gas and SGRE, which continue to be impacted by market headwinds.

As of September 30, 2017, our order backlog totaled €126 billion. Thereof Power and Gas had an order backlog of €40 billion, Mobility of €26 billion, SGRE of €21 billion, Healthineers of €15 billion, Energy Management of €13 billion, Process Industries and Drives and Building Technologies of €5 billion each and Digital Factory of €3 billion. We expect revenue growth in fiscal 2018 to benefit from conversion of our order backlog. From Siemens' backlog, we expect to convert approximately €44 billion of past orders into current revenue in fiscal 2018. Within this amount, we expect our segments involved in large long-term project business to contribute the following conversions of backlog into revenue for fiscal 2018: For Power and Gas we expect approximately a €9 billion in revenue conversion, for Mobility, Energy Management and SGRE approximately €7 billion in revenue conversion each.

We anticipate that orders in fiscal 2018 will exceed revenue for a book-to-bill ratio above 1.

Profitability

For fiscal 2018, we expect net income to result in basic EPS from net income in the range of €7.20 to €7.70. Net income and basic EPS from net income for fiscal 2017 were €6.1 billion and €7.34, respectively, taking into account the retrospective adoption of IFRS 15 as mentioned above.

Our forecast for net income and corresponding basic EPS is based on a number of additional assumptions: As part of our One Siemens framework, we target a total cost productivity improvement of 3% to 5% in fiscal 2018. Also, we assume continued solid project execution. Furthermore, we anticipate clear currency-related impacts on net income. Along with these assumptions, we anticipate pricing pressure on our offerings of around 2.5% overall in fiscal 2018, with SGRE and the Power and Gas Division clearly above this average. Furthermore, we expect wage inflation of around 3% to 4%. Also, we plan to increase R & D expenses aimed at strengthening our capacities for innovation.

For fiscal 2018, taking into account the above-mentioned assumptions and exclusions, we expect all but two of our industrial businesses to be in or above their ranges for profit margin as defined in our financial performance system (see → A.2 FINANCIAL PERFORMANCE SYSTEM). The exceptions are Power and Gas and Process Industries and Drives. Overall, we expect a profit margin for our Industrial Business of 11.0% to 12.0%. Taking into account the retrospective adoption of IFRS 15 as mentioned above, Industrial Business profit margin was 11.1% in fiscal 2017. We expect SFS, which is reported outside Industrial Business, to achieve a return on equity (ROE) within its margin range in fiscal 2018 and to keep its profit near the prior-year level.

Within our Reconciliation to Consolidated Financial Statements, we expect expenses for Corporate items to be approximately €0.6 billion and to include significant centrally carried expenses related to innovation and digitalization. Despite burdens such as carve-out related expenses stemming from portfolio measures, particularly including the planned public listing of a minority share in Healthineers in the first half of calendar 2018 and the planned merger of our mobility business with Alstom by the end of calendar 2018, we expect results related to CMPA to be positive due among other factors to a €0.6 billion (after-tax) gain from the sale of our shares in OSRAM Licht AG at the beginning of fiscal 2018. Results related to CMPA are also expected to be highly volatile from quarter to quarter during the fiscal year. We anticipate that SRE will continue with real estate disposals depending on market conditions and generate results near the prior-year level. Centrally carried pension expenses are expected to total approximately €0.4 billion in fiscal 2018. Amortization of intangible assets acquired in business combinations are expected to rise to approximately €1.2 billion in fiscal 2018 due primarily to the merger with Gamesa and the acquisition of Mentor Graphics. Eliminations, Corporate Treasury and other reconciling items, which were a negative €0.3 billion in fiscal 2017, are expected to increase by approximately €0.1 billion in fiscal 2018 due mainly to higher interest expenses.

We do not expect material influence on financial results from discontinued operations in fiscal 2018. We anticipate our tax rate for fiscal 2018 to be in the range of 27% to 33%, up from 26% in fiscal 2017. We expect the increase in the tax rate to be driven by tax burdens related to the preparations of the initial public offering of a minority stake in Healthineers and the merger of our mobility business with Alstom.

Capital efficiency

Within our One Siemens financial framework, we aim in general to achieve a ROCE in the range of 15% to 20%. Due mainly to burdens on net income and average capital employed resulting from the acquisition of Mentor Graphics and the merger with

Gamesa, we expect ROCE to show a double-digit result in fiscal 2018 but to come in below the lower end of our target range.

Capital structure

We aim in general for a capital structure, defined as the ratio of industrial net debt to EBITDA, of up to 1.0, and expect to achieve this in fiscal 2018.

A.8.1.4 OVERALL ASSESSMENT

We expect a mixed picture in our market environment in fiscal 2018, ranging from strong markets for our short-cycle businesses to unfavorable dynamics in our energy generation markets, as well as geopolitical uncertainties that may restrict investment sentiment. For fiscal 2018 we expect modest growth in revenue, net of effects from currency translation and portfolio transactions, and anticipate that orders will exceed revenue for a book-to-bill ratio above 1. We expect a profit margin of 11.0% to 12.0% for our Industrial Business and basic EPS from net income in the range of €7.20 to €7.70, both excluding severance charges.

This outlook excludes charges related to legal and regulatory matters, effects on EPS associated with minorities holding shares in Healthineers following the planned IPO, and potential effects which may follow the introduction of a new strategic program.

Overall, the actual development for Siemens and its Segments may vary, positively or negatively, from our outlook due to the risks and opportunities described below or if our expectations and assumptions do not materialize.

A.8.2 Risk management

A.8.2.1 BASIC PRINCIPLES OF RISK MANAGEMENT

Our risk management policy stems from a philosophy of pursuing sustainable growth and 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 risk management policy is set by the Managing Board. Our organizational and accountability structure requires each of the respective managements of our Industrial Business, Financial Services (SFS), regions and Corporate Units to implement risk management programs that are tailored to their specific industries and responsibilities, while being consistent with the overall policy.

A.8.2.2 ENTERPRISE RISK MANAGEMENT PROCESS

We have implemented and coordinated a set of risk management and control systems which support us in the early recognition of developments that could jeopardize the continuity of our business. The most important of these systems include our enterprise-wide processes for strategic planning and management reporting. Strategic planning is intended to support us in considering potential risks well in advance of major business decisions, while management reporting is intended to enable us to monitor such risks more closely as our business progresses. Our internal auditors regularly review the adequacy and effectiveness of our risk management system. Accordingly, if deficits are detected, it is possible to adopt appropriate measures for their elimination. This coordination of processes and procedures is intended to help ensure that the Managing Board and the Supervisory Board are fully informed about significant risks in a timely manner.

Risk management at Siemens 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 approach is based on the globally accepted COSO (Committee of Sponsoring Organizations of the Treadway Commission) 'Enterprise Risk Management – Integrated Framework' (2004) and is adapted to Siemens requirements. It additionally conforms to ISO (International Organization for Standardization) Standard 31000 (2009). The framework connects the ERM process with our financial reporting process and our internal control system. It considers a company's strategy, the efficiency and effectiveness of its business operations, the reliability of its financial reporting as well as compliance with relevant laws and regulations to be equally important.

Our ERM process aims for early identification and evaluation of, and response regarding, risks and opportunities that could materially affect the achievement of our strategic, operational, financial and compliance objectives. The time horizon covered by ERM is typically three years. Our ERM is based on a net risk approach, addressing risks and opportunities remaining after the execution of existing control measures. If risks have already been considered in plans, budgets, forecasts or the 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 for the ERM. In order to provide a comprehensive view on 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 a quarterly cycle while this regular reporting process is complemented by 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 matters. The bottom-up identification and prioritization process is supplemented by workshops with the respective managements of the Industrial Business, SFS, regions and Corporate Units. This top-down element ensures that potential new risks and opportunities are discussed at the management level and are included in the subsequent reporting process, if found to be relevant. Reported risks and opportunities are analyzed regarding potential cumulative effects and are aggregated within and for each of the organizations mentioned above.

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. In a first step, assuming responsibility for a specific risk or opportunity involves choosing one of our general response strategies. Our general response strategies with respect to risks are avoidance, transfer, reduction or acceptance of the relevant risk. Our general response strategy with respect to opportunities is to 'seize' the relevant opportunity. In a second step, responsibility for a risk or opportunity also involves the development, initiation and monitoring of appropriate response measures corresponding to the chosen response strategy. These response measures have to be specifically tailored to allow for effective risk management. Accordingly, we have developed a variety of response measures with different characteristics. For example, we mitigate the risk of fluctuations in currency and interest rates by engaging in hedging activities. Regarding our long-term projects, systematic and comprehensive project management with standardized project milestones, including provisional acceptances during project execution and complemented by clearly defined approval processes, assists us in identifying and responding to project risks at an early stage, even before the bidding phase. Furthermore, we maintain appropriate insurance levels for potential cases of damage and liability risks in order to reduce our exposure to such risks and to avoid or minimize potential losses. Among others, we address the risk of fluctuation in economic activity and customer demand by closely monitoring the macroeconomic conditions and developments in relevant industries, and by adjusting capacity and implementing cost-reduction measures in a timely and consistent manner, if deemed necessary.

A.8.2.3 RISK MANAGEMENT ORGANIZATION AND RESPONSIBILITIES

To oversee the ERM process and to further drive the integration and harmonization of existing control activities to align with legal and operational requirements, the Managing Board established a Risk Management and Internal Control Organization, headed by the Chief Risk & Internal Control Officer, and a Corporate Risk and Internal Control Committee (CRIC). The CRIC obtains risk and opportunity information from the Risk Committees established at the Industrial Business, SFS, regions and Corporate Units. In order to allow for a meaningful discussion on Siemens group level individual risk and opportunities of similar cause-and-effect nature are aggregated into risk and opportunity themes. This aggregation naturally results in a mixture of risks, including those with a primarily qualitative assessment and those with a primarily quantitative risk assessment. Accordingly, we do not foresee a purely quantitative assessment of risk themes. This information then forms the basis for the evaluation of the company-wide risk and opportunity situation. The CRIC reports to and supports the Managing Board on matters relating to the implementation, operation and oversight of the risk and internal control system and assists the Managing Board for example in reporting to the Audit Committee of the Supervisory Board. The CRIC is composed of the Chief Risk & Internal Control Officer, as the chairperson, members of the Managing Board and selected heads of Corporate Units.

A.8.3 Risks

Below we describe the risks that could have a material adverse effect on our business, financial condition (including effects on assets, liabilities and cash flows), results of operations and reputation. The order in which the risks are presented in each of the four categories reflects the currently estimated relative exposure for Siemens associated with these risks and thus provides an indication of the risks' current importance to us. Additional risks not known to us or that we currently consider immaterial may also negatively impact our business objectives and operations. Unless otherwise stated, the risks described below relate to all of our segments.

A.8.3.1 STRATEGIC RISKS

Competitive environment: The worldwide markets for our products, solutions and services are highly competitive in terms of pricing, product and service quality, product development and introduction time, customer service, financing terms and shifts in market demands. We face strong existing competitors and also competitors from emerging markets, which may have a better cost structure. Some industries in which we operate are undergoing consolidation, which may result in stronger competition, a change in our relative market position, or unexpected price erosion. Furthermore, there is a risk of take-overs of crucial suppliers by competitors and a risk that competitors are increasingly offering services for our installed base. We address these risks with various measures, for example benchmarking, strategic initiatives, sales push initiatives, executing productivity measures and target cost projects, rightsizing of our footprint, outsourcings, mergers and joint ventures, exporting from low-cost countries to price-sensitive markets, and optimizing our product portfolio. We continuously monitor and analyze competitive and market information in order to be able to anticipate unfavorable changes in the competitive environment rather than merely reacting to such changes.

Economic, political and geopolitical conditions (macroeconomic environment): We see a high level of uncertainty regarding the global economic outlook. Significant downside risks stem e.g. from an increasing trend towards populism and from the consequences of the Brexit negotiations. The U.K. exit process could heighten business and consumer uncertainty, reduce investment in the U.K., pose risks to financial markets and may increase the uncertainties about the future of the European Union (EU) in general. A further and massive loss of economic confidence and a prolonged period of reluctance in investment decisions and awarding of new orders would hit our businesses. We continuously monitor the exit process and established, for example, a task force coordinating our local and global mitigation measures. Significant business risk stems from an abrupt weakening of Chinese economic growth. Both global and regional investment climates could collapse due to political upheavals, further independence debates within countries in the EU (e.g. the Catalan endeavor for independence), or sustained success of protectionist, anti EU and anti-business parties and policy. A rapid tightening of monetary policy by the U.S. Federal Reserve could cause a depreciation spiral among emerging market currencies. This could lead to a renewed emerging market crisis because debt levels of emerging market enterprises have risen, making them dependent on favorable global financial conditions to service debts denominated in foreign currencies. Emerging market operations involve further various risks, including civil unrest, health concerns, cultural differences such as employment and business practices, volatility in gross domestic product, economic and governmental instability, the potential for nationalization of private assets and the imposition of exchange controls. A terrorist mega-attack or a significant cybercrime incident, or a series of such attacks or incidents in major economies, could depress economic activity globally and undermine consumer and business confidence. Further risks stem from geopolitical tensions (e.g. in Syria, Ukraine, Turkey, and North Korea), and from an increasing vulnerability of the connected global economy to natural disasters. In addition we are depending on the economic momentum of specific industries, especially on the continued confidence in the automotive sector.

In general, due to the significant proportion of long-cycle businesses in our Industrial Business and the importance of long-term contracts for Siemens, there is usually a time lag between the development of macroeconomic conditions and their impact on our financial results. In contrast, short-cycle business activities of the Digital Factory Division and parts of Process Industries and Drives Division and of the Energy Management Division react quickly to volatility in market demand. If the moderate recovery of macroeconomic growth stalls again and if we are not successful in adapting our production and cost structure to subsequent changes in conditions in the markets in which we operate, there can be no assurance that we will not experience adverse effects. For example, it may become more difficult for our customers to obtain financing. As a result, they may modify, delay or cancel plans to purchase our products, solutions and services, or fail to follow through on purchases or contracts already executed. Furthermore, the prices for our products, solutions and services may decline, as a result of adverse market conditions, to a greater extent than we currently anticipate. In addition, contracted payment terms, especially regarding the level of advance payments by our customers relating to long-term projects, may become less favorable, which could negatively impact our financial conditions. Siemens' global setup with operations in almost all relevant economies, the wide variety of our offerings following different business cycles, and our varying business models (e.g. products, software, solutions, projects and services) help us to absorb the impact of an adverse development in a single market.

Disruptive technologies: The markets in which our businesses operate experience rapid and significant changes due to the introduction of innovative and disruptive technologies. In the fields of digitalization (e.g. internet of things, web of systems, cloud offerings, Industry 4.0), there are risks of new competitors, substitutions of existing products/solutions/services, niche players, new business models (e.g. in terms of pricing, financing, extended scopes for project business or subscription models in software business) and finally the risk that our competitors may have faster time-to-market strategies and introduce their digital products and solutions faster than Siemens. Our operating results depend to a significant extent on our technological leadership, our ability to anticipate and adapt to changes in our markets and to reduce the costs of producing our products. 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 result in success. Our results of operations may suffer if we invest in technologies that do not operate or may not be integrated as expected, or that are not accepted in the marketplace as anticipated, or if our products, solutions or systems are not introduced to the market in a timely manner, particularly compared to our competitors, or even become obsolete. We constantly apply for new patents and actively manage our intellectual property portfolio to secure our technological position. However, our patents and other intellectual property may not prevent competitors from independently developing or selling products and services that are similar to or duplicates of ours.

Footprint: The risk is that we are not flexible enough in adjusting our organizational and manufacturing footprint in order to quickly respond to changing markets, resulting in a non-competitive cost position and consequent loss of business. To mitigate this risk, we continuously monitor and analyze competitive and market information. Furthermore, we closely monitor the implementation of the planned measures, maintain strict cost management, and conduct ongoing discussions with all concerned interest groups.

Portfolio measures, at-equity investments, other investments and strategic alliances: Our strategy includes divesting activities in some business areas and strengthening others through portfolio measures, including mergers and acquisitions. With respect to divestments, 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, financial condition, results of operations and our reputation. Mergers and acquisitions are inherently risky because of difficulties that may arise when integrating people, operations, technologies and products. There can be no assurance that any of the businesses we acquired can be integrated successfully and in a timely manner as originally planned, or that they will perform as anticipated once integrated. In addition, we may incur significant acquisition, administrative, 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 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 we were otherwise to perform worse than expected at acquisition activities, then these intangible assets, including goodwill, might have to be impaired, which could adversely affect our business, financial conditions and results of operations. Our investment portfolio consists of investments held for purposes other than trading. Furthermore, we hold other investments, for example, Atos SE. Any factors negatively influencing the financial condition and results of operations of our at-equity investments and other investments, could have an adverse effect on our equity pick-up related to these investments or may result in a related write-off. In addition, our business, financial condition and results of operations could also be adversely affected in connection with loans, guarantees or non-compliance with financial covenants related to these at-equity investments and other investments. Furthermore, such investments are inherently risky as we may not be able to sufficiently influence corporate governance processes or business decisions taken by our equity investments, other investments and strategic alliances that may have a negative effect on our business. In addition, joint ventures bear the risk of difficulties that may arise when integrating people, operations, technologies and products. Strategic alliances may also pose risks for us because we compete in some business areas with companies with which we have strategic alliances. Besides other measures, we handle these risks with standardized processes as well as dedicated roles and responsibilities in the areas of mergers, acquisitions, divestments and carve outs. This includes post-closing actions as well as claim management and centrally managed portfolio activities.

A.8.3.2 OPERATIONAL RISKS

Cyber/Information security: Our business portfolio is dependent on digital technologies. We observe a global increase of IT security threats and higher levels of professionalism in computer crime, which pose a risk to the security of products, systems and networks and the confidentiality, availability and integrity of data. Like other large multinational companies we are facing active cyber threats from sophisticated adversaries that are supported by organized crime and nation-states engaged in economic espionage or even sabotage. We attempt to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of our networks and systems through Cyber Security Operation Centers, and maintenance of backup and protective systems such as firewalls and virus scanners. Our contractual arrangements with service providers, aim to ensure that these risks are reduced. Nonetheless our systems, products, solutions and services, as well as those of our service providers, remain potentially vulnerable to attacks. Such attacks could potentially lead to the publication, manipulation or leakage information such as through industrial espionage, improper use of our systems, defective products, production downtimes and supply shortages, with potential adverse effects on our reputation, our competitiveness and results of our operations.

Operational failures and quality problems in our value chain processes: Our value chain comprises all steps, from research and development to supply chain management, production, marketing, sales and services. Operational failures in our value chain processes could result in quality problems or potential product, labor safety, regulatory or environmental risks. Such risks are particularly present in our Industrial Business in relation to our production and manufacturing facilities, which are located all over the world and have a high degree of organizational and technological complexity. From time to time, some of the products we sell might have quality issues resulting from the design or manufacture of these products or the commissioning of these products or the software integrated into them. Our Healthineers' business, for example, is subject to regulatory authorities including the U.S. Food and Drug Administration and the European Commission's Health and Consumer Policy Department, which require us to make specific efforts to safeguard our product safety. If we are not able to comply with these requirements, our business and reputation may be adversely affected. We have established multiple measures for quality improvement and claim prevention. The increased use of quality management tools is improving visibility and enables us to strengthen our root cause and prevention processes.

Operational optimization and cost reduction initiatives: We are in a continuous process of operational optimization and constantly engage in cost-reduction initiatives, including ongoing capacity adjustment measures and structural initiatives. Consolidation of business activities and manufacturing facilities, outsourcings/carve outs, joint ventures and the streamlining of product portfolios are all part of these cost-reduction efforts. These measures may not be implemented as planned, may turn out to be less effective than anticipated, may become effective later than estimated or may not become effective at all. Any future contribution of these measures to our profitability will be influenced by the actual savings achieved and by our ability to sustain them. In case of restructuring and outsourcing activities, there can be no assurance that there are no delays in product deliveries or we might even experience delivery failures. Furthermore, a delay in critical R&D projects could lead to negative impacts in running projects. We constantly control and monitor the progress of these projects and initiatives using standardized controlling and milestone tracking approaches.

Cost overruns or additional payment obligations related to the management of our long-term, fixed-price or turnkey and service projects: A number of our Industrial Businesses conduct activities, especially large projects, under long-term contracts that are awarded on a competitive bidding basis. Such contracts typically arise in Power and Gas, Siemens Gamesa Renewable Energy, Mobility, and in various activities of Energy Management and Process Industries and Drives. Some of these contracts are inherently risky because we may assume substantially all of the risks associated with completing a project and meeting post-completion warranty obligations. For example, we may face the risk that we must satisfy technical requirements of a project even though we have not gained experience with those requirements before we win the project. The profit margins realized on fixed-priced contracts may vary from original estimates as a result of changes in costs and productivity over the contract's term. We sometimes bear the risk of unanticipated project modifications, shortage of key personnel, quality problems, financial difficulties of our customers and/or significant partners, cost overruns or contractual penalties caused by unexpected technological problems, unforeseen developments at the project sites, unforeseen changes or difficulties in the regulatory or political environment, performance problems with our suppliers, subcontractors and consortium partners or other logistical difficulties. 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 termination. There can be no assurance that contracts and projects, in particular those with long-term duration and fixed-price calculation, can be completed profitably. To tackle those risks we implemented a global project management organization to systematically improve the know-how of our project management personnel. For very complex projects we conduct dedicated risk assessments in very early stages of the sales phase before we decide to hand over a binding offer to our customer.

Interruption of the supply chain: The financial performance of our Industrial Business 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 delays and additional cost. We rely on third parties to supply us with parts, components and services. Using third parties to manufacture, assemble and test our products reduces our control over manufacturing yields, quality assurance, product delivery schedules and costs. Although we work closely with our suppliers to avoid supply-related problems, there can be no assurance that we will not encounter supply problems in the future, especially if we use single-source suppliers for critical components. Shortages and delays could materially harm our business. Unanticipated increases in the price of components or raw materials due to market shortages or other reasons could also adversely affect performance. Furthermore, we may be exposed to the risk of delays and interruptions in the supply chain as a consequence of catastrophic events or suppliers' financial difficulties, particularly if we are unable to identify alternative sources of supply or means of transportation in a timely manner or at all. Besides other measures, we mitigate fluctuation in the global raw material markets with various hedging instruments.

Shortage of skilled personnel: Competition for highly qualified personnel (e.g. specialists, experts, "digital" talents) remains intense in the industries and regions in which our businesses operate. We have ongoing demand for highly skilled employees. Our future success depends in part on our continued ability to hire, integrate, develop and retain engineers and other qualified personnel. We address this risk for example with structured succession planning, employer branding, retention and career management. Furthermore, the company is strengthening the capabilities and skills of our talent acquisition teams and has defined a strategy of pro-active search for people with the required skills in our respective industries and markets. A strong focus on implementing a technology for talent acquisition helps us to support efficient processes and effective search for key talent.

A.8.3.3 FINANCIAL RISKS

Market price risks: We are exposed to fluctuations in exchange rates, especially between the U.S. dollar and the euro, because a high percentage of our business volume is conducted as exports from Europe to areas using the U.S. dollar. In addition, we are exposed to currency effects involving the currencies of emerging markets, in particular the Chinese yuan. A strengthening of the euro may change our competitive position. We are also exposed to fluctuations in interest rates. Negative developments in the financial markets and changes in the central bank policies may negatively impact our results. Depending on the development of foreign currency exchange and interest rates, hedging activities could have significant effects on our business, financial condition and results of operations.

Liquidity and financing risks: Our treasury and financing activities could face adverse deposit and/or financing conditions from negative developments related to financial markets, such as (1) limited availability of funds (particularly U.S. dollar funds) and hedging instruments; (2) an updated evaluation of our solvency, particularly from rating agencies; (3) negative interest rates; and (4) impacts arising from more restrictive regulation of the financial sector, central bank policy, or financial instruments. Widening credit spreads due to uncertainty and risk aversion in the financial markets might lead to adverse changes of fair market values of our financial assets, in particular our derivative financial instruments.

Credit Risks: We provide our customers with various forms of direct and indirect financing of orders and projects. SFS in particular bears credit risks due to its financing activities.

Risks from pension obligations: The funded status of our pension plans may be affected by change in actuarial assumptions, including the discount rate, as well as movements in financial markets or a change in the mix of assets in our investment portfolio. 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. In order to comply with local pension regulations in selected foreign countries, we may face a risk of increasing cash outflows to reduce an underfunding of our pension plans in these countries.

For further information on post-employment benefits, derivative financial instruments, hedging activities, financial risk management and related measures, see → NOTES 16, 23 and 24 in B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Audits by tax authorities and changes in tax regulations: We operate in nearly all countries of the world and therefore are subject to many different tax regulations. Changes in tax laws in any of these jurisdictions could result in higher tax expense and payments. Furthermore, legislative changes could impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities. In addition, the uncertain tax 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. Future interpretations or developments of tax regimes may affect our business, financial condition and results of operations. We are regularly audited by tax authorities in various jurisdictions and we continuously identify and assess resulting risks.

A.8.3.4 COMPLIANCE RISKS

Current and future investigations regarding allegations of corruption, of antitrust violations and of other violations of law: Proceedings against us regarding allegations of corruption, of antitrust violations and of other violations of law may lead to criminal and civil fines as well as penalties, sanctions, injunctions against future conduct, profit disgorgements, disqualifications from directly and indirectly engaging in certain types of business, the loss of business licenses or permits or other restrictions and legal consequences. Accordingly, we may, among other things, be required to comply with potential obligations and liabilities arising in connection with such investigations and proceedings, including potential tax penalties. Moreover, any findings related to public corruption that are not covered by the 2008 and 2009 corruption charge settlements, which we concluded with American and German authorities, may endanger our business with government agencies and intergovernmental and supranational organizations. Monitors could again be appointed to review future business practices and we may otherwise be required to further modify our business practices and our compliance program.

A considerable part of our business activities involve governments and companies with public shareholders. We also participate in a number of projects funded by government agencies and intergovernmental and supranational organizations, such as multilateral development banks. Ongoing or potential future investigations into allegations of corruption, of antitrust violations or of other violations of law could as well impair relationships with such business partners or could result in the exclusion of public contracts. Such investigations may also adversely affect existing private business relationships and our ability to pursue potentially important strategic projects and transactions, such as strategic alliances, joint ventures or other business cooperations, or could result in the cancellation of certain of our existing contracts. Moreover, third parties, including our competitors, could initiate significant litigation.

In addition, future developments in ongoing and potential future investigations, such as responding to the requests of governmental authorities and cooperating with them, could divert management's attention and resources from other issues facing our business. Furthermore, we might be exposed to compliance risks in connection with recently acquired operations that are in the ongoing process of integration.

Besides other measures, Siemens established a global compliance organization that conducts among others compliance risk mitigation processes such as Compliance Risk Assessments, and which has been reviewed by external compliance experts.

Regulatory risks and potential sanctions: As a globally operating organization, we conduct business with customers in countries which are subject to export control regulations, embargoes, economic sanctions or other forms of trade restrictions (hereafter referred to as "sanctions") imposed by the U.S., the European Union or other countries or organizations. New or expanded sanctions in countries in which we do business may result in a curtailment of our existing business in such countries or indirectly in other countries. We are also aware of initiatives by institutional investors, such as pension funds or insurance companies, to adopt or consider adopting policies prohibiting investment in and transactions with, or requiring divestment of interests in entities doing business with, countries identified as state sponsors of terrorism by the U.S. Department of State. It is possible that such initiatives may result in us being unable to gain or retain investors, customers or suppliers. In addition, the termination of our activities in sanctioned countries may expose us to customer claims and other actions. Our reputation could also suffer due to our activities with counterparties in or affiliated with these countries.

Changes of regulations, laws and policies: As a diversified company with global businesses we are exposed to various product- and country-related regulations, laws and policies influencing our business activities and processes. We monitor the political and regulatory landscape in all our key markets to anticipate potential problem areas, with the aim to quickly adjust our business activities and processes to changed conditions. However, any changes of regulations, laws and policies can adversely affect our business activities and processes as well as our financial condition and results of operations.

Protectionism (incl. localization): Protectionist trade policies and changes in the political and regulatory environment in the markets in which we operate, such as import and export controls, tariffs and other trade barriers including debarment from certain markets and price or exchange controls, could affect our business in several national markets and could impact our business, financial position and results of operations; and may expose us to penalties, other sanctions and reputational damage. In addition, the uncertainty of the legal environment in some regions could limit our ability to enforce our rights and subject us to increasing costs related to appropriate compliance programs.

Environmental, health & safety and other governmental regulations: Some of the industries in which we operate are highly regulated. Current and future environmental, health & safety 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, we see the risk of potential environmental and health & safety incidents as well as potential non-compliance with environmental and health & safety regulations affecting Siemens and our contractors or sub-suppliers, resulting in e.g. serious injuries, penalties, loss of reputation and internal or external investigations.

In addition, while we have procedures in place to ensure compliance with applicable governmental regulations in the conduct of our business operations, it cannot be excluded that violations of applicable governmental regulations may be caused either by us or by third parties that we contract with, including suppliers or service providers, whose activities may be attributed to us. Any such violations expose us to the risk of liability, reputational damage or loss of licenses or permits that are important to our business operations. In particular, we could also face liability for damage or remediation for environmental contamination at the facilities we design or operate. With regard to certain environmental risks, we maintain liability insurance at levels that our management believes are appropriate and consistent with industry practice. We may incur environmental losses beyond the limits, or outside the coverage, of such insurance, and such losses may have an adverse effect on our business, financial condition and results of our operations.

Current or future litigation: Siemens is and will be in the course of its normal business operations involved in numerous legal disputes and proceedings in various jurisdictions. These legal disputes and proceedings could result, in particular, in Siemens being subject to payment of damages and punitive damages, equitable remedies or criminal or civil sanctions, fines or disgorgement of profit. In individual cases this may also lead to formal or informal exclusion from tenders or the revocation or loss of business licenses or permits. In addition, further legal disputes and proceedings may be commenced or the scope of pending legal disputes and proceedings may be expanded. Asserted claims are generally subject to interest rates.

Some of these legal disputes and proceedings could result in adverse decisions for Siemens that may have material effects on our financial position, the results of operations and cash flows.

Siemens maintains liability insurance for certain legal risks at levels our management believes are appropriate and consistent with industry practice. The insurance policy, however, does not protect Siemens against reputational damage. Moreover, Siemens may incur losses relating to legal proceedings beyond the limits, or outside the coverage, of such insurance or exceeding any provisions made for losses related to legal proceedings. Finally, there can be no assurance that Siemens will be able to maintain adequate insurance coverage on commercially reasonable terms in the future.

For additional information with respect to specific proceedings, see → NOTE 21 in B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

A.8.3.5 ASSESSMENT OF THE OVERALL RISK SITUATION

The most significant challenges have been mentioned first in each of the four categories strategic, operational, financial and compliance risks. The risks caused by highly competitive environment continue to be the most significant, as in the prior year.

Even though the assessments of individual risk exposures have changed during fiscal 2017 due to developments in the external environment, effects of our own mitigation measures and the revision of our plans, the overall risk situation for Siemens did not change significantly as compared to the prior year.

At present, no risks have been identified that either individually or in combination could endanger our ability to continue as a going concern.

A.8.4 Opportunities

Within our Enterprise Risk Management (ERM) we regularly identify, evaluate and respond to opportunities that present themselves in our various fields of activity. Below we describe our most significant opportunities. Unless otherwise stated, the opportunities described below relate to all of our segments. The order in which the opportunities are presented reflects the currently estimated relative exposure for Siemens associated with these opportunities and thus provides an indication of the opportunities' current importance to us. The described opportunities are not necessarily the only ones we encounter. In addition, our assessment of opportunities is subject to change as the Company, our markets and technologies are constantly developing. It is also possible that opportunities we see today will never materialize.

Success from innovation along electrification, automation and digitalization: Innovation is a central part of our "Vision 2020," an entrepreneurial concept leading Siemens into the future in three stages: first we "drive performance," then we "strengthen core," and finally we "scale up" to attain our Vision 2020 goals. We do this by investing significantly in R&D in order to develop innovative, sustainable solutions for our customers and to simultaneously safeguard our competitiveness. We are an innovative company and invent new technologies that we expect will meet future demands arising from the megatrends of demographic change, urbanization, climate change and globalization. We are granted thousands of new patents every year and continuously develop new concepts and convincing business models. We open up access to new markets and customers through new marketing and sales strategies as well as Divisional master plans. In 2016 we established next47, an independent unit designed to found, partner with and invest in start-ups with innovative ideas for shaping the future of electrification, automation and digitalization, and thereby turn those ideas into viable businesses. This will help Siemens create the next generation of path-breaking innovations in such fields as artificial intelligence, decentralized electrification, autonomous machines, block chain applications and connected e-mobility. Siemens is positioned along the value chains of electrification, automation and digitalization in order to increase future market penetration. Along these value chains, we have identified several growth fields in which we see our greatest long-term potential. We are orienting our resource allocation toward these growth fields and have announced concrete measures in this direction. Across all Divisions, Siemens is profiting from its undisputed strength in the digital enterprise. For example, the Company's cloud based MindSphere platform enhances the availability of customers' digital products and systems and improves their productivity and efficiency. In addition, we try to generate additional volume and profit from new and innovative digital products, services and solutions, including cyber security for our customers, preventive maintenance, data analytics, applications for an optimization of energy consumption, operation of highly efficient energy grids as well as scalable solutions for distributed and renewable energy generation.

Mergers, acquisitions, equity investments, partnerships, divestments and streamlining our portfolio: We constantly monitor our current and future markets for opportunities for strategic mergers and acquisitions, equity investments or partnerships to complement our organic growth. Such activities may help us to strengthen our position in our existing markets, provide access to new or underserved markets or complement our technological portfolio in selected areas. Opportunities might also arise from well executed divestments, carve outs and joint ventures which further optimize our portfolio while generating gains.

Increased market penetration: Through divisional sales initiatives and masterplans, we continuously strive to grow and expand our business in established markets, open up new markets for existing portfolio elements and strengthen our installed base in order to gain a higher market share and increased profits.

Favorable political and regulatory environment: Government initiatives and subsidies (including tax benefits etc.) may lead to more government spending (investments in new projects, modernization of projects etc.) and ultimately result in an increase of revenue and profit for the company.

Economic/political stabilization of certain (critical) countries and resilience of worldwide economic environment: We see an opportunity that political stabilization of certain critical countries and (further) lifting of sanctions may lead to higher revenue volume that was unavailable in past years. Furthermore, a return to more robust macroeconomic growth could also lead to additional volume and profit for the company.

Continuously developing and implementing initiatives to reduce costs, boost sales efforts, adjust capacities, improve our processes, realize synergies: In an increasingly competitive market environment, a competitive cost structure complements the competitive advantage of being innovative. We believe that further improvements in our cost position can strengthen our global competitive position and secure our market presence against emerging and incumbent competitors. For example, we expect to create sustainable value from productivity measures in connection with our "Vision 2020" concept. Moreover, in course of the digital transformation, we seek to standardize, automate and digitize our processes and make them leaner and more efficient.

Excellent project execution: By expanding project management efforts as well as learning from our mistakes in project execution through a formalized lessons learned approach, we see an opportunity to continuously reduce non-conformance costs and ensure on-time delivery of our projects and solutions. Furthermore, stringent project risk and opportunity management, time schedule management, performance bonuses and highly professional management of consortium partners and suppliers all help us to avoid liquidated damages and ultimately improve our profit position. In addition, improvements of our claim management processes enable us to reduce costs incurred as a result of customer claims by finding a consensus with customers while also improving customer relationship management. At the same time, we reduce quality problems by proactively addressing supplier issues up front.

Localizing value chain activities: Localizing certain value chain activities, such as procurement, manufacturing, maintenance and service in emerging markets could enable us to reduce costs and strengthen our global competitive position, in particular compared to competitors based in countries where they can operate with more favorable cost structures. Moreover, our local footprint in many countries might help us to take advantage of a possible growth of markets and leverage a shift in markets, resulting in increased market penetration and market share.

Climate change: While climate change is widely considered a risk, we consider climate change mitigation an opportunity for Siemens. In line with the global agreement in Paris (COP21) that entered into force in November 2016, Siemens strives to support a trend towards reducing CO_2 emissions both in own operations as well as for our customers based on technologies from our environmental portfolio, such as low-carbon power generation from renewable energy sources.

Assessment of the overall opportunities situation: The most significant opportunity for Siemens continues to be success from innovation along electrification, automation and digitalization as disclosed in our prior year reporting. Even though our assessment of individual opportunities has changed during fiscal year 2017 due to developments in the external environment, our endeavors to profit from them and the revision of our plans, the overall opportunity situation did not change significantly compared to the prior year.

A.8.5 Significant characteristics of the accounting-related internal control and risk management system

The overarching objective of our accounting-related internal control and risk management system is to ensure that financial reporting is conducted in a proper manner, such that the Consolidated Financial Statements and the Combined Management Report of Siemens group as well as the Annual Financial Statements of Siemens AG as the parent company are prepared in accordance with all relevant regulations.

Our ERM approach is based on COSO's "Enterprise Risk Management – Integrated Framework". As one of the objectives of this framework is reliability of a company's financial reporting, it includes an accounting-related perspective. Our accounting-related internal control system (control system) is based on the internationally recognized "Internal Control – Integrated Framework" also developed by COSO. The two systems are complementary.

At the end of each fiscal year, our management performs an evaluation of the effectiveness of the implemented control system, both in design and operating effectiveness. We have a standardized procedure under which necessary controls are defined, documented in accordance with uniform standards, and tested regularly on their effectiveness. Nevertheless, there are inherent limitations on the effectiveness of any control system, and no system, including one determined to be effective, may prevent or detect all misstatements.

After the merger of the Siemens wind power business with Gamesa, we have commenced to integrate the former Gamesa entities into our accounting-related internal control and risk management system. These integration efforts will continue in fiscal 2018.

Our Consolidated Financial Statements are prepared on the basis of a centrally issued conceptual framework which primarily consists of uniform Financial Reporting Guidelines and a chart of accounts. For Siemens AG and other companies within the Siemens group required to prepare financial statements in accordance with German Commercial Code, this conceptual framework is complemented by mandatory regulations specific to the German Commercial Code. The need for adjustments in the conceptual framework due to regulatory changes is analyzed on an ongoing basis. Accounting departments are informed quarterly about current topics and deadlines from an accounting and closing process perspective.

The base data used in preparing our financial statements consists of the closing data reported by the operations of Siemens AG and its subsidiaries. The preparation of the closing data of most of our entities is supported by an internal shared services organization. Furthermore, other accounting activities, such as governance and monitoring related activities, are usually bundled on regional level. In particular cases, such as valuations relating to post-employment benefits, external experts are used. The reported closing data is used to prepare the financial statements in the consolidation system. The steps necessary to prepare the financial statements are subject to both manual and automated controls.

Qualification of employees involved in the accounting process is ensured through appropriate selection processes and regular training. As a fundamental principle, based on materiality considerations, the "four eyes" principle applies and specific procedures must be adhered to for data authorization. Additional control mechanisms include target-performance comparisons and analyses of the composition of and changes in individual line items, both in the closing data submitted by reporting units and in the Consolidated Financial Statements. In line with our information security requirements, accounting-related IT systems contain defined access rules protecting them from unauthorized access. The manual and system-based control mechanisms referred to above generally also apply when reconciling the IFRS closing data to the Annual Financial Statements of Siemens AG.

On a quarterly basis, an internal certification process is executed. Management of different levels of our organization, supported by confirmations of management of entities under their responsibility, confirms the accuracy of the financial data that has been reported to Siemens' corporate headquarters and reports on the effectiveness of the related control systems.

Our internal audit function systematically evaluates our financial reporting integrity, the effectiveness of the control system and the risk management system, and the adherence to our compliance policies. In addition, the Audit Committee is integrated into our control system. In particular, it oversees the accounting and the accounting process and the effectiveness of the internal control system, the risk management system and the internal audit system. Furthermore, we have set up a Disclosure Committee which is responsible for reviewing certain financial and non-financial information prior to publication. Moreover, we have rules for accounting-related complaints.

A.9 Siemens AG

The Annual Financial Statements of Siemens AG have been prepared in accordance with the rules set out in the German Commercial Code (Handelsgesetzbuch).

Siemens AG is the parent company of the Siemens Group. Results for Siemens AG comprise the fields of business activities mainly of Power and Gas, Energy Management, Building Technologies, Mobility, Digital Factory, Process Industries and Drives as well as the activities of Siemens Real Estate and are significantly influenced by directly or indirectly owned subsidiaries and investments. The business development of Siemens AG is fundamentally subject to the same risks and opportunities as the Siemens Group. Due to the interrelations between Siemens AG and its subsidiaries and the relative size of Siemens AG within the Group, the outlook of the Group also largely reflects our expectations for Siemens AG. Therefore, the foregoing explanations for the Siemens Group apply also for Siemens AG. We expect that income from investments will significantly influence the profit of Siemens AG.

We intend to continue providing an attractive return to shareholders. Therefore, we intend to propose a dividend whose distribution volume is within a dividend payout range of 40% to 60% of net income of the Siemens Group, which we may adjust for this purpose to exclude selected exceptional non-cash effects. For fiscal 2018, we expect a net income of Siemens AG sufficient to fund the distribution of a corresponding dividend.

In the first quarter of fiscal 2017, as part of the merger with Gamesa, Siemens AG transferred its Siemens wind power business to entities held by Siemens AG.

As of September 30, 2017, the number of employees was 92,300.

A.9.1 Results of operations

Statement of Income of Siemens AG in accordance with German Commercial Code (condensed)

	Fiscal year		
(in millions of €)	2017	2016	% Change
Revenue	**26,888**	25,763	4%
Cost of Sales	**(19,979)**	(19,818)	(1)%
Gross profit	**6,909**	5,945	16%
as percentage of revenue	***26%***	*23%*	
Research and development expenses	**(2,619)**	(2,454)	(7)%
Selling and general administrative expenses	**(3,627)**	(3,558)	(2)%
Other operating income (expenses), net	**(30)**	134	n/a
Financial income, net *thereof Income from investments 3,798 (prior year 3,732)*	***3,828***	*3,092*	*24%*
Income from business activity	**4,462**	3,158	41%
Income taxes	**(385)**	(160)	(141)%
Net income	**4,076**	2,999	36%
Profit carried forward	**146**	256	(43)%
Allocation to other retained earnings	**(1,077)**	(195)	>(200)%
Unappropriated net income	**3,145**	3,060	3%

The initial application of the Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BilRUG) resulted in changes in presentation in the income statement in fiscal 2017. Prior periods are not reported on a comparable basis. Comparable amounts for fiscal 2016 are: revenue €27,043 million, cost of sales €20,920 million and other operating income (expenses), net €(44) million.

Increases in **Revenue** at Mobility and Power and Gas, of €1.0 billion and €0.5 billion respectively, were more than offset by the effect of the above-mentioned carve-out of the Siemens Wind Power business. In fiscal 2016, we recorded revenue of €2.1 billion at Wind Power and Renewables. On a geographical basis, 75% of revenue was generated in the Europe, C.I.S., Africa, Middle East region, 18% in the Asia, Australia region and 7% in the Americas region. Exports from Germany accounted for 71% of overall revenue. In fiscal 2017, orders for Siemens AG amounted to €25.6 billion. Within Siemens AG, the development of revenue depends strongly on the completion of contracts, primarily in connection with large orders.

Gross profit was higher year-over-year due mainly to increases of €0.3 billion in Digital Factory, €0.2 billion in Mobility and €0.2 billion in Power and Gas.

Despite an increase of €0.2 billion in **Research and development (R&D) expenses** year-over-year, the R&D intensity (R&D as a percentage of revenue) increased only slightly by 0.2 percentage point year-over-year due to the above-mentioned changes in presentation according to BilRUG. On an average basis, we employed 9,600 people in R&D in fiscal 2017.

The increase in **Financial income, net** was primarily attributable to an improvement in other financial income (expenses), from a negative €0.9 billion in the prior-year period to a negative €0.3 billion. This was mainly due to a positive effect of €0.8 billion from changes in provisions for risks in derivative financial instruments. This factor was partly offset by a negative effect of €0.4 billion from changes in provision for pensions and similar commitments related to changes in the discount rate assumptions. Income from investments was slightly higher compared to the prior-year period, which included an increase in income from profit transfer agreements with affiliated companies by €1.0 billion. However, positive results from investments were nearly offset by impairments of investments, which included primarily an impairment of Siemens AG's investment at Siemens Gamesa Renewable Energy, S.A., Spain, of €1.2 billion.

The change in **Income taxes** resulted from higher income tax expenses, corresponding to a higher taxable share of Income from business activity and increased burdens from withholding taxes. In addition, this item included deferred tax expenses and income resulting from the generation and reversal of temporary differences between the accounting and tax-based valuation and the use of loss carry-forwards.

A.9.2 Net assets and financial position

Statement of Financial Position of Siemens AG in accordance with German Commercial Code (condensed)

(in millions of €)	Sep 30, 2017	2016	% Change
Assets			
Non-current assets			
Intangible and tangible assets	**2,348**	2,472	(5)%
Financial assets	**44,802**	44,611	0%
	47,150	47,083	0%
Current assets			
Receivables and other assets	**19,884**	16,717	19%
Cash and cash equivalents, securities	**884**	3,642	(76)%
	20,769	20,359	2%
Prepaid expenses	**87**	81	8%
Deferred tax assets	**2,174**	2,256	(4)%
Active difference resulting from offsetting	**60**	35	69%
Total assets	**70,239**	69,814	1%
Liabilities and equity			
Equity	**21,123**	19,368	9%
Special reserve with an equity portion	**681**	700	(3)%
Provisions			
Pensions and similar commitments	**11,761**	11,250	5%
Other provisions	**7,417**	8,360	(11)%
	19,178	19,610	(2)%
Liabilities			
Liabilities to banks	**81**	14	>200%
Advance payments received	**750**	619	21%
Trade payables, liabilities to affiliated companies and other liabilities	**28,065**	29,118	(4)%
	28,896	29,752	(3)%
Deferred income	**361**	385	(6)%
Total liabilities and equity	**70,239**	69,814	1%

The Increase in **Receivables and other assets** was due primarily to higher receivables from affiliated companies as a result of intra-group financing activities, including higher receivables from SFS companies and higher receivables resulting from profit transfer agreements.

Cash, cash equivalents and securities are significantly affected by the liquidity management of the Corporate Treasury of Siemens AG. The liquidity management is based on the financing policy of the Siemens Group, which is aimed towards a balanced financing portfolio, a diversified maturity profile and a comfortable liquidity cushion. Therefore, the change in liquidity of Siemens AG was not only driven by business activities of Siemens AG.

The increase in **Equity** was attributable to net income for the year of €4.1 billion, the settlement of exercised warrants of €1.1 billion and issuance of treasury stock of €0.4 billion in conjunction with our share-based payments and employee share programs. These factors were partly offset by dividends paid in fiscal 2017 (for fiscal 2016) of €2.9 billion. In addition, equity was reduced due to share buybacks during the year amounting to €0.9 billion. The equity ratios at September 30, 2017 and 2016 were 30% and 28%, respectively. For explanations relating to treasury shares we refer to ↗ NOTE 15 in NOTES TO OUR ANNUAL FINANCIAL STATEMENTS OF SIEMENS AG.

The increase in **Pension and similar commitments** resulted mainly from a €0.7 billion increase related to interest and service costs and a €0.4 billion increase related to an adjustment of the discount rate from 4.08% in fiscal 2016 to 3.77% in fiscal 2017. This increase was partly offset by €0.6 billion for payments of pension obligations.

Other provisions decreased due to several factors. The largest was a decrease of €0.5 billion in provisions for losses from derivative financial transactions. Additionally, provisions for post-closing guarantees decreased by €0.2 billion and provisions for a major asset retirement obligation decreased by €0.2 billion, due primarily to reduced inflation rate assumptions.

The decrease in **Trade payables, liabilities to affiliated companies and other liabilities** was due primarily to lower liabilities to affiliated companies as a result of intra-group financing activities.

A.9.3 Corporate Governance statement

The Corporate Governance statement pursuant to Sections 289 a and 315 para. 5 of the German Commercial Code is an integral part of the Combined Management Report and is presented in → C.4.2 CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTIONS 289 A AND 315 PARA. 5 OF THE GERMAN COMMERCIAL CODE.

A.10 Compensation Report

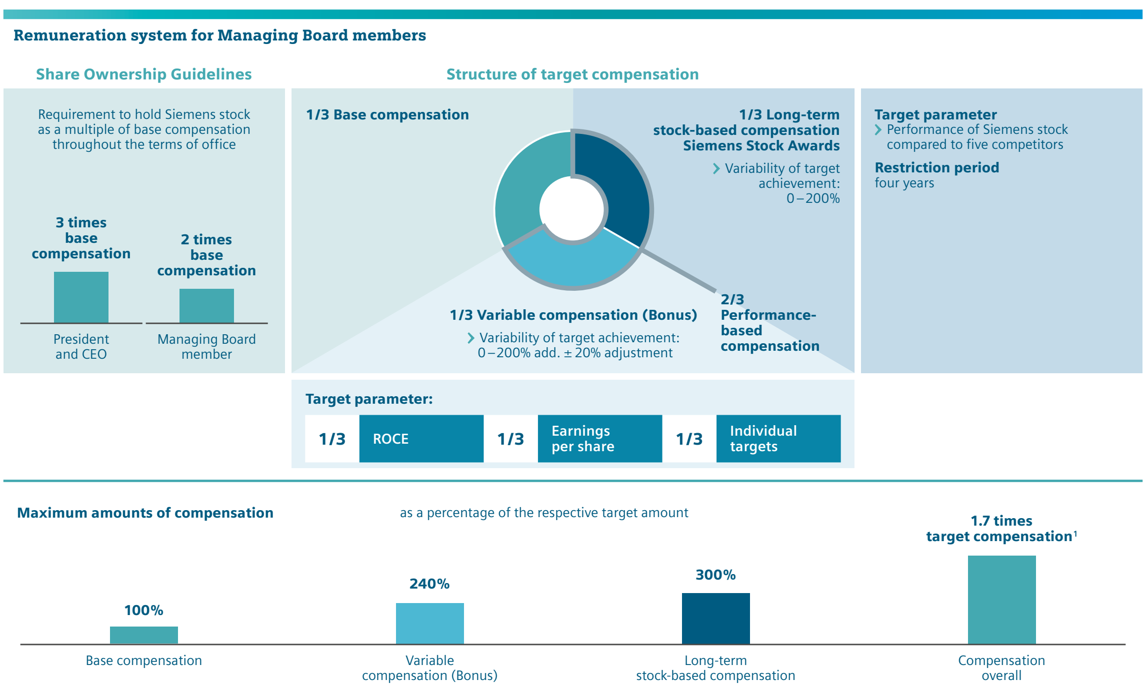
This report is based on the recommendations of the German Corporate Governance Code (Code) and the requirements of the German Commercial Code (*Handelsgesetzbuch*), the German Accounting Standards (*Deutsche Rechnungslegungs Standards*) and the International Financial Reporting Standards (IFRS).

A.10.1 Remuneration of Managing Board members

A.10.1.1 REMUNERATION SYSTEM

The remuneration system for the Siemens Managing Board is intended to provide an incentive for successful corporate management with an emphasis on sustainability. Managing Board members are expected to make a long-term commitment to and on behalf of the Company and may benefit from any sustained increase in the Company's value. For this reason, a substantial portion of their total remuneration is linked to the long-term performance of Siemens stock. Their remuneration is to be commensurate with the Company's size and economic position. Exceptional achievements are to be rewarded adequately, while falling short of targets is to result in an appreciable reduction in remuneration. Their compensation is also structured so as to be attractive in comparison to that of competitors, with a view to attracting outstanding managers to the Company and retaining them for the long term.

The system and levels for the Managing Board's remuneration are determined and regularly reviewed by the full Supervisory Board, based on proposals by the Compensation Committee. The Supervisory Board reviews remuneration levels annually to ensure that they are appropriate. In this process, the Company's economic situation, performance and outlook as well as the tasks and performance of the individual Managing Board members are taken into account. In addition, the Supervisory Board considers the common level of remuneration in comparison with peer companies and with the compensation structure in place in other areas of the Company. It also takes due account of the relationship between the Managing Board's remuneration and that of senior management and staff, both overall and with regard to its development over time. For this purpose, the Supervisory Board has also determined how senior management and the relevant staff are to be differentiated. The remuneration system that has been in place for Managing Board members since fiscal 2015 was approved at the Annual Shareholders' Meeting on January 27, 2015. The individual components of compensation – base compensation, variable compensation (Bonus) and long-term stock-based compensation – are weighted equally, and each comprises about one-third of target compensation. This equal weighting is also applied to the three target parameters of variable compensation (Bonus).



1 Plus fringe benefits and pension benefit commitments.

In fiscal 2017, the Managing Board's remuneration system had the following components:

Non-performance-based components

Base compensation

Base compensation is paid as a monthly salary. Since October 1, 2016, the base compensation of President and CEO Joe Kaeser has amounted to €2,130,000 per year. The base compensation of the CFO and of those members of the Managing Board who are responsible for Divisions or for Healthineers has been €1,065,000 per year. For the other member of the Managing Board, it has been €1,011,000 per year.

Fringe benefits

Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of a company car, contributions toward the cost of insurance, the reimbursement of expenses for legal advice and tax advice, accommodation and moving expenses, including a gross-up for any taxes due in this regard, currency adjustment payments and costs relating to preventive medical examinations.

Performance-based components

Variable compensation (Bonus)

Variable compensation (Bonus) is based on the Company's business performance in the past fiscal year. The Bonus depends on an equal one-third weighting of target achievement of the target parameters return on capital employed, earnings per share and individual targets. To achieve a consistent target system Company-wide, corresponding targets – in addition to other factors – also apply to senior managers.

For 100% target achievement (target amount), the amount of the Bonus equals the amount of base compensation. The Bonus is subject to a ceiling (cap) of 200%. If targets are substantially missed, variable compensation may not be paid at all (0%).

At its duty-bound discretion, the Supervisory Board may revise the amount resulting from target achievement downward or upward by as much as 20%; the adjusted amount of the Bonus paid can thus be as much as 240% of the target amount. In choosing the factors to be considered in deciding on possible revisions of the Bonus payouts (±20%), the Supervisory Board takes account of incentives for sustainable corporate management. Decisions to make discretionary adjustments may take factors such as the results of an employee survey or a customer satisfaction survey into account as well as the Company's economic situation. The revision option may also be exercised in recognition of Managing Board members' individual achievements. The Bonus is paid entirely in cash.

Long-term stock-based compensation

Long-term stock-based compensation consists of a grant of forfeitable stock commitments (Stock Awards) at the beginning of the fiscal year. In the event of 100% target achievement, the annual target amount for the monetary value of the Stock Awards commitment is €2,200,000 for the President and CEO (effective October 1, 2016). For the CFO and for those members of the Managing Board who are responsible for Divisions and for Healthineers it is €1,100,000. For the other member of the Managing Board, it is €1,055,000. Since fiscal 2015, the Supervisory Board has had the option of increasing the target amount for each member of the Managing Board, on an individual basis, by as much as 75% for one fiscal year at a time. This option enables the Supervisory Board to take account of each Managing Board member's individual accomplishments and experience as well as the scope and demands of his or her function.

Beneficiaries receive one free share of Siemens stock per Stock Award after an approximately four-year restriction period and subject to target attainment. The value of the Siemens shares to be transferred for Stock Awards after the end of the restriction period depends on the price of the Siemens share at the time of transfer and on target attainment as defined by the underlying target system. If target attainment is above 100%, the members of the Managing Board will receive – in addition to the Siemens shares committed – a cash payment corresponding to the outperformance. If target attainment is less than 100%, a number of stock commitments equivalent to the shortfall from the target will be forfeited without replacement. The total value of the Siemens stock and of the cash payment is subject to a ceiling of 300% of the relevant target amount. If this maximum amount of compensation is exceeded, the corresponding entitlement to stock commitments will be forfeited without replacement.

Target attainment relating to long-term stock-based compensation is linked to the performance of Siemens stock compared to its competitors. At the beginning of the fiscal year, the Supervisory Board decides on a target system (target value for 100% and target line) for the performance of Siemens stock relative to the stock of – at present – five competitors (ABB, General Electric, Mitsubishi Heavy Industries, Rockwell and Schneider Electric). Changes in the share price are measured on the basis of a twelve-month reference period (compensation year) over three years (performance period), while Stock Awards are restricted for a period of four years. When this restriction period expires, the Supervisory Board determines how much better or worse Siemens stock has performed relative to the stock of its competitors. This determination yields a target attainment of between 0% and 200% (cap).

If significant changes occur among the relevant competitors during the period under consideration, the Supervisory Board may take these changes into account, as appropriate, in determining the values for comparison and/or calculating the relevant stock prices of those competitors. In the event of extraordinary unforeseen developments that impact the share price, the Supervisory Board may decide to reduce the number of committed Stock Awards retroactively, or it may decide that in lieu of a transfer of Siemens stock only a cash settlement in a defined and limited amount will be paid, or it may decide to postpone transfers of Siemens stock for payable Stock Awards until the developments have ceased to impact the share price.

If a member of the Managing Board violates compliance regulations, the Supervisory Board is entitled at its duty-bound discretion to revoke without replacement all or some of the Siemens Stock Awards, depending on the gravity of the compliance violation.

If an employment contract begins during the fiscal year, an equivalent number of Siemens Phantom Stock Awards will be granted instead of Stock Awards. In lieu of a transfer of shares, only a cash equivalent is given at the end of the restriction period for Siemens Phantom Stock Awards. Beyond that, the same provisions agreed upon for Siemens Stock Awards apply.

With regard to the further terms of the Stock Awards, the same principles apply in general to the Managing Board and to senior managers. These principles are discussed in more detail in → NOTE 25 in B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Variable compensation (Bonus) and long-term stock-based compensation

Remuneration component	Share of target compensation	Target parameter	Basis for assessment	Target achievement	Maximum amounts of compensation	Value at allocation/transfer
Variable compensation (Bonus)	~ 33%	1/3 Return on capital employed (ROCE)	Annual basis	0 – 200 add. +/– 20% adjustment	240% of the respective target amount	Dependent on target achievement
		1/3 Earnings per share, basic EPS	Ø 3 years			
		1/3 Individual targets	Annual basis			
Long-term stock-based compensation	~ 34%	Performance of Siemens stock compared to 5 competitors	Change in share price measured on the basis of a twelve-month reference period (compensation year) over three years (performance period)	0 – 200%	300% of the respective target amount	Dependent on – Target achievement – Stock price at transfer

Maximum amount for compensation overall

In addition to the maximum amounts of compensation for variable compensation and long-term stock-based compensation, a maximum amount for compensation overall has been defined. Since fiscal 2014, this amount cannot be more than 1.7 times higher than target compensation. Target compensation comprises base compensation, the target amount for variable compensation and the target amount for long-term stock-based compensation, excluding fringe benefits and pension benefit commitments. When fringe benefits and pension benefit commitments for a given fiscal year are included, the maximum amount of compensation overall for that year will increase accordingly.

Share Ownership Guidelines

The Siemens Share Ownership Guidelines are an integral part of the remuneration system for the Managing Board and senior executives. These guidelines require that – after a specified buildup phase – Managing Board members hold Siemens stock worth a multiple of their base compensation – 300% for the President and CEO, 200% for the other members of the Managing Board – throughout their terms of office on the Managing Board. The determining figure in this context is the average base compensation that a member of the Managing Board has received over the four years before the applicable dates of proof of compliance. Hence, changes that have been made to base compensation in the meantime are included. Non-forfeitable stock commitments (Bonus Awards) which were granted until fiscal 2014 are taken into account in determining compliance with the Share Ownership Guidelines.

Compliance with these guidelines must be proven for the first time after a four-year buildup phase. Thereafter, it must be proven annually. If the value of a Managing Board member's accrued holdings declines below the required minimum due to fluctuations in the market price of Siemens stock, he or she must acquire additional shares.

Pension benefit commitments

Like employees of Siemens AG, the members of the Managing Board are included in the Siemens Defined Contribution Benefit Plan (BSAV). Under the BSAV, Managing Board members receive contributions that are credited to their personal pension accounts. The amount of these annual contributions is based on a predetermined percentage related to their base compensation and the target amount for their Bonuses. This percentage is decided upon annually by the Supervisory Board. Most recently it was set at 28%. In making its decisions, the Supervisory Board takes account of the intended level of provision for each individual and the length of time he or she has been a Managing Board member as well as the annual and long-term expense to the Company resulting from that provision. The non-forfeitability of pension benefit commitments is determined in compliance with the provisions of the German Company Pensions Act (*Betriebsrentengesetz*). Special contributions may be granted to Managing Board members on the basis of individual decisions by the Supervisory Board. If a member of the Managing Board earned a pension benefit entitlement from the Company before the BSAV was introduced, a portion of his or her contributions went toward financing that prior commitment.

Managing Board members are eligible to receive benefits under the BSAV at the age of 60 or – in the case of benefit commitments made on or after January 1, 2012 – the age of 62. As a rule, the accrued pension benefit balance is paid out to Managing Board members in twelve annual installments. A Managing Board member or his or her surviving dependents may also request that his or her pension benefit balance will be paid out in fewer installments or as a lump sum, subject to the Company's consent. The accrued pension benefit balance may also be paid out as a pension. Furthermore, Managing Board members may choose a combination of lump sum payments, installment payments (two to twelve) and pension payments. If the pension option is chosen, a decision must be made as to whether the payout should include pensions for surviving dependents. If a member of the Managing Board dies while receiving a pension, benefits will be paid to his or her surviving dependents if the member has chosen such benefits. The Company will then provide a limited-term pension to surviving children until they reach the age of 27 or, in the case of benefit commitments made on or after January 1, 2007, until they reach the age of 25.

Benefits from the retirement benefit system that was in place before the BSAV was established are normally granted as pension benefits with a surviving dependent's pension. In this case also, payout in installments or a lump-sum payment may be chosen instead of pension payments.

Like other eligible employees of Siemens AG, Managing Board members who were employed by the Company on or before September 30, 1983, are entitled to receive transition payments for the first six months after retirement, equal to the difference between their final base compensation and the retirement benefits payable under the corporate pension plan if they retire immediately after the termination of their Managing Board membership. The provisions of the German Company Pensions Act (*Betriebsrentengesetz*) do not apply to this benefit.

Commitments in connection with the termination of Managing Board membership

Managing Board employment contracts provide for a compensatory payment if membership on the Managing Board is terminated prematurely by mutual agreement and without serious cause. The amount of this payment must not exceed the value of two years' compensation and must compensate no more than the remaining term of the contract (cap). The amount of the compensatory payment is calculated on the basis of base compensation, together with the variable compensation and the long-term stock-based compensation actually received during the last fiscal year before termination. The compensatory payment is payable in the month when the member leaves the Managing Board. In addition, a one-time special contribution is made to the BSAV. The amount of this contribution is based on the BSAV contribution that the Managing Board member received in the previous year and on the remaining term of his or her appointment, but is limited to not more than two years' contributions (cap). The above benefits are not paid if an amicable termination of the member's activity on the Managing Board is agreed upon at the member's request, or if there is serious cause for the Company to terminate the employment relationship.

In the event of a change of control that results in a substantial change in a Managing Board member's position – for example, due to a change in corporate strategy or a change in the Managing Board member's duties and responsibilities – the Managing Board member has the right to terminate his or her contract with the Company. A change of control exists if one or more shareholders acting jointly or in concert acquire a majority of the voting rights in Siemens AG and exercise a controlling influence or if Siemens AG becomes a dependent enterprise as a result of entering into an intercompany agreement within the meaning of Section 291 of the German Stock Corporation Act (*Aktiengesetz*) or if Siemens AG is to be merged into an existing corporation or other entity. If this right of termination is exercised, the Managing Board member is entitled to a severance payment in the amount of not more than two years' compensation. The calculation of the annual compensation will include not only the base compensation and the target amount for the Bonus, but also the target amount for Stock Awards, in each case based on the most recent fiscal year completed prior to the termination of the member's contract. The stock-based components for which a firm commitment already exists will remain unaffected. There is no entitlement to a severance payment if the Managing Board member receives benefits from third parties in connection with a change of control. Moreover, there is no right to terminate if the change of control occurs within a period of twelve months prior to a Managing Board member's retirement.

Compensatory or severance payments also cover non-monetary benefits by including an amount of 5% of the total compensation or severance amount. Compensatory or severance payments will be reduced by 10% as a lump-sum allowance for discounted values and for income earned elsewhere. However, this reduction will apply only to the portion of the compensatory or severance payment that was calculated without taking into account the first six months of the remaining term of the Managing Board member's employment contract.

Stock commitments that were made as long-term stock-based compensation and for which the restriction period is still in effect will be forfeited without replacement if the employment contract is not extended after the end of an appointment period, either at the Managing Board member's request or because there is serious cause that would have entitled the Company to revoke the appointment or terminate the contract. However, once granted, Stock Awards are not forfeited if the employment contract is terminated by mutual agreement at the Company's request, or because of retirement, disability or death or in connection with a spinoff, the transfer of an operation, or a change of activity within the corporate group. In these cases, the Stock Awards will remain in effect upon termination of the employment contract and will be honored on expiration of the restriction period.

Secondary activities of Managing Board members

Members of the Managing Board may take on secondary activities – in particular, supervisory board positions outside the Company – only with the approval of the Chairman's Committee of the Supervisory Board. The full Supervisory Board remains responsible for decisions regarding any adjustments to Managing Board compensation necessary to take account of possible compensation for secondary activities. The holding of positions in Siemens companies is considered to be covered by contractual Managing Board remuneration. As a rule, Managing Board members are obligated to waive any compensation that may be due to them in connection with such positions. Should a waiver not be possible under the legal or tax regulations applicable to a Siemens company, the compensation paid to a Managing Board member in connection with such a position will be set off against the remuneration due to him or her in connection with his or her Managing Board activities. Memberships in supervisory boards whose establishment is required by law or in comparable domestic or foreign controlling bodies of business enterprises are listed in Section → C.4.1 in C.4 CORPORATE GOVERNANCE.

A.10.1.2 REMUNERATION OF MANAGING BOARD MEMBERS FOR FISCAL 2017

At the beginning of the fiscal year, the Supervisory Board set the target parameters return on capital employed (ROCE) and earnings per share (EPS) for the variable compensation (Bonus) for all members of the Managing Board, in each case on the basis of continuing and discontinued operations. The target values for the EPS component were defined on a multi-year basis. In defining the target for variable compensation, the Supervisory Board also defined individual targets so as to take fuller account of the individual performance of each Managing Board member. As a rule, up to five individual targets were defined for this purpose. An internal review of the appropriateness of Managing Board compensation for fiscal 2017 has confirmed that the remuneration of the Managing Board resulting from target achievement for fiscal 2017 is to be considered appropriate. In light of this review and following a review of the achievement of the targets defined at the beginning of the fiscal year, the Supervisory Board has decided to define the amounts of variable compensation, stock commitments and pension benefit contributions as follows:

Variable compensation (Bonus)

The following targets were set and attained with respect to the target parameters for variable compensation:

Target parameter	100% of target	Actual FY 2017 figure	Target achievement[2]
Return on capital employed, ROCE[1]	15.00%	13.54%	118.33%
Earnings per share, basic EPS[1] (ø 2015 – 2017)	€7.32	€7.67	123.33%
Individual targets	Focus topics 2017: Growth, Innovation, Digitalization and Excellence	–	100 – 130%

1 Continuing and discontinued operations.

2 Calculative target achievement for ROCE was 51.33%. The Supervisory Board adjusted this figure to reflect the acquisition of Mentor Graphics and the merger of Siemens' wind power business with Gamesa Corporación Tecnológica S.A. (Gamesa).

In fiscal 2017, Bonus-related target attainment by Managing Board members was between 113.89% and 123.89%. In its overall assessment, the Supervisory Board decided not to make any discretionary adjustments to the Bonus payout amounts.

Long-term stock-based compensation

Since beneficiaries are not entitled to receive dividends, the number of stock commitments granted was based on the closing price of Siemens stock in Xetra trading on the date of award less the present value of dividends expected during the restriction period. The share price used to determine the number of stock commitments was €91.32 (2016: €75.60).

Commitments in connection with the termination of Managing Board membership

Because Prof. Dr. Russwurm left the Managing Board at the end of his term of office on March 31, 2017, no commitments were agreed upon in connection with the termination of his Managing Board membership. In accordance with his contract with the Company, the previously granted Stock Awards, for which the restriction period is still in effect, will be absolutely maintained.

Total compensation

On the basis of the Supervisory Board's decisions described above, Managing Board compensation for fiscal 2017 totaled €33.97 million (2016: €28.90 million), an increase of 17.5%. Of this total amount, €20.73 million (2016: €20.19 million) was attributable to cash compensation and €13.24 million (2016: €8.71 million) to stock-based compensation.

The compensation presented on the following pages was granted to the members of the Managing Board for fiscal 2017 (individual disclosure).

Managing Board members serving as of September 30, 2017

(Amounts in thousands of €)			Joe Kaeser President and CEO 2016	2017	2017 (Min)	2017 (Max)
Non-performance-based components	Fixed compensation (base compensation)		2,034	**2,130**	2,130	2,130
	Fringe benefits [1]		102	**104**	104	104
	Total		2,136	**2,234**	2,234	2,234
Performance-based components	without long-term incentive effect, non-stock-based	One-year variable compensation (Bonus) – Target amount	2,034	**2,130**	0	5,112
	with long-term incentive effect, stock-based	**Multi-year variable compensation** [2,3] Siemens Stock Awards [4] (restriction period: four years)	2,158	**2,096**	0	6,600
	Total [5]		6,328	**6,460**	2,234	10,982
	Service Cost		1,101	**1,193**	1,193	1,193
	Total (Code) [6]		7,428	**7,653**	3,427	12,175
	Total compensation of all Managing Board members for fiscal 2017, in accordance with the applicable reporting standards, amounted to €33,97 million (2016: €28.90 million). The payout amount presented below is to be used instead of the target value according to the Code for one-year variable compensation. Service costs for pension benefits are not included.					
Performance-based components	without long-term incentive effect, non-stock-based	One-year variable compensation (Bonus) – Payout amount	2,773	**2,639**		
Total compensation			7,066	**6,969**		

Managing Board members serving as of September 30, 2017

(Amounts in thousands of €)		
Non-performance-based components	Fixed compensation (base compensation)	
	Fringe benefits [1]	
	Total	
Performance-based components	without long-term incentive effect, non-stock-based	One-year variable compensation (Bonus) – Target amount
	with long-term incentive effect, stock-based	**Multi-year variable compensation** [2,3] Siemens Stock Awards [4] (restriction period: four years)
	Total [5]	
	Service Cost	
	Total (Code) [6]	
	Total compensation of all Managing Board members for fiscal 2017, in accordance with the applicable reporting standards, amounted to €33,97 million (2016: €28.90 million). The payout amount presented below is to be used instead of the target value according to the Code for one-year variable compensation. Service costs for pension benefits are not included.	
Performance-based components	without long-term incentive effect, non-stock-based	One-year variable compensation (Bonus) – Payout amount
Total compensation		

1 Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of company cars in the amount of €159,957 (2016: €159,687), contributions toward the cost of insurance in the amount of €94,581 (2016: €139,795), the reimbursement of expenses for legal advice and tax advice, accommodation and moving expenses, including any taxes due in this regard, currency adjustment payments and costs relating to preventive medical examinations in the amount of €746,537 (2016: €765,327).

2 The figures for individual maximums for multi-year variable compensation reflect the possible maximum value in accordance with the maximum amount agreed upon for fiscal 2017 – that is, 300% of the applicable target amount.

3 The expenses recognized for stock-based compensation for members of the Managing Board in accordance with the IFRS in fiscal 2017 and fiscal 2016 amounted to €19,031,892 and €8,294,921, respectively. The following amounts pertained to the members of the Managing Board in fiscal 2017: Joe Kaeser €3,344,690 (2016: €2,378,584), Dr. Roland Busch €1,781,634 (2016: €1,283,779), Lisa Davis €1,301,296 (2016: €698,432), Klaus Helmrich €1,784,593 (2016: €1,284,349), Janina Kugel €1,278,363 (2016: €704,026), Cedrik Neike €2,978,584 (2016: €0), Michael Sen €135,659 (2016: €0) and Dr. Ralf P. Thomas €1,393,673 (2016: €872,394). The corresponding expense, determined in the same way, for former Managing Board members was as follows: Brigitte Ederer €218,614 (2016: – €42,052), Barbara Kux €218,614 (2016: – €42,052), Peter Löscher €538,356 (2016: – €103,403), Prof. Dr. Hermann Requardt €32,566 (2016: – €5,624), Prof. Dr. Siegfried Russwurm €3,303,141 (2016: €1,302,593), Peter Y. Solmssen €692,506 (2016: – €35,857), and Dr. Michael Süß €29,604 (2016: – €248).

4 Of the Stock Awards granted in fiscal 2017, most are contingent upon attaining the prospective performance-based target for Siemens stock relative to five competitors. The monetary values relating to 100% target achievement were €12,930,417 (2016: €8,560,190). The amounts for individual Managing Board members were as follows: Joe Kaeser €2,200,081 (2016: 2,120,051), Dr. Roland Busch €1,100,041 (2016: €1,080,022), Lisa Davis €1,100,041 (2016: €1,080,022), Klaus Helmrich €1,100,041 (2016: €1,080,022), Janina Kugel €1,055,020 (2016: €1,040,029), Cedrike Neike €3,700,065 (2016: €0), Michael Sen €1,025,067 (2016: €0), Dr. Ralf P. Thomas €1,100,041 (2016: €1,080,022) and for former Managing Board member Prof. Dr. Siegfried Russwurm €550,020 (2016: €1,080,022).

5 Total maximum compensation for fiscal 2017 represents the contractual maximum amount for overall compensation, excluding fringe benefits and pension benefit commitments. At 1.7 times target compensation (base compensation, target amount for the Bonus and the target amount for long-term stock-based compensation), the maximum amount is less than the total of the individual contractual caps for performance-based components.

6 Total compensation reflects the current fair value of stock-based compensation components on the grant date. On the basis of the current monetary values of stock-based compensation components, total compensation amounted to €33,657,370 (2016: €28,747,477).

7 Ms. Davis's compensation is paid out in Germany in euros. It has been agreed that any tax liability that arises due to tax rates that are higher in Germany than in the U.S. will be reimbursed. For base compensation of calendar years 2015 and 2016 as well as for the Bonus for fiscal years 2015 and 2016, a currency-adjustment payment was granted.

	Dr. Roland Busch				Lisa Davis [7]				Klaus Helmrich				Janina Kugel			
	Managing Board member				Managing Board member				Managing Board member				Managing Board member			
	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)
	1,043	**1,065**	1,065	1,065	1,043	**1,065**	1,065	1,065	1,043	**1,065**	1,065	1,065	989	**1,011**	1,011	1,011
	55	**55**	55	55	683	**512**	512	512	48	**52**	52	52	39	**40**	40	40
	1,098	**1,120**	1,120	1,120	1,726	**1,577**	1,577	1,577	1,091	**1,117**	1,117	1,117	1,027	**1,051**	1,051	1,051
	1,043	**1,065**	0	2,556	1,043	**1,065**	0	2,556	1,043	**1,065**	0	2,556	989	**1,011**	0	2,426
	1,099	**1,048**	0	3,300	1,099	**1,048**	0	3,300	1,099	**1,048**	0	3,300	1,059	**1,005**	0	3,165
	3,240	**3,233**	1,120	5,491	3,868	**3,690**	1,577	5,491	3,233	**3,230**	1,117	5,491	3,075	**3,067**	1,051	5,231
	603	**622**	622	622	576	**566**	566	566	602	**621**	621	621	530	**593**	593	593
	3,843	**3,855**	1,742	6,113	4,443	**4,256**	2,143	6,057	3,835	**3,851**	1,738	6,112	3,604	**3,659**	1,643	5,823
	1,387	**1,284**			1,387	**1,248**			1,370	**1,284**			1,282	**1,151**		
	3,584	**3,452**			4,212	**3,873**			3,560	**3,448**			3,368	**3,207**		

	Cedrik Neike [8, 9]				Michael Sen [10]				Dr. Ralf P. Thomas				Prof. Dr. Siegfried Russwurm [11]	
	Managing Board member since April 1, 2017				Managing Board member since April 1, 2017				CFO				Managing Board member until March 31, 2017	
	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)	2016	2017
	–	**533**	533	533	–	**533**	533	533	1,043	**1,065**	1,065	1,065	1,043	**533**
	–	**15**	15	15	–	**115**	115	115	61	**69**	69	69	78	**39**
	–	**548**	548	548	–	**648**	648	648	1,104	**1,134**	1,134	1,134	1,121	**572**
	–	**533**	0	1,278	–	**533**	0	1,278	1,043	**1,065**	0	2,556	1,043	**533**
	–	**4,079**	0	1,650	–	**1,347**	0	3,075	1,099	**1,048**	0	3,300	1,099	**524**
	–	**5,159**	548	2,746	–	**2,528**	648	2,746	3,246	**3,247**	1,134	5,491	3,263	**1,628**
	–	**1,214**	1,214	1,214	–	**703**	703	703	603	**622**	622	622	602	**621**
	–	**6,373**	1,762	3,959	–	**3,231**	1,351	3,449	3,849	**3,869**	1,756	6,113	3,865	**2,249**
	–	**606**			–	**624**			1,370	**1,284**			1,317	**606**
	–	**5,233**			–	**2,619**			3,573	**3,466**			3,538	**1,702**

8 To compensate for the forfeiture of stock at his previous employer, the Supervisory Board has granted Mr. Neike a one-time sum of €4,200,000. Seventy-five percent of this amount was awarded in the form of Siemens Phantom Stock Awards and the remaining 25% as a special pension benefit contribution. One half of the total amount of these granted Siemens Phantom Stock Awards fell due and was honored in September 2017. The other half will fall due and be honored in September 2018. The value of these Siemens Phantom Stock Awards depends solely on the performance of Siemens stock. As compensation for the forfeiture of stock at his previous employer, these Siemens Phantom Stock Awards are not taken into account when determining target compensation and hence are not included in the individual minimum and maximum amounts specified.

9 Mr. Neike was appointed Executive Chairman of the Board of Directors of Siemens Ltd. China, effective May 1, 2017. Of the fixed compensation and one-year (payout amount) and multi-year variable compensation reported here, an amount of €359,769 was granted and paid by Siemens Ltd. China and set off against the remuneration for his Managing Board activities at Siemens AG. Of the fringe benefits reported here, an amount of €7,778 was granted and paid by Siemens Ltd. China. In addition, it has been agreed that Siemens AG will offset, as a net amount, any personal tax burden that, due to Mr. Neike's two employment relationships, exceeds the burden that he would incur if he paid tax solely on the benefits granted to him under his employment contract with Siemens AG in Germany. Siemens AG will also offset any burdens due to charges and contributions to social insurance or comparable statutory systems in China additional to those he incurs in Germany.

10 To compensate for the forfeiture of stock and pension contributions at his previous employer, the Supervisory Board has granted Mr. Sen a one-time sum of €950,000. One half of this amount was awarded in the form of Siemens Phantom Stock Awards and the other half as a special pension benefit contribution.

11 Prof. Dr. Russwurm left the Managing Board effective the end of March 31, 2017.

Allocations

The following table shows allocations for fiscal 2017 for fixed compensation, fringe benefits, one-year variable compensation and multi-year variable compensation – by reference year – as well as the expense of pension benefits. In deviation from the multi-year variable compensation granted for fiscal 2017 and shown above, this table includes the actual figure for multi-year variable compensation granted in previous years and allocated in fiscal 2017.

Managing Board members serving as of September 30, 2017

(Amounts in thousands of €)			Joe Kaeser, President and CEO 2017	Joe Kaeser, President and CEO 2016
Non-performance-based components	Fixed compensation (base compensation)		**2,130**	2,034
	Fringe benefits[1]		**104**	102
	Total		**2,234**	2,136
Performance-based components	without long-term incentive effect, non-stock-based	One-year variable compensation (Bonus) – Payout amount[2]	**2,639**	2,773
	with long-term incentive effect, stock-based	**Multi-year variable compensation**	**4,570**	2,310
		Siemens Stock Awards (restriction period: 2012 – 2016)[3]	**3,542**	0
		Siemens Stock Awards (restriction period: 2011 – 2015)[4]	**0**	903
		Bonus Awards (waiting period: 2012 – 2016)[5]	**1,028**	0
		Bonus Awards (waiting period: 2011 – 2015)[5]	**0**	1,407
		Share Matching Plan (vesting period: 2013 – 2015)	**0**	0
	Other[6]		**200**	97
	Total		**9,643**	7,316
	Service Cost		**1,193**	1,101
	Total (Code)		**10,835**	8,416

Managing Board members serving as of September 30, 2017

(Amounts in thousands of €)		
Non-performance-based components	Fixed compensation (base compensation)	
	Fringe benefits[1]	
	Total	
Performance-based components	without long-term incentive effect, non-stock-based	One-year variable compensation (Bonus) – Payout amount[2]
	with long-term incentive effect, stock-based	**Multi-year variable compensation**
		Siemens Stock Awards (restriction period: 2012 – 2016)[3]
		Siemens Stock Awards (restriction period: 2011 – 2015)[4]
		Bonus Awards (waiting period: 2012 – 2016)[5]
		Bonus Awards (waiting period: 2011 – 2015)[5]
		Share Matching Plan (vesting period: 2013 – 2015)
	Other[6]	
	Total	
	Service Cost	
	Total (Code)	

1 Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of company cars in the amount of €159,957 (2016: €159,687), contributions toward the cost of insurance in the amount of €94,581 (2016: €139,795), the reimbursement of expenses for legal advice and tax advice, accommodation and moving expenses, including any taxes due in this regard, currency adjustment payments and costs relating to preventive medical examinations in the amount of €746,537 (2016: €765,327).

2 The payout amount of one-year variable compensation (Bonus) presented above therefore represents the amount awarded for fiscal 2017, which will be paid out in January 2018.

3 For one half of the Siemens Stock Awards 2012, target attainment depended on the EPS for the last three years and amounted to 154%. For the other half, target attainment was linked to the performance of Siemens stock compared to defined competitors during the four-year restriction period. It amounted to 87%. Of the Siemens Stock Awards 2012, which were granted on the basis of 100% target attainment, a number equivalent to the shortfall from that target expired without replacement in accordance with plan rules.

4 For one half of the Siemens Stock Awards 2011 target attainment depended on the EPS for the past three fiscal years and amounted to 114%. For the other half, target attainment was linked to the performance of Siemens stock compared to defined competitors during the four-year vesting period. It amounted to 0%. Therefore, Siemens Stock Awards 2011 that had already been granted were forfeited without replacement in accordance with the plan rules.

5 One half of the Bonus for fiscal 2011 and fiscal 2012 was granted in the form of non-forfeitable awards of Siemens stock (Bonus Awards).After the expiration of the four-year waiting period in November 2015 and November 2016, respectively, the beneficiaries received one share of Siemens stock for each Bonus Award.

6 "Other" includes the adjustment of the Siemens Stock Awards 2011 and 2012 and Bonus Awards 2011 and 2012 (transfer in November 2015 and 2016, respectively) in accordance with Section 23 and Section 125 of the German Transformation Act *(Umwandlungsgesetz)* due to the spin-off of OSRAM.

7 To compensate for the forfeiture of stock at his previous employer, the Supervisory Board has granted Mr. Neike a one-time sum of €4,200,000. Seventy-five percent of this amount was awarded in the form of Siemens Phantom Stock Awards and the remaining 25% as a special pension benefit contribution. One half of the total amount of these granted Siemens Phantom

	Dr. Roland Busch		Lisa Davis		Klaus Helmrich		Janina Kugel	
	Managing Board member		Managing Board member		Managing Board member		Managing Board member	
	2017	2016	2017	2016	2017	2016	2017	2016
	1,065	1,043	1,065	1,043	1,065	1,043	1,011	989
	55	55	512	683	52	48	40	39
	1,120	1,098	1,577	1,726	1,117	1,091	1,051	1,027
	1,284	1,387	1,248	1,387	1,284	1,370	1,151	1,282
	2,949	1,259	0	0	3,052	1,301	0	0
	2,024	0	0	0	2,024	0	0	0
	0	555	0	0	0	598	0	0
	925	0	0	0	1,028	0	0	0
	0	703	0	0	0	703	0	0
	0	0	0	0	0	0	0	0
	129	53	0	0	133	55	0	0
	5,482	3,797	2,825	3,113	5,586	3,816	2,202	2,309
	622	603	566	576	621	602	593	530
	6,104	4,399	3,391	3,688	6,207	4,418	2,795	2,839

	Cedrik Neike [7, 8]		Michael Sen [9]		Dr. Ralf P. Thomas		Prof. Dr. Siegfried Russwurm [10]	
	Managing Board member since April 1, 2017		Managing Board member since April 1, 2017		CFO		Managing Board member until March 31, 2017	
	2017	2016	2017	2016	2017	2016	2017	2016
	533	–	533	–	1,065	1,043	533	1,043
	15	–	115	–	69	61	39	78
	548	–	648	–	1,134	1,104	572	1,121
	606	–	624	–	1,284	1,370	606	1,317
	0	–	0	–	891	465	3,052	2,310
	0	–	0	–	891	0	2,024	0
	0	–	0	–	0	397	0	903
	0	–	0	–	0	0	1,028	0
	0	–	0	–	0	0	0	1,407
	0	–	0	–	0	67	0	0
	1,402	–	0	–	39	20	133	97
	2,556	–	1,272	–	3,347	2,958	4,363	4,845
	1,214	–	703	–	622	603	621	602
	3,770	–	1,975	–	3,969	3,561	4,984	5,447

Stock Awards fell due and was honored in September 2017. The other half will fall due and be honored in September 2018. The value of these Siemens Phantom Stock Awards depends solely on the performance of Siemens stock.

8 Mr. Neike was appointed Executive Chairman of the Board of Directors of Siemens Ltd. China, effective May 1, 2017. Of the fixed compensation and one-year variable compensation (payout amount) reported here, an amount of €222,802 was granted and paid by Siemens Ltd. China and set off against the remuneration for his Managing Board activities at Siemens AG. Of the fringe benefits reported here, an amount of €7,778 was granted and paid by Siemens Ltd. China. In addition, it has been agreed that Siemens AG will offset, as a net amount, any personal tax burden that, due to Mr. Neike's two employment relationships, exceeds the burden that he would incur if he paid tax solely on the benefits granted to him in his employment contract with Siemens AG in Germany. Siemens AG will also offset any burdens due to charges and contributions to social insurance or comparable statutory systems in China additional to those he incurs in Germany.

9 To compensate for the forfeiture of stock and pension contributions at his previous employer, the Supervisory Board has granted Mr. Sen a one-time sum of €950,000. Half of this amount was awarded in the form of Siemens Phantom Stock Awards and the other half as a special pension benefit contribution.

10 Prof. Dr. Russwurm left the Managing Board effective the end of March 31, 2017.

Pension benefit commitments

For fiscal 2017, the members of the Managing Board were granted contributions under the BSAV totaling €5.0 million (2016: €4.6 million), based on a resolution of the Supervisory Board dated November 8, 2017. Of this amount, €0.1 million (2016: €0.1 million) related to the funding of pension commitments earned prior to transfer to the BSAV.

The contributions under the BSAV are added to the personal pension accounts each January, following the close of the fiscal year. Until a beneficiary's date of retirement, his or her pension account is credited with an annual interest payment (guaranteed interest) on January 1 of each year. The interest rate is currently 0.90%.

The following table shows individualized details of the contributions (allocations) under the BSAV for fiscal 2017 as well as the defined benefit obligations for pension commitments.

	Total contributions[1] for		Defined benefit obligation[2] for all pension commitments excluding deferred compensation[3]	
(Amounts in €)	2017	2016	2017	2016
Managing Board members serving as of September 30, 2017				
Joe Kaeser	**1,192,800**	1,139,040	**11,195,488**	10,391,542
Dr. Roland Busch	**596,400**	583,968	**4,742,811**	4,342,427
Lisa Davis	**596,400**	583,968	**4,532,350**	3,817,196
Klaus Helmrich	**596,400**	583,968	**5,007,306**	4,607,800
Janina Kugel	**566,160**	553,728	**1,628,418**	1,084,971
Cedrik Neike[4]	**298,200**	–	**1,213,897**	–
Michael Sen[5]	**298,200**	–	**703,169**	–
Dr. Ralf P. Thomas	**596,400**	583,968	**4,727,702**	4,297,199
Former members of the Managing Board				
Prof. Dr. Siegfried Russwurm[6]	**298,200**	583,968	**6,317,937**	6,083,534
Total	**5,039,160**	4,612,608	**40,069,078**	34,624,669

1 The expenses (service cost) recognized in accordance with the IFRS in fiscal 2017 for Managing Board members' entitlements under the BSAV in fiscal 2017 amounted to €6,754,665 (2016: €4,615,543).

2 The defined benefit obligations reflect one-time special contributions to the BSAV for new appointments from outside the Company, amounting to €1,525,000 (2016: €0).

3 Deferred compensation totals €4,001,386 (2016: €3,829,397), including €3,590,178 for Joe Kaeser (2016: €3,428,243), €354,801 for Klaus Helmrich (2016: €343,953) and €56,407 for Dr. Ralf P. Thomas (2016: €57,201).

4 Mr. Neike was appointed a full member of the Managing Board effective April 1, 2017.

5 Mr. Sen was appointed a full member of the Managing Board effective April 1, 2017.

6 Prof. Dr. Russwurm left the Managing Board effective the end of March 31, 2017.

In fiscal 2017, former members of the Managing Board and their surviving dependents received emoluments within the meaning of Section 314 para. 1 No. 6 b of the German Commercial Code totaling €34.1 million (2016: €52.3 million). The previous year's figure includes the lump-sum payments of the former Managing Board members Prof. Dr. Requardt and Mr. Solmssen.

The defined benefit obligation (DBO) of all pension commitments to former members of the Managing Board and their surviving dependents as of September 30, 2017, amounted to €191.5 million (2016: €216.3 million). This figure is included in → NOTE 16 in B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Other

No loans or advances from the Company are provided to members of the Managing Board.

A.10.1.3 ADDITIONAL INFORMATION ON STOCK-BASED COMPENSATION INSTRUMENTS IN FISCAL 2017

Stock commitments

The following table shows the changes in the balance of the stock commitments held by Managing Board members in fiscal 2017:

	Balance at beginning of fiscal 2017		Granted during fiscal year[1]	Vested and fulfilled during fiscal year	Forfeited during fiscal year[2]	Balance at end of fiscal 2017[3]	
(Amounts in number of units)	Non-forfeitable commitments of Bonus Awards	Forfeitable commitments of Stock Awards	Forfeitable commitments of Stock Awards	Commitments of Bonus Awards and Stock Awards	Commitments of Stock Awards	Non-forfeitable commitments of Bonus Awards	Forfeitable commitments of Stock Awards
Managing Board members serving as of September 30, 2017							
Joe Kaeser	**25,631**	**138,923**	24,092	41,904	1,752	**16,206**	**128,784**
Dr. Roland Busch	**19,425**	**75,263**	12,046	27,042	1,001	**10,942**	**67,749**
Lisa Davis	**576**	**53,261**	12,046	0	0	**576**	**65,307**
Klaus Helmrich	**19,536**	**75,263**	12,046	27,984	1,001	**10,111**	**67,749**
Janina Kugel	**–**	**29,412**	11,553	0	0	**0**	**40,965**
Cedrik Neike[4, 5, 6]	**–**	**–**	31,754[7]	12,655[7]	0	**0**	**19,099**
Michael Sen[5, 8]	**–**	**–**	11,225	0	0	**0**	**11,225**
Dr. Ralf P. Thomas	**5,030**	**57,250**	12,046	8,166	440	**5,030**	**60,690**
Former members of the Managing Board							
Prof. Dr. Siegfried Russwurm[9]	**20,043**	**78,633**	6,023	27,984	1,001	**10,618**	**65,096**
Total	**90,241**	**508,005**	132,831	145,735	5,196	**53,483**	**526,664**

1 The weighted average fair value as of the grant date for fiscal 2017 was €99.70 per granted share.

2 For one half of the Siemens Stock Awards 2012, target attainment depended on the EPS value for the past three fiscal years and amounted to 154%. For the other half, target attainment was linked to the performance of Siemens stock compared to defined competitors during the four-year restriction period. It amounted to 87%. Of the Siemens Stock Awards 2012, which were granted on the basis of 100% target attainment, a number equivalent to the shortfall from that target expired, accordingly, without replacement in accordance with plan rules

3 Amounts also include stock commitments (Stock Awards) granted in November 2016 for fiscal 2017. These amounts may further include stock commitments received as compensation by the relevant Managing Board member before joining the Managing Board.

4 Mr. Neike was appointed a full member of the Managing Board effective April 1, 2017.

5 Since Mr. Neike und Mr. Sen were appointed full members of the Managing Board during the fiscal year, the target amount for their stock-based compensation was prorated and, instead of Stock Awards, they received an equivalent amount of Siemens Phantom Stock Awards. In lieu of a transfer of shares, only a cash equivalent is given for these awards at the end of the restriction period. Otherwise, the same provisions agreed upon for Siemens Stock Awards apply.

6 The amounts shown include the Stock Awards granted to Mr. Neike by Siemens Ltd. China in his capacity as Executive Chairman of the Board of Directors of Siemens Ltd. China.

7 Amounts also include the non-forfeitable Stock Awards, which Mr. Neike received as forfeiture of stock at his previous employer. One half of the total amount of these granted Siemens Phantom Stock Awards fell due and was honored in September 2017. The other half will fall due and be honored in September 2018. The value of these Siemens Phantom Stock Awards depends solely on the performance of Siemens stock.

8 Mr. Sen was appointed a full member of the Managing Board effective April 1, 2017.

9 Prof. Dr. Siegfried Russwurm left the Managing Board effective the end of March 31, 2017.

Shares from the Share Matching Plan

Fiscal 2011 was the last year in which Managing Board members were entitled to participate in the Siemens Share Matching Plan. Under the plan, they were entitled to invest up to 50% of the annual gross amount of their variable cash compensation, as determined for fiscal 2010, in Siemens shares. After the expiration of a vesting period of approximately three years, plan participants are entitled to receive one free matching share of Siemens stock for every three Siemens shares acquired and continuously held under the plan, provided the participants were employed without interruption at Siemens AG or a Siemens company until the end of the vesting period. At the beginning of fiscal 2017, Janina Kugel had three entitlements to matching shares, which she had acquired before joining the Managing Board. In fiscal 2017, no entitlements to matching shares were acquired, due or are forfeited. Entitlements to matching shares at the end of fiscal 2017 show the following balance: Janina Kugel, three shares with a fair value of €174.

Share Ownership Guidelines

The deadlines by which the individual Managing Board members must provide first-time proof of compliance with the Siemens Share Ownership Guidelines vary from member to member, depending on when he or she was appointed to the Managing Board. The following table shows the number of Siemens shares that were held by Managing Board members in office at September 30, 2017, as of the March 2017 deadline for proving compliance with the Share Ownership Guidelines as well as the number that are to be held permanently with a view to future deadlines.

	Obligations under Share Ownership Guidelines					
	Required			Proven		
(Amounts in number of units or €)	Percentage of base compensation [1]	Value [1]	Number of shares [2]	Percentage of base compensation [1]	Value [2]	Number of shares [3]
Managing Board members serving as of September 30, 2017, and required to show proof as of March 10, 2017						
Joe Kaeser	300%	5,516,344	51,039	567%	10,424,316	96,450
Dr. Roland Busch	200%	2,029,863	18,781	291%	2,953,070	27,323
Klaus Helmrich	200%	2,010,175	18,599	308%	3,093,142	28,619
Total		**9,556,381**	**88,419**		**16,470,527**	**152,392**

1 The amount of the obligation is based on the average base compensation for the four years prior to the respective dates of proof.

2 Based on the average Xetra opening price of €108.08 for the fourth quarter of 2016 (October – December).

3 As of March 10, 2017 (date of proof), including Bonus Awards.

A.10.2 Remuneration of Supervisory Board members

The current remuneration policies for the Supervisory Board were authorized at the Annual Shareholders' Meeting held on January 28, 2014, and are effective as of fiscal 2014. Details are set out in Section 17 of the Articles of Association of Siemens AG. The remuneration of the Supervisory Board consists entirely of fixed compensation; it reflects the responsibilities and scope of the work of the Supervisory Board members. The Chairman and Deputy Chairmen of the Supervisory Board as well as the Chairmen and members of the Audit Committee, the Chairman's Committee, the Compensation Committee, the Compliance Committee and the Innovation and Finance Committee receive additional compensation.

Under current rules, the members of the Supervisory Board receive an annual base compensation of €140,000; the Chairman of the Supervisory Board receives a base compensation of €280,000, and each of the Deputy Chairmen receives €220,000.

The members of the Supervisory Board committees receive the following additional fixed compensation for their committee work: the Chairman of the Audit Committee receives €160,000, and each of the other members of the Committee receives €80,000; the Chairman of the Chairman's Committee receives €120,000, and each of the other members of the Committee receives €80,000; the Chairman of the Compensation Committee receives €100,000, and each of the other members of the Committee receives €60,000 (compensation for any work on the Chairman's Committee counts toward compensation for work on the Compensation Committee); the Chairman of the Innovation and Finance Committee receives €80,000, and each of the other members of the Committee receives €40,000; the Chairman of the Compliance Committee receives €80,000, and each of the other members of the Committee receives €40,000. However, no additional compensation is paid for work on the Compliance Committee if a member of that Committee is already entitled to compensation for work on the Audit Committee.

If a Supervisory Board member does not attend a meeting of the Supervisory Board, one-third of the aggregate compensation due to that member is reduced by the percentage of Supervisory Board meetings not attended by the member in relation to the total number of Supervisory Board meetings held during the fiscal year. In the event of changes in the composition of the Supervisory Board and/or its committees, compensation is paid on a pro rata basis, rounding up to the next full month.

In addition, the members of the Supervisory Board are entitled to receive a fee of €1,500 for each meeting of the Supervisory Board and its committees that they attend.

The members of the Supervisory Board are reimbursed for out-of-pocket expenses incurred in connection with their duties and for any value-added taxes to be paid on their remuneration. For the performance of his duties, the Chairman of the Supervisory Board is also entitled to an office with secretarial support and the use of a carpool service.

No loans or advances from the Company are provided to members of the Supervisory Board.

The compensation shown below was determined for each of the members of the Supervisory Board for fiscal 2017 (individualized disclosure).

(Amounts in €)	2017 Base compen-sation	2017 Additional compen-sation for committee work	2017 Meeting attendance fee	2017 Total	2016 Base compen-sation	2016 Additional compen-sation for committee work	2016 Meeting attendance fee	2016 Total
Supervisory Board members serving as of September 30, 2017								
Dr. Gerhard Cromme	280,000	280,000	57,000	617,000	280,000	280,000	45,000	605,000
Birgit Steinborn[1]	220,000	200,000	48,000	468,000	220,000	200,000	43,500	463,500
Werner Wenning	220,000	140,000	42,000	402,000	220,000	140,000	30,000	390,000
Olaf Bolduan[1]	140,000	–	10,500	150,500	133,333	–	9,000	142,333
Michael Diekmann	133,333	57,143	13,500	203,976	133,333	57,143	13,500	203,976
Dr. Hans Michael Gaul	140,000	160,000	34,500	334,500	140,000	160,000	27,000	327,000
Reinhard Hahn[1]	140,000	–	10,500	150,500	140,000	–	10,500	150,500
Bettina Haller[1]	133,333	76,190	21,000	230,524	140,000	80,000	25,500	245,500
Hans-Jürgen Hartung	140,000	–	10,500	150,500	140,000	–	10,500	150,500
Robert Kensbock[1]	140,000	180,000	31,500	351,500	140,000	180,000	30,000	350,000
Harald Kern[1]	133,333	76,190	19,500	229,024	140,000	80,000	22,500	242,500
Jürgen Kerner[1]	140,000	200,000	40,500	380,500	140,000	200,000	33,000	373,000
Dr. Nicola Leibinger-Kammüller	133,333	76,190	33,000	242,524	140,000	80,000	27,000	247,000
Gérard Mestrallet	140,000	–	10,500	150,500	126,667	–	7,500	134,167
Dr. Norbert Reithofer	133,333	38,095	16,500	187,929	133,333	38,095	15,000	186,429
Güler Sabancı	140,000	–	10,500	150,500	140,000	–	10,500	150,500
Dr. Nathalie von Siemens	140,000	–	10,500	150,500	140,000	–	10,500	150,500
Michael Sigmund	140,000	–	10,500	150,500	140,000	–	10,500	150,500
Jim Hagemann Snabe	133,333	114,286	31,500	279,119	140,000	120,000	31,500	291,500
Sibylle Wankel[1]	140,000	40,000	16,500	196,500	140,000	40,000	16,500	196,500
Total	**3,060,000**	**1,638,095**	**478,500**	**5,176,595**	3,066,667	1,655,238	429,000	5,150,905

1 These employee representatives on the Supervisory Board and the representatives of the trade unions on the Supervisory Board have declared their willingness to transfer their compensation to the Hans Boeckler Foundation, in accordance with the guidelines of the Confederation of German Trade Unions (DGB).

A.10.3 Other

The Company provides a group insurance policy for Supervisory and Managing Board members and certain other employees of the Siemens Group. The policy is taken out for one year at a time or renewed annually. It covers the personal liability of the insured in cases of financial loss associated with their activities on behalf of the Company. The insurance policy for fiscal 2017 includes a deductible for the members of the Managing Board and the Supervisory Board that complies with the requirements of the German Stock Corporation Act and the Code.

A.11 Takeover-relevant information

(pursuant to Sections 289 para. 4 and 315 para. 4 of the German Commercial Code) and explanatory report

A.11.1 Composition of common stock

As of September 30, 2017, the Company's common stock totaled €2.550 billion. The capital stock is divided into 850 million registered shares with no par value. The shares are fully paid in. All shares confer the same rights and obligations. The shareholders' rights and obligations are governed in detail by the provisions of the German Stock Corporation Act, in particular by Sections 12, 53 a et seq., 118 et seq. and 186 of the German Stock Corporation Act.

A.11.2 Restrictions on voting rights or transfer of shares

At the Shareholders' Meeting, each share of stock has one vote and accounts for the shareholders' proportionate share in the Company's net income. An exception to this rule applies with regard to treasury shares held by the Company, which do not entitle the Company to any rights. Under Section 136 of the German Stock Corporation Act the voting right of the affected shares is excluded by law.

Shares issued to employees worldwide under the employee share program implemented since the beginning of fiscal 2009, in particular the Share Matching Plan, are freely transferable unless applicable local laws provide otherwise. Under the rules of the program, however, in order to receive one matching share free of charge for each three shares purchased, participants are required to hold the shares purchased by them for a vesting period of several years, during which the participants have to be continuously employed by Siemens AG or another Siemens company. The right to receive matching shares is forfeited if the purchased shares are sold, transferred, hedged on, pledged or hypothecated in any way during the vesting period.

The von Siemens-Vermögensverwaltung GmbH (vSV) has, on a sustained basis, powers of attorney allowing it to exercise the voting rights for 10,814,609 shares (as of September 30, 2017) on behalf of members of the Siemens family. These shares are part of the total number of shares held by the family's members. The powers of attorney are based on an agreement between the vSV and, among others, members of the Siemens family. The shares are voted together by vSV, taking into account the proposals of a family partnership established by the family's members or of one of this partnership's governing bodies.

A.11.3 Legislation and provisions of the Articles of Association applicable to the appointment and removal of members of the Managing Board and governing amendment to the Articles of Association

The appointment and removal of members of the Managing Board is subject to the provisions of Sections 84 and 85 of the German Stock Corporation Act and Section 31 of the German Codetermination Act (Mitbestimmungsgesetz). According to Section 8 para. 1 of the Articles of Association, the Managing Board is comprised of several members, the number of which is determined by the Supervisory Board.

According to Section 179 of the German Stock Corporation Act, any amendment to the Articles of Association requires a resolution of the Shareholders' Meeting. The authority to adopt purely formal amendments to the Articles of Association was transferred to the Supervisory Board under Section 13 para. 2 of the Articles of Association. In addition, by resolutions of the Shareholders' Meetings the Supervisory Board has been authorized to amend Section 4 of the Articles of Association in accordance with the utilization of the Authorized and Conditional Capitals, and after expiration of the then-applicable authorization and utilization period.

Resolutions of the Shareholders' Meeting require a simple majority vote, unless a greater majority is required by law. Pursuant to Section 179 para. 2 of the German Stock Corporation Act, amendments to the Articles of Association require a majority of at least three-quarters of the capital stock represented at the time of the casting of the votes, unless another capital majority is prescribed by the Articles of Association.

A.11.4 Powers of the Managing Board to issue and repurchase shares

The Managing Board is authorized to increase, with the approval of the Supervisory Board, the capital stock until January 25, 2021 by up to €90 million through the issuance of up to 30 million registered shares of no par value against contributions in cash (Authorized Capital 2016). Subscription rights of existing shareholders are excluded. The new shares shall be issued under the condition that they are offered exclusively to employees of Siemens AG and any of its affiliated companies. To the extent permitted by law, employee shares may also be issued in such a manner that the contribution to be paid on such shares is covered by that part of the annual net income which the Managing Board and the Supervisory Board may allocate to other retained earnings under Section 58 para. 2 of the German Stock Corporation Act.

Furthermore, the Managing Board is authorized to increase, with the approval of the Supervisory Board, the capital stock until January 27, 2019 by up to €528.6 million through the issuance of up to 176.2 million registered shares of no par value against cash contributions and/or contributions in kind (Authorized Capital 2014).

As of September 30, 2017, the total unissued authorized capital of Siemens AG therefore consisted of €618.6 million nominal that may be issued, with varying terms by issuance, in installments of up to 206.2 million registered shares of no par value.

By resolutions of the Shareholders' Meetings of January 28, 2014 and January 27, 2015, the Managing Board is authorized to issue bonds with conversion rights or with warrants attached, or a combination of these instruments, each entitling the holders to subscribe to up to 80 million registered shares of Siemens AG of no par value. Based on these two authorizations, the Company or consolidated subsidiaries of the Company may issue bonds until January 27, 2019 and January 26, 2020, respectively, each in an aggregate principal amount of up to €15 billion. In order to grant shares of stock to holders/creditors of such convertible bonds or warrant bonds, the capital stock was conditionally increased by resolutions of the Shareholders' Meetings 2014 and 2015, each by up to 80 million registered shares of no par value (Conditional Capitals 2014 and 2015), i.e. in total by up to €480 million through the issuance of up to 160 million shares of no par value.

The new shares under Authorized Capital 2014 and the bonds under the aforementioned authorizations are to be issued against cash or non-cash contributions. They are, as a matter of principle, to be offered to shareholders for subscription. The Managing Board is authorized to exclude, with the approval of the Supervisory Board, subscription rights of shareholders in the event of capital increases against contributions in kind. In the event of capital increases against contributions in cash, the Managing Board is authorized to exclude shareholders' subscription rights with the approval of the Supervisory Board in the following cases:

- The issue price of the new shares/bonds is not significantly lower than the stock market price of the Siemens shares already listed or the theoretical market price of the bonds computed in accordance with generally accepted actuarial methods (exclusion of subscription rights, limited to 10% of the capital stock, in accordance with or by mutatis mutandis application of Section 186 para. 3 sentence 4 German Stock Corporation Act).
- The exclusion is necessary with regard to fractional amounts resulting from the subscription ratio.
- The exclusion is necessary in order to grant holders of conversion or option rights or conversion or option obligations on Siemens shares a compensation for the effects of dilution.

The total amount of new shares issued or to be issued under Authorized Capitals or in accordance with the bonds mentioned above, in exchange for contributions in cash and in kind and with shareholders' subscription rights excluded, may in certain cases be subject to further restrictions, such as the restriction that they may not exceed 20% of the capital stock. The details of those restrictions are described in the relevant authorization.

In February 2012, Siemens issued bonds with warrant units with a volume of US$3 billion. Siemens exchanged the major part of the warrants issued in 2012 against new warrants in September 2015; for this purpose, Siemens issued new bonds with warrants. After redemption of the first tranche with a volume of US$1.5 billion at maturity in August 2017, the remaining warrants correspond to option rights entitling their holders to receive approximately 11.5 million Siemens shares. The terms and conditions of the warrants enable Siemens to service exercised option rights using either conditional capital or treasury stock, and also enable Siemens to buy back the warrants.

The Company may not repurchase its own shares unless so authorized by a resolution duly adopted by the shareholders at a general meeting or in other very limited circumstances set forth in the German Stock Corporation Act. On January 27, 2015, the Shareholders' Meeting authorized the Company to acquire until January 26, 2020 up to 10% of its capital stock existing at the date of adopting the resolution or – if this value is lower – as of the date on which the authorization is exercised. The aggregate of shares of stock of Siemens AG repurchased under this authorization and any other Siemens shares previously acquired and still held in treasury by the Company or attributable to the Company pursuant to Sections 71 d and 71 e of the German Stock Corporation Act may at no time exceed 10% of the then existing capital stock. Any repurchase of Siemens shares shall be accomplished at the discretion of the Managing Board either (1) by acquisition over the stock exchange or (2) through a public share repurchase offer. The Managing Board is additionally authorized to complete the repurchase of Siemens shares in accordance with the authorization described above by using certain derivatives (put and call options, forward purchases and any combination of these derivatives). In exercising this authorization, all stock repurchases based on the derivatives are limited to a maximum volume of 5% of Siemens' capital stock existing at the date of adopting the resolution at the Shareholders' Meeting. A derivative's term of maturity may not, in any case, exceed 18 months and must be chosen in such a way that the repurchase of Siemens shares upon exercise of the derivative will take place no later than January 26, 2020.

In addition to selling them over the stock exchange or through a public sales offer to all shareholders, the Managing Board is authorized by resolution of the Shareholders' Meeting on January 27, 2015 to also use Siemens shares repurchased on the basis of this or any previously given authorization for every permissible purpose, in particular as follows: Such Siemens shares may be

- retired
- 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
- offered and transferred, with the approval of the Supervisory Board, to third parties against non-cash contributions
- sold, with the approval of the Supervisory Board, to third parties against payment in cash if the price at which such Siemens shares are sold is not significantly lower than the market price of Siemens stock (exclusion of subscription rights, limited to 10% of the capital stock, by mutatis mutandis application of Section 186 para. 3 sentence 4 German Stock Corporation Act) or
- used to service or secure obligations or rights to acquire Siemens shares arising particularly from or in connection with convertible bonds or warrant bonds issued by the Company or any of its consolidated subsidiaries (exclusion of subscription rights, limited to 10% of the capital stock, by mutatis mutandis application of Section 186 para. 3 sentence 4 German Stock Corporation Act).

Furthermore, the Supervisory Board is authorized to use shares acquired on the basis of this or any previously given authorization to meet obligations or rights to acquire Siemens shares that were or will be agreed with members of the Managing Board within the framework of rules governing Managing Board compensation.

In November 2015, the Company announced that it would carry out a share buyback of up to €3 billion in volume within the following up to 36 months. The buyback commenced on February 2, 2016 using the authorizations given by the Annual Shareholders' Meeting on January 27, 2015. Under this share buyback Siemens repurchased 10,439,856 shares by September 30, 2017. The total consideration paid for these shares amounted to about €1.163 billion (excluding incidental transaction charges). The buyback has the exclusive purposes of retirement, of issuing shares to employees, board members of affiliated companies and members of the Managing Board of Siemens AG, and of servicing/securing the obligations or rights to acquire Siemens shares arising particularly from or in connection with convertible bonds and warrant bonds. As of September 30, 2017, the Company held 34,481,120 shares of stock in treasury.

For details on the authorizations referred to above, especially with the restrictions to exclude subscription rights and the terms to include shares when calculating such restrictions, please refer to the relevant resolution and to Section 4 of the Articles of Association.

A.11.5 Significant agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid

Siemens AG maintains two lines of credit in an amount of €4 billion and an amount of US$3 billion, respectively, which provide its lenders with a right of termination in the event that (1) Siemens AG becomes a subsidiary of another company or (2) a person or a group of persons acting in concert acquires effective control over Siemens AG by being able to exercise decisive influence over its activities (Art. 3(2) of Council Regulation (EC) 139/2004).

In addition, in March 2013, a consolidated subsidiary as borrower and Siemens AG as guarantor entered into two bilateral loan agreements, each of which has been drawn in the full amount of US$500 million. Each agreement provides its respective lender with a right of termination in the event that (1) Siemens AG becomes a subsidiary of another company or (2) a person or a group of persons acting in concert acquires effective control over Siemens AG by being able to exercise decisive influence over its activities (Art. 3(2) of Council Regulation (EC) 139/2004).

Framework agreements concluded by Siemens AG under International Swaps and Derivatives Association Inc. documentation (ISDA Agreements) grant the counterparty a right of termination when Siemens AG consolidates with, merges into, or transfers substantially all its assets to a third party. However, this right of termination exists only, if (1) the resulting entity's creditworthiness is materially weaker than Siemens AG's immediately prior to such event or (2) the resulting entity fails to simultaneously assume Siemens AG's obligations under the ISDA Agreement. Additionally, some ISDA Agreements grant the counterparty a right of termination if a third party acquires beneficial ownership of equity securities that enable it to elect a majority of Siemens AG's Supervisory Board or otherwise acquire the power to control Siemens AG's material policy-making decisions and if the creditworthiness of Siemens AG is materially weaker than it was immediately prior to such an event. In either situation, ISDA Agreements are designed such that upon termination all outstanding payment claims documented under them are to be netted.

In case of a change of control, the terms and conditions of the remaining warrants issued with the bonds with warrant units in February 2012 enable their holders to receive a higher number of Siemens shares in accordance with an adjusted strike price if they exercise their option rights within a certain period of time after the change of control. This period of time shall end either (1) not less than 30 days and no more than 60 days after publication of the notice of the issuer regarding the change of control, as determined by the issuer or (2) 30 days after the change of control first becomes publicly known. The strike price adjustment decreases depending on the remaining term of the warrants and is determined in detail in the terms and conditions of the warrants. In this context, a change of control occurs if control of Siemens AG is acquired by a person or by persons acting in concert.

A.11.6 Compensation agreements with members of the Managing Board or employees in the event of a takeover bid

In the event of a change of control that results in a substantial change in the position of a Managing Board member (for example, due to a change in corporate strategy or a change in the Managing Board member's duties and responsibilities), the member of the Managing Board has the right to terminate his or her contract with the Company for good cause. A change of control exists if one or several shareholders acting jointly or in concert acquire a majority of the voting rights in Siemens AG and exercise a controlling influence, or if Siemens AG becomes a dependent enterprise as a result of entering into an intercompany agreement within the meaning of Section 291 of the German Stock Corporation Act, or if Siemens AG is to be merged into an existing corporation or other entity. If this right of termination is exercised, the Managing Board member is entitled to a severance payment in the amount of no more than two years' compensation. The calculation of the annual compensation includes not only the base compensation and the target amount for the bonus, but also the target amount for the stock awards, in each case based on the most recent completed fiscal year prior to termination of the contract. The stock-based compensation components for which a firm commitment already exists will remain unaffected. Additionally, the severance payments cover non-monetary benefits by including an amount of 5% of the total severance amount. Severance payments will be reduced by 10% as a lump-sum allowance for discounted values and for income earned elsewhere. However, this reduction will apply only to the portion of the severance payment that was calculated without taking account of the first six months of the remaining term of the Managing Board member's contract. There is no entitlement to a severance payment if the Managing Board member receives benefits from third parties in connection with a change of control. A right to terminate the contract does not exist if the change of control occurs within a period of twelve months prior to a Managing Board member's retirement.

A.11.7 Other takeover-relevant information

We are not aware of, nor have we during the last fiscal year been notified of, any shareholder directly or indirectly holding 10% or more of the voting rights. There are no shares with special rights conferring powers of control. Shares of stock issued by Siemens AG to employees under its employee share program and/or as share-based compensation are transferred directly to the employees. The beneficiary employees who hold shares of employee stock may exercise their control rights in the same way as any other shareholder directly in accordance with applicable laws and the Articles of Association.