# A.1 Organization of the Siemens Group and basis of presentation

Siemens is a technology company with core activities in the fields of electrification, automation and digitalization and activities in nearly all countries of the world. We are a leading supplier of power generation, power transmission and infrastructure solutions as well as automation, drive and software solutions for industry and of medical diagnostics solutions.

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, 2018, Siemens had around 379,000 employees.

As of September 30, 2018, Siemens had 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 **Siemens Healthineers** and **Siemens Gamesa Renewable Energy (SGRE)**. Together these Divisions and Strategic Units 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.

To further increase the entrepreneurial freedom of our businesses, we are reorganizing our operations. Implementation of the new organization will be completed by the end of the second quarter of fiscal 2019. We will begin reporting financial results according to the new company structure beginning with the third quarter of fiscal 2019. For the new structure, we are forming three Operating Companies consisting of the reportable segments **Gas and Power, Smart Infrastructure** and **Digital Industries**. These Operating Companies will form our Industrial Businesses together with three Strategic Companies consisting of the reportable segments **Siemens Healthineers, SGRE** and **Siemens Alstom**, following the completion of the proposed combination of Siemens' mobility business with Alstom SA (**Mobility** until completion of the proposed combination). **Financial Services** will continue to be a reportable segment outside our Industrial Businesses. Furthermore, we report **Portfolio Companies**, which largely consist of businesses formerly included in the Divisions Energy Management and Process Industries and Drives, along with certain other activities that were reported outside the former Industrial Business.

For further information on the reorganization of our businesses, see → A.3 SEGMENT INFORMATION.

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.

## Non-financial matters of the Group and Siemens AG

Siemens has policies for environmental, employee and social matters, for the respect of human rights, and anti-corruption and bribery matters, among others. Our business model is described in chapters → A.1 and A.3 of this Combined Management Report. Reportable information that is necessary for an understanding of the development, performance, position and the impact of our activities on these matters is included in this Combined Management Report, in particular in chapters → A.3 through A.7. Forward-looking information, including risk disclosures, is presented in chapter → A.8. Chapter → A.9 includes additional information that is required to be reported in the Combined Management Report related to the parent company Siemens AG. As supplementary information, amounts reported in the Consolidated Financial Statements and the Annual Financial Statements of Siemens AG related to such non-financial matters, and additional explanations thereto, are included in → B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, NOTES 17, 18, 22, 26 and 27, and in the ↗ NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF SIEMENS AG FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018, NOTES 16, 17, 20, 21 and 25. These disclosures are not subject to a specific framework in order to inform the users of the financial reports in a focused manner – in contrast to the disclosures in our separately available "Sustainability Information 2018" document, which are based on the standards developed by the Global Reporting Initiative (GRI).

# A.2 Financial performance system

## A.2.1 Overview

Within One Siemens, we had established a financial framework for revenue growth, for profitability and capital efficiency, for our capital structure, and for our dividend policy that was applicable up to and including fiscal 2018.

We have enhanced our financial framework, now called the Siemens Financial Framework, as described in more detail below. This framework is effective from April 1, 2019 and includes targets that we aim to achieve over the cycle of the business activities.

## A.2.2 Revenue growth

Within the framework of One Siemens, we had aimed to grow our revenue faster than the average weighted revenue growth of our most relevant competitors. To improve transparency for external stakeholders, in our new Siemens Financial Framework we aim to achieve a revenue growth range of 4% to 5% per year on a comparable basis, independent of competitor performance. 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 the respective 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 had already aimed to achieve margins that were comparable to those of our relevant competitors. Therefore, we had defined profit margin ranges for our industrial businesses which were based on the profit margins of their respective relevant competitors. Profit margin is defined as profit of the respective business divided by its revenue. For our industrial businesses, profit represents EBITA adjusted for operating financial income (expenses), net, and amortization of intangible assets not acquired in business combinations (Adjusted EBITA).

**Margin ranges** (until the reorganization of our businesses)

| | 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% |
| Siemens Healthineers | 15 – 19% |
| Siemens Gamesa Renewable Energy | 5 – 8% |
| Financial Services (ROE after tax) | 15 – 20% |

Related to the reorganization of our operations, we have set the following margin ranges in our new Siemens Financial Framework from fiscal 2019:

**Margin ranges** (new organizational structure)

| | Margin range |
|---|---|
| Gas and Power | 8 – 12% |
| Smart Infrastructure | 10 – 15% |
| Digital Industries | 17 – 23% |
| Siemens Alstom (until closing: Mobility) | 8 – 12% |
| Siemens Healthineers | 17 – 21% |
| Siemens Gamesa Renewable Energy | 7 – 11% |
| **Industrial Businesses** | **11 – 15%** |
| | |
| Financial Services (ROE after tax) | 15 – 22% |

These new and higher margin ranges factor in, among others, higher revenue and productivity. Accordingly, because productivity gains are part of these higher ranges, in the future we no longer use the previous productivity measure called total cost productivity, which was defined as the ratio of cost savings from defined productivity improvement measures to the aggregate of functional costs for the Siemens Group. We had aimed to achieve an annual value of 3% to 5% for total cost productivity.

In line with common practice in the financial services business, our financial indicator for measuring capital efficiency at Financial Services continues to be return on equity after tax, or ROE after tax. ROE is defined as Financial Services' profit after tax, divided by its 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.

We continue to 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 continue to use return on capital employed, or ROCE, as our primary measure in our new Siemens Financial Framework. Our long-term goal is 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 was 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. This objective is maintained in the Siemens Financial Framework. 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 Liquidity and dividend

We intend to continue providing an attractive return to our shareholders. Under One Siemens, our intention was to propose a dividend whose distribution volume was within a dividend payout range of 40% to 60% of Net income, which we could adjust for this purpose to exclude selected exceptional non-cash effects. Under the new Siemens Financial Framework, this intention is maintained, with the adjustment that the dividend payout range of 40% to 60% relates to Net income attributable to shareholders of Siemens AG, to account for the increased share of non-controlling interests in the Group. As in the past, we intend to fund the dividend payout from Free cash flow. To provide a better assessment of our ability to generate cash, and ultimately to pay dividends, in the future we use the cash conversion rate of Industrial Businesses, defined as the ratio of Free cash flow from Industrial Businesses to Industrial Businesses Adjusted EBITA. Because growth requires investments, we aim to achieve a cash conversion rate of 1 minus the annual comparable revenue growth rate of Industrial Businesses.

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 2018: to distribute a dividend of €3.80 on each share of no par value entitled to the dividend for fiscal year 2018 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 30, 2019. The prior-year dividend was €3.70 per share.

The proposed dividend of €3.80 per share for fiscal 2018 represents a total payout of €3.1 billion based on the estimated number of shares entitled to dividend at the date of the Annual Shareholders' Meeting. Based on Net income attributable to Shareholders of Siemens AG of €5.8 billion for fiscal 2018, the dividend payout percentage is 53%.

## A.2.6 Calculation of return on capital employed

**Calculation of ROCE**

| (in millions of €) | 2018 | Fiscal year 2017 |
|---|---|---|
| Net income | 6,120 | 6,094 |
| Less: Other interest expenses/income, net[1] | (482) | (568) |
| Plus: SFS Other interest expenses/income | 726 | 799 |
| Plus: Net interest expenses related to provisions for pensions and similar obligations | 164 | 198 |
| Less: Interest adjustments (discontinued operations) | – | – |
| Less: Taxes on interest adjustments (tax rate (flat) 30%) | (122) | (129) |
| **(I) Income before interest after tax** | **6,404** | 6,394 |
| **(II) Average capital employed** | **50,557** | 48,004 |
| **(I)/(II) ROCE** | **12.7%** | 13.3% |

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 for the periods 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: Provisions for pensions and similar obligations |
| 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 provisions for pensions and similar obligations |
| **Capital employed (continuing and discontinued operations)** |

Starting October 1, 2018, following adoption of IFRS 9 “Financial Instruments,” the line item “Current available-for-sale financial assets” will be renamed “Current interest-bearing debt securities”.

# A.3 Segment information

## A.3.1 Overall economic conditions

After 3.2% growth in gross domestic product (GDP) in 2017, the global economy continued its acceleration at the beginning of fiscal 2018. Then disturbing developments began to adversely affect sentiment and, thereafter, economic activity. As a result, GDP growth for 2018 is expected to remain at the 3.2% level (based on market exchange rates).

In advanced countries, 2018 GDP growth is estimated at 2.3%, unchanged from the year earlier, driven by the U.S. economy which benefited from substantial tax cuts. In contrast, emerging countries experienced a slight decline in GDP growth compared to 2017, from 4.7% to 4.6%. However, this rather small difference masks significant divergent developments. International capital flows reversed out of emerging markets, which had to deal with depreciating currencies and tightening credit conditions, especially in Argentina and Turkey, putting a significant drag on their economies. This was, along with various country-specific effects, exacerbated by monetary policy in the U.S. where the central bank continued on its path of monetary tightening more strictly than expected. In addition, the announcement and implementation of new and increased tariffs led to a fear of a global trade war and added significant uncertainty. In the Middle East, political tensions increased, with the U.S. reactivating sanctions on Iran.

In Europe, negotiations over the U.K. leaving the European Union remained complicated. Clarity on future arrangements was not forthcoming, which negatively impacted investment sentiment. Additionally, fears of a come-back of the Euro crisis came up as the new Italian government and the EU commission strongly disagreed about an Italian budget proposal and financial markets showed increasing concern.

All in all, the economic acceleration at the beginning of 2018 lost steam towards the end of the year due to these adverse effects.

The partly estimated figures presented here for GDP are based on an IHS Markit report dated October 15, 2018.

## A.3.2 Power and Gas

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). 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. Financial results of the Power and Gas Division also include the financial results of the Power Generation Services Division, which itself is not a reportable segment. 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. Based on this business model, all discussions of the services business for Power and Gas concern the Power Generation Services Division. Due to the broad range of its offerings, the revenue mix for Power and Gas may vary from reporting period to reporting period depending on the share of revenue attributable to products, solutions and services. Because profitability levels typically 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 are shifting market demand from fossil baseload generation to more flexible, increasingly efficient and relatively more affordable gas power plants with low emissions, in particular in Europe, Latin America and China. 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. 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. Another continuing trend is the shift to a more flexible and decentralized power generation, in particular in Latin America and Asia. 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 the modernization of energy and electricity markets. Power and Gas addresses these trends, among others, through its research and development (R&D) and investing activities.

**Research & development (R&D)** activities of the Division concentrate 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 simple-cycle 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 2018, Power and Gas introduced an enhanced version of its industrial gas turbine SGT-800 with improved performance that is designed to provide operators with significant fuel savings and $CO_2$ emissions reductions, supporting the need in industrial and decentral power generation. In addition, in its HL-class development program, the Division focuses on developing a technology carrier supporting the full portfolio of the Division to increase customer value (e.g. performance). As part of this program, it introduced its largest gas turbine SGT-9000HL to the market in fiscal 2018, which provides the lowest levelized cost of electricity (LCOE) in gas-fired, large-scale power generation, and for which it has already received orders in the U.S. and the U.K. The **investments** of Power and Gas are focused on enhancing productivity through automation and increasing customer proximity via strategic localization of capacity. Investing activities mainly relate to our gas turbines and turbine components.

| | Fiscal year | | % Change | |
|---|---|---|---|---|
| (in millions of €) | 2018 | 2017 | Actual | Comp. |
| Orders | **13,717** | 13,329 | 3% | 12% |
| Revenue | **12,441** | 15,434 | (19%) | (14%) |
| Profit | **377** | 1,571 | (76%) | |
| Profit margin | **3.0%** | 10.2% | | |

**Orders** were up moderately year-over-year despite significant negative effects from currency translation, mainly due to higher orders in the services business. Volume from large orders was higher compared to fiscal 2017, with the largest contracts won in Israel, the U.K., Russia, and Libya. These orders contributed to double-digit growth in the region Europe, C.I.S., Africa, Middle East, while order intake declined in the other two reporting regions. **Revenue** decreased significantly year-over-year in contracting markets as most of the Division's businesses recorded lower revenue. The overall decrease was driven by the solutions business which in fiscal 2017 had recorded revenue from large orders in Egypt. Revenue decreased in all three reporting regions. Despite a continuing strong contribution from the services business and gains totaling €166 million from two divestments, **profit** was down sharply compared to fiscal 2017 due to severance charges totaling €361 million related to previously announced measures to improve the Division's competitiveness, reduced capacity utilization, lower revenue and price declines. Severance charges were €19 million in fiscal 2017. The Division's order backlog was €40 billion at the end of the fiscal year, of which €8 billion are expected to be converted into revenue in fiscal 2019.

These results reflected a highly competitive **market** environment, in which markets served by the Division again declined in fiscal 2018. Global energy trends continue to structurally reduce overall demand in markets for the Division's offerings, resulting in declining new-unit large turbine business and corresponding price pressure due to structural overcapacities and aggressive competitive behavior. We expect markets overall to remain challenging with market volume staying at the current low level, in particular in the market segment for large gas turbines. Volume in that segment declined significantly in fiscal 2018 due mainly to customer delays of large projects in the Americas and in the Middle East and strong price pressure resulting from intense competition. Customers also showed restraint due to ongoing weak growth in demand for power combined with uncertainty regarding regulatory developments. The gas turbine market is experiencing overcapacity among OEMs and engineering, procurement and construction contractors, which is leading to market consolidation. In contrast, the need for small and medium gas turbines, particularly in countries with a less developed energy infrastructure, is anticipated to continue. In the market for steam turbines for power generation, volume shrank further year-over-year from an already low basis of comparison due to an ongoing shift from coal-fired to gas-fired and renewable power generation, and to carbon emission regulation such as in China. We expect this development to continue in fiscal 2019. In contrast, markets for industrial steam turbines showed slight growth in fiscal 2018, and the market segment is expected to be flat in fiscal 2019. Volume in compression markets remained on a low level in fiscal 2018 as customers continued to hold back investments. We expect this to continue but with signs of a recovery during fiscal 2019 as some customers in the oil and gas industry revive investment plans.

Under the new organizational structure reported beginning with the third quarter of fiscal 2019, the businesses of our Power and Gas and Power Generation Services Divisions will be part of the Operating Company Gas and Power.

## A.3.3 Energy Management

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. End customers and OEMs use its offerings to process, transmit and manage electrical power from the source down to various load points along multiple voltage levels (low, medium and high voltage).

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. Competitors of the Division consist mainly of a small number of large multinational companies, increasingly joined by smaller, fast-growing manufacturers in emerging countries including China, India and Korea. Its activities across many regional and vertical markets as well as its participation in long-cycle and short-cycle markets 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 proportional contribution from its transmission solutions business.

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 electrification of the world's heat and transport sectors. Another trend is decentralization: the integration of wind power, photovoltaics, biomass, storage and other intermittent or distributed energy resources into 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.

**R&D** activities of the Division focus on preparing its portfolio for such a more decarbonized, decentralized, and digital energy market. 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. Accordingly, the Division's innovations are focused on the areas of power electronics, digitalization and grid stabilization. It also develops new technologies such as Process Bus communication for applications in energy management that are designed to enable cost-effective investment in, and economic operation of, digital substations as well as more secure and reliable grid operation. Energy Management is spending the larger portion of its **capital expenditures** for innovation, particularly in the high and low voltage businesses. Further investments are primarily related to the replacement of fixed assets, the expansion of factories and technical equipment.

| | Fiscal year | | % Change | |
|---|---|---|---|---|
| (in millions of €) | 2018 | 2017 | Actual | Comp. |
| Orders | **11,624** | 13,627 | (15%) | (10%) |
| Revenue | **12,266** | 12,273 | 0% | 5% |
| Profit | **1,003** | 931 | 8% | |
| Profit margin | **8.2%** | 7.6% | | |

Energy Management posted a double-digit **order** decline year-over-year due to a sharply lower volume from large orders in the transmission solutions business resulting from delays of tenders for large projects by customers, and to significant negative effects from currency translation. The majority of the Division's businesses, which typically do not receive large orders, posted growth on a comparable basis. The drop in large orders was particularly evident in the region Europe, C.I.S., Africa, Middle East, where in fiscal 2017 the Division recorded an order totaling €0.8 billion for an offshore grid connection project in Germany and an order totaling €0.6 billion for substations in Qatar. Volume from large orders was also down in the region Asia, Australia, which in the prior year included a high-voltage direct current (HVDC) order in India totaling €0.4 billion, leading to an overall order decline in that region. In contrast, orders were up in the Americas region, particularly in the U.S. **Revenue** was flat year-over-year due primarily to significant negative currency translation effects. On a comparable basis, revenue grew in the majority of the Division's businesses, led by the low voltage and products and the medium voltage and systems businesses. On a geographic basis, higher revenue in the region Asia, Australia was partially offset by a decline in the Americas strongly influenced by currency headwinds, while revenue in the region Europe, C.I.S., Africa, Middle East was flat year-over-year. **Profit** was up clearly compared to the prior year despite significant negative currency effects as all of the Division's businesses delivered a positive contribution to profit. The largest profit increase year-over-year was delivered by the transmission solutions business. Severance charges were €27 million in fiscal 2018 and €39 million in fiscal 2017. The Division's order backlog was €12 billion at the end of the fiscal year, of which €8 billion are expected to be converted into revenue in fiscal 2019.

These results were achieved in global **markets** that declined slightly in fiscal 2018 on a nominal basis due mainly to foreign currency headwinds. Continued weakness in the Middle East was offset by growth in global industry, infrastructure and construction verticals, including oil and gas, metals and mining, intelligent energy and storage solutions, and critical infrastructure such as data centers. Latin 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. However, overall market trends remain favorable, including integration of renewable energy and the corresponding need for intelligent and flexible energy networks to cope with the complexity caused by this integration. In fiscal 2019, most markets served by the Division are expected to provide low single-digit growth, excluding currency translation effects. The transmission utility market is expected to recover from the weakness shown in fiscal 2018 and grow significantly, particularly if the large project tenders that were held back in the prior year are ultimately awarded. Customers are expected to continue their effort to strengthen transmission and distribution grids to integrate the growing amount of decentralized renewable energy. We expect a further recovery in the oil and gas markets from their recent low levels.

Under the new organizational structure reported beginning with the third quarter of fiscal 2019, Energy Management's transmission businesses (transmission solutions and transmission products) will be assigned to the Operating Company Gas and Power, while the businesses for power distribution (medium voltage distribution, low voltage distribution and digital grid solutions) will be assigned to the Operating Company Smart Infrastructure. The Division's subsea business will be reassigned to Portfolio Companies.

## A.3.4 Building Technologies

The **Building Technologies** Division is a leading provider of automation technologies and digital services for safe, secure and efficient buildings and infrastructures throughout the entire lifecycle. The Division offers products, solutions, services and software for fire safety, security, building automation and energy management. Building Technologies sells its products and solutions primarily through its worldwide regional branch offices and also markets its products through its solutions and services organization together with value-added partners, installers, distributors and OEMs. The large customer base is widely dispersed. It includes owners, operators and tenants of both public and commercial buildings, general contractors and value-added partners. The Division's principal competitors are multinational companies. Its solutions and services business also competes with system integrators and small local companies and increasingly with IT based start-up companies. The Division faces continuing price pressure, particularly in its solutions business, due to strong competition from larger multinationals 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.

Major **trends** that affect Building Technologies' customers include the growing demand for energy efficiency of buildings partly driven by rising legal and regulatory requirements, and the necessity to reduce cost by increasing space efficiency and utilization. In addition, customers increasingly demand smart space solutions, addressing the need to ensure well-being and productivity of people by improving comfort conditions and offerings of additional user-centric services. At the end of fiscal 2018, Building Technologies acquired three innovative start-up companies to strengthen its portfolio and expertise in the field of energy efficiency and smart space technology.

**R&D** activities at the Building Technologies Division focus on optimizing comfort and energy efficiency in buildings and infrastructures and protecting against fire and security hazards. The Division continues to advance its controller and sensor families with a broadly international R&D setup. Building Technologies drives the digital transformation of the building industry by creating open-standards-based Building Information Modeling (BIM)-ready products and services and by connecting its products and installed base to the new digital offerings of Siemens Comfy and Enlighted in the smart space area. The Division also intends to expand its digitalization portfolio on the Siemens MindSphere platform. Building Technologies' **investments** relate mainly to the products and systems business, particularly innovation projects such as control and digital platforms.

| | Fiscal year | | % Change | |
|---|---|---|---|---|
| (in millions of €) | 2018 | 2017 | Actual | Comp. |
| Orders | **7,077** | 7,080 | 0% | 4% |
| Revenue | **6,613** | 6,523 | 1% | 6% |
| Profit | **755** | 784 | (4%) | |
| Profit margin | **11.4%** | 12.0% | | |

Despite strong negative currency translation effects, **revenue** for Building Technologies rose and **orders** came in at prior-year level. On a comparable basis, volume was up in the solutions and services business and the product business, with the Division's revenue growing faster than the market on increases in all reporting regions. Orders grew in the region Europe, C.I.S., Africa, Middle East, driven by double-digit growth in Germany including multiple multi-year service contracts. The Division won major orders in the U.S. in both periods under review. **Profit** and profitability remained strong, supported by economies of scale and improved productivity. For comparison, fiscal 2017 benefited from a €94 million gain related to pension plan amendments. Severance charges were €13 million in fiscal 2018 compared to €18 million a year earlier. The Division's order backlog was

€5 billion at the end of the fiscal year, of which €3 billion are expected to be converted into revenue in fiscal 2019.

Building Technologies achieved its results in moderately growing non-residential construction **markets** in fiscal 2018. The strongest market growth contributions came from the Asia, Australia region, particularly including India. The U.S. market grew nearly in line with the global average and the majority of the European countries continued their recovery, including a stable growth contribution from Germany. The Division's markets are expected to continue to grow solidly in fiscal 2019, including similar growth developments in the Asia, Australia region and in Europe including Germany, as in fiscal 2018. For the U.S., growth in non-residential construction markets is expected to slow down slightly in fiscal 2019.

Under the new organizational structure reported beginning with the third quarter of fiscal 2019, Building Technologies' businesses will be assigned to the Operating Company Smart Infrastructure.

## A.3.5 Mobility

**Mobility** 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. It 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. It sells its products, systems and solutions through its worldwide network of sales units. The principal customers of Mobility are public and state-owned companies in the transportation and logistics sectors, so its markets 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. Mobility's principal competitors are multinational companies. Consolidation among Mobility's competitors is continuing and has already led to the formation of a strong market leader in China, which plans to expand its international business. This is expected to change global market dynamics.

In March 2018, Siemens and Alstom SA, France (Alstom) signed a Business Combination Agreement to combine Siemens' mobility business including the rail traction drives business, which until the end of fiscal 2018 was 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 products, systems, solutions and services. According to the Business Combination Agreement, 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. In July 2018, Alstom's shareholders approved the proposed combination at the company's annual shareholders' meeting. In order to prepare for the combination, Siemens has initiated the carve-out process for the Mobility business. The business combination is subject to clearance from relevant antitrust authorities. Closing of the transaction is expected in the first half of calendar 2019. Following the closing of the transaction, the combined businesses will form the Strategic Company Siemens Alstom.

**Trends** in Mobility's markets are characterized by the need for solutions that make daily mobility simpler, more flexible, faster, more reliable and affordable. Cities and national economies face the challenge of reducing the costs, space requirements, noise and $CO_2$ emissions of transportation. The pressure on mobility providers and policymakers to meet these mobility and transportation needs is growing as urban population is expected to continuously rise.

The Mobility's **R&D** strategy is focused on 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 application suite Railigent powered by MindSphere. Mobility invests in the future mobility landscape together with other partners in areas such as sensor technologies, connectivity/IoT solutions, software for intermodal transport, Digital Twin/BIM, artificial intelligence and additive manufacturing. Mobility's **investments** focus mainly on maintaining or enhancing its production facilities and on meeting project demands.

| (in millions of €) | 2018 | Fiscal year 2017 | Actual | % Change Comp. |
|---|---|---|---|---|
| Orders | **10,959** | 8,963 | 22% | 25% |
| Revenue | **8,758** | 8,104 | 8% | 11% |
| Profit | **872** | 747 | 17% | |
| Profit margin | **10.0%** | 9.2% | | |

**Orders** at Mobility grew substantially on higher volume from large orders, which the Division won across its businesses and regions, most notably in the region Europe, C.I.S., Africa, Middle East. Significant contract wins in the current period included among others a commuter rail order in Israel worth €0.9 billion including service; Siemens' largest-ever rail infrastructure order in Norway, worth €0.7 billion including service; a €0.6 billion order for additional ICE 4 trainsets and power cars in Germany; and the first order, worth €0.4 billion, from a larger framework agreement for delivery of passenger coaches in Austria. In fiscal 2017, the Division also acquired a number of significant contracts in all three reporting regions. **Revenue** rose in all businesses as the Division successfully executed large projects. On a geographic basis, revenue growth was driven by double-digit increases in the regions Europe, C.I.S., Africa, Middle East and Asia, Australia, while revenue in the Americas came in lower due to negative currency translation effects. Revenue growth was particularly strong in Germany, where the first ICE 4 high-speed trains from Siemens' largest-ever rolling stock order successfully began regular service. **Profit** rose significantly, with all of Mobility's businesses contributing double-digit growth and higher profitability year-over-year on continued strong operational execution. Severance charges were €13 million, down from €46 million in fiscal 2017. Mobility's order backlog was €28 billion at the end of the fiscal year, of which €7 billion are expected to be converted into revenue in fiscal 2019.

Order growth reflected overall strong **markets** for Mobility in fiscal 2018, with different dynamics among the regions. Market development in Europe was characterized by continuing awards of midsize and large orders, particularly in Germany, France 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 mainline and 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. For fiscal 2019, Mobility's markets are anticipated to grow moderately. While the main growth trends from fiscal 2018 are expected to continue in fiscal 2019, Mobility anticipates increasing demand for digital solutions.

## A.3.6 Digital Factory

The **Digital Factory** Division offers a comprehensive product portfolio and system solutions for automation technologies used in manufacturing industries, such as automation systems and software for factory automation, industrial controls and numerical control systems, motors, drives and inverters and integrated automation systems for machine tools and production machines, complemented by product and production lifecycle software, and software for simulation and testing of mechatronic systems. These offerings are supplemented by the electronic design automation software portfolio of Mentor Graphics, U.S. (Mentor) and TASS International, the Netherlands, both acquired during fiscal 2017 as well as the Division's open, cloud-based industrial internet of things (IIoT) operating system MindSphere that connects machines and physical infrastructure to the digital world. The Division also provides customers with lifecycle and data-driven services. Taken together, the Division's offerings enable customers to optimize entire value chains from product design and development to production and services. With its advanced software solutions in particular, 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. Digital Factory serves its customers through a regional sales organization shared together with the Process Industries and Drives Division, using various sales channels depending on the type of customer and industry. Changes in customer demand are strongly driven by macroeconomic cycles, and can lead to significant short-term variation in the Division's profitability. 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.

The Division currently sees three basic **trends** influencing its business. Central banks are gradually lifting interest rates. On the one hand, this trend is expected to limit investment decisions in general. On the other hand it will lead to more focused investment in improving efficiency. Further, there is a trend from globalization to regionalization to either protect local economies or to better adapt solutions to local needs. The trend towards digitalization spurs companies to modernize their production performance to keep or increase their competiveness.

**R&D** activities at the Digital Factory Division are aimed at enhancing speed, flexibility, quality and efficiency within the discrete manufacturing industry. Here comprehensive digitalization, including the highest possible IT security, is the key lever. This is accomplished by developing the "digital twin" or holistic virtual representation of a customer's value chain. Through its

R&D, Digital Factory continues to advance this capability particularly by linking three aspects of the digital twin in a unique way: the digital twin of the product itself; of production and performance of the real product in use; and of the product's ongoing production process. 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. A further core area of development is MindSphere. During fiscal 2018, Siemens founded MindSphere World, a forum for anyone participating in the MindSphere ecosystem. One field of work is a technology committee which enables forum participants to help shape the future development of the platform. In fiscal 2018, the Division also introduced Industrial Edge from Siemens, which closes the gap between local and cloud computing and facilitates high-frequency data exchange at the field level. It includes software applications, so-called Edge Apps, which are downloaded from an Edge App store in the backend system, e.g. MindSphere, and installed onto the required Edge Devices. Major capital expenditures of Digital Factory in fiscal 2018 related to the factory automation, product lifecycle, motion control systems, and control products businesses, including capital expenditure in production facilities in China and in data center infrastructure.

| | Fiscal year | | % Change | |
|---|---|---|---|---|
| (in millions of €) | 2018 | 2017 | Actual | Comp. |
| Orders | **13,615** | 11,523 | 18% | 14% |
| Revenue | **12,932** | 11,344 | 14% | 11% |
| Profit | **2,586** | 2,102 | 23% | |
| Profit margin | **20.0%** | 18.5% | | |

Digital Factory increased orders and revenue in all its businesses year-over-year. The Division's short-cycle businesses showed excellent performance, with demand remaining strong throughout the fiscal year, though growth rates began moderating towards the fiscal year-end. Orders and revenue in the software business grew substantially due to strong demand combined with new volume resulting from the acquisition of Mentor 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 increases from the Americas, particularly including the U.S., and from Asia, Australia, particularly including China. All of the Division's businesses improved profit and profitability year-over-year. Short-cycle businesses made the strongest contribution to profit while the strongest increase in profit came from the software business which in both periods absorbed ongoing expenses to accelerate adoption of digital offerings including the Siemens' MindSphere platform. In fiscal 2017, the profitability in the software business was impacted by deferred revenue adjustments and transaction and integration costs related to the acquisition of Mentor, totaling €104 million. These impacts were €60 million in fiscal 2018. Severance charges also decreased year-over-year to €68 million from €134 million in fiscal 2017. Profit in fiscal 2017 benefited from a gain of €175 million related to the eCar business, which Digital Factory contributed to the joint venture Valeo Siemens eAutomotive. The Division's order backlog was €4 billion at the end of the fiscal year, of which €3 billion are expected to be converted into revenue in fiscal 2019.

Digital Factory achieved its results in a generally favorable environment, with its short-cycle businesses outperforming the market. Global discrete manufacturing markets served by the Division continued to grow in fiscal 2018. Customer investments grew faster than their production, underlining a clear growth momentum relating to automation and digitalization. This led to strong demand from the machine-building and electronics industries. With stimulus from governmental growth initiatives, China was the main growth driver on a geographic basis. Growth in a number of European countries was also strong, while growth in the U.S. gained momentum during the course of the fiscal year. For fiscal 2019, markets are expected to continue to grow in line with at least modest growth in global manufacturing production. Given the high levels of investment in fiscal 2018 and rising global trade tensions, we expect slower growth in demand for machine building and equipment, and more moderate growth dynamics in regions that experienced particularly strong market expansion in fiscal 2018. This particularly includes China, and therefore the potential for spillover effects on some Asian and European countries.

At the beginning of fiscal 2019, Digital Factory acquired Mendix, Inc., to increase growth and accelerate adoption of MindSphere. Mendix is a U.S.-based pioneer and leader in cloud-native low-code application development, which can significantly reduce app development times through visual representation of underlying code (for more information on the acquisition of Mendix, see → NOTE 34 in B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS).

Under the new organizational structure reported beginning with the third quarter of fiscal 2019, Digital Factory's businesses except for control products, which will be assigned to the Operating Company Smart Infrastructure, will be assigned to the Operating Company Digital Industries.

## A.3.7 Process Industries and Drives

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 works with its customers to increase productivity, reliability and flexibility of machinery and installations along their entire life cycle. Based on data models and analysis methods, Process Industries and Drives paves the way 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 of 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, and customized, application-specific systems and solutions. It also sells gears, couplings and drive solutions to other Siemens businesses, which use them in rail transport and wind turbines. With certain notable exceptions, demand within the industries served by the Division generally shows a delayed response to changes in the overall economic environment. The Division's results are strongly dependent, however, on investment cycles in its key industries. In commodity-based industries such as oil and gas or mining, these cycles are driven mainly by commodity price fluctuations rather than changes in produced volumes. Process Industries and Drives serves its customers through a regional sales organization shared together with the Digital Factory Division, using various sales channels depending on the type of customer and 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.

The Division is currently benefiting from a cyclic increase in demand in process industries. Nevertheless, basic conditions in its business environment are still impacted by the consequences of the low level of demand in previous years, which continue to burden market price levels. Historical price and investment levels in basic materials industries are not expected to return in the mid-term. This structural change in the Division's markets requires adaptions in its businesses. The defined measures include footprint optimization, reduction of capacities as well as internal re-organization to bundle competencies and get closer to its customers. This program is still under execution.

R&D activities in the Process Industries and Drives Division remain focused on intensifying the use of information and communication technologies to speed up the digital transformation of process industries. Primary examples include innovative process automation architectures, highly efficient and intelligent power electronics modules, and integration of physical machines and processes into the IIoT. The Division also continues to advance innovation in leading-edge fields such as simulation, digital twin technology and data analytics provided by digital consulting services. Here the examples include the new digital platform SIDRIVE IQ, which offers cloud-based predictive maintenance of a motor. This capability in turn enables new business models, such as performance contracting. Along with the digital transformation of its customers, the Division also delivers high-level security strategies and concepts to protect customer assets from vulnerability by cyber-attacks. The Division makes most of its capital expenditures for the purpose of rationalization, replacement, and adjustment of innovative new or successor products, particularly in Europe.

| | Fiscal year | | % Change | |
|---|---|---|---|---|
| (in millions of €) | 2018 | 2017 | Actual | Comp. |
| Orders | **9,305** | 9,032 | 3% | 7% |
| Revenue | **8,840** | 8,873 | 0% | 3% |
| Profit | **518** | 440 | 18% | |
| Profit margin | **5.9%** | 5.0% | | |

Supported by a recovery in commodity-related markets, orders rose year-over-year. All of the Division's businesses contributed to growth except the mechanical components business, where demand began to recover in the second half of the fiscal year from the low level of the prior year. Negative currency translation effects kept revenue on prior-year-level. Growth in the large drives and the process automation businesses was offset by declines in the other businesses, most notably in mechanical components. On a geographic basis, orders were up in all regions, most notably in Asia, Australia, particularly including double-digit growth in China. Double-digit revenue growth in Asia, Australia, including in China, was largely offset by a decline in the Americas. Profit was up in all businesses except the mechanical components business, and included a particularly strong performance in the process automation business. Profit and profitability were held back by negative currency effects. Overall, the Division made significant progress in improving its cost position and adjusting its capacities. Severance charges related to previously announced measures to further improve the Division's competitiveness rose to €99 million in fiscal 2018, up from €48 million in fiscal 2017. Charges related to non-personnel capacity adjustments were lower than a year earlier. The Division's order backlog was €6 billion at the end of the fiscal year, of which €4 billion are expected to be converted into revenue in fiscal 2019.

As mentioned above, the Division's performance partly benefited from improved **market conditions**. Overall, markets served by the Process Industries and Drives Division grew moderately in fiscal 2018, with rising demand in global manufacturing production particularly including strong growth dynamics in China. Consumer-related industries, such as food and beverage and pharmaceuticals, continued on their growth path. Market conditions improved from a low level in commodity-related industries, particularly in mining and oil and gas and to a lesser degree in metals, following higher raw-materials prices. In fiscal 2019, the Division's markets are expected to continue to grow, but growth rates in global manufacturing production are expected to gradually decline, particularly in short-cycle industries. Rising global economic uncertainties might also impact growth dynamics in process industries. On a geographic basis, we expect China and the U.S. markets to be the strongest growth contributors in fiscal 2019.

Under the new organizational structure reported beginning with the third quarter of fiscal 2019, Process Industries and Drives' process automation and its large drives businesses, excluding its industrial applications and tractions businesses, will be assigned to the Operating Company Digital Industries. The rail traction drives business was transferred to Mobility as of October 1, 2018. The remaining tractions and industrial application businesses, together with the mechanical drives and the process solutions businesses will be assigned to Portfolio Companies.

## A.3.8 Siemens Healthineers

In the course of a public listing on March 16, 2018, Siemens placed a 15 percent interest in Siemens Healthineers AG (Siemens Healthineers) on the Frankfurt Stock Exchange. For more information, please refer to → NOTE 3 in B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. **Siemens 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 extensive 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. Customers range from public and private healthcare providers to pharmaceutical companies and clinical research institutes. 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 policy developments around the world. The global healthcare market served by Siemens Healthineers is evolving, putting healthcare providers under pressure to deliver better outcomes at lower cost. Drivers of this accelerating evolution 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 pay-per-procedure model toward an outcome-based model.

The addressable markets of Siemens Healthineers are shaped by four major **trends**. The first is demographic, including the growing and aging global population. This increase poses major challenges for global healthcare systems and, at the same time, offers opportunities as the demand for cost-efficient healthcare solutions continues to intensify. The second trend is the economic development in emerging countries which opens up improved access to healthcare for many people. As the middle class continues to grow, significant investment in the expansion of private and public healthcare systems will keep expanding, driving overall growth. The third trend is the increase in chronic diseases arising from an aging population and environmental and lifestyle-related changes. The fourth global trend with considerable effect on business development is the transformation of healthcare providers. Increasing cost pressure on the healthcare sector is prompting the introduction of new remuneration models for healthcare services. Digitalization and artificial intelligence are likely to be key enablers for healthcare providers as they increasingly focus on enhancing the overall patient experience, with better outcomes and overall reduction in cost of care. While these trends are generally beneficial for Siemens Healthineers' business, governments in a number of countries show the intention to establish protectionist initiatives and policies which support local suppliers.

**R&D** activities at Siemens Healthineers 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 advancing its portfolio, Siemens Healthineers continuously extends existing products and solutions. Systems like the recently launched Atellica enhance its customers' performance. This laboratory diagnostics platform offers significant increases in throughput speed along with greater flexibility. The services business is expanding beyond product-related services by adding a digital services portfolio and increasing enterprise transformation services to support 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. Siemens Healthineers focuses its **investments** mainly on enhancing competitiveness and innovation. The main capital expenditures were for additions to intangible assets, including capitalized development expenses for such projects as a new integrated worldwide enterprise resource planning (ERP) solution. It is also spending for factories to expand its manufacturing and technical capabilities.

| | Fiscal year | | % Change | |
|---|---|---|---|---|
| (in millions of €) | 2018 | 2017 | Actual | Comp. |
| Orders | **14,506** | 14,272 | 2% | 7% |
| Revenue | **13,425** | 13,671 | (2%) | 4% |
| Profit | **2,221** | 2,423 | (8%) | |
| Profit margin | **16.5%** | 17.7% | | |

**Orders** grew slightly despite significant negative effects from currency translation, with the imaging business recording the largest order growth year-over-year. Higher order intake in the regions Americas and Asia, Australia primarily came from the U.S. and China, respectively. **Revenue** also was subject to significant negative effects from currency translation. On a comparable basis, revenue was up moderately in all three reporting regions with all businesses posting higher revenue year-over-year, led by the imaging business. **Profit** was lower compared to fiscal 2017, as operational improvements and productivity gains were more than offset by significant negative currency effects, expenses associated with the rollout of the Atellica solution, higher severance charges, and transaction costs related to the public listing mentioned above. Severance charges were €96 million in fiscal 2018 and €57 million in fiscal 2017. The order backlog for Siemens Healthineers was €16 billion at the end of the fiscal year, of which €6 billion are expected to be converted into revenue in fiscal 2019.

While demand in the **markets** served by Siemens Healthineers continued to grow in fiscal 2018, these markets also showed price pressure on new purchases and increased utilization rates for installed systems. All major served markets are currently in a healthy state, which contributed to a slightly higher market growth in Europe, C.I.S., Africa, Middle east and the Americas, compared to the average of the previous years, most notably in the imaging and advanced therapies markets. The markets in Asia, Australia grew moderately. Imaging markets in the U.S. developed incrementally more positively with continued mid-single digit market growth in diagnostics. Still, the U.S. market environment remained challenging as pressure on utilization and reimbursement persisted. Government initiatives and programs, together with a strongly growing private market segment contributed to the expected re-stabilization and growth of markets in China, however not returning to growth rates as experienced in the early 2010s. Growth in the imaging business includes enabling a wider range of applications, which in turn facilitates increasing patient access to 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, especially with regard to price.

For fiscal 2019, Siemens Healthineers expects the imaging and advanced therapies equipment markets and the diagnostics market to stay on a moderate growth path. Siemens Healthineers' markets continue to benefit from the long-term trends mentioned above, but are restricted by public spending constraints and by consolidation among healthcare providers. On a geographic basis, Siemens Healthineers expects slight growth in the U.S., held back by continued pressure to increase utilization of existing equipment, reduced reimbursement rates and uncertainty about policy. For Europe, it also expects slight growth, with a likely increased emphasis on equipment replacement and business with large customers such as hospital chains. For China, Siemens Healthineers expects strong growth due to steadily rising government spending on healthcare, promotion of the private segment and wider access to healthcare services nationwide, pronounced effects of an aging population, and a growing incidence of chronic diseases.

## A.3.9 Siemens Gamesa Renewable Energy

In April 2017, Siemens contributed its wind power business, including service, into the publicly listed company Gamesa Corporación Tecnológica, S.A., Spain, and in return received newly issued shares of the combined entity **Siemens Gamesa Renewable Energy, S.A., Spain (SGRE)**. Siemens as majority shareholder holds 59% of the shares of the combined entity. SGRE offers wind turbines utilizing various pitch and speed technologies, and is active in the development, construction and sale of wind farms. While for onshore applications, both geared and direct-drive turbines are currently being offered, SGRE offers only direct-drive for offshore applications. In addition, SGRE provides services for the management, operation and maintenance of wind farms. Its primary customers are large utilities and independent power producers. 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 markets, 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 particularly in offshore wind power. 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 is widely expected to increase, but the **trend** toward evaluating competing power sources using life-cycle costs continues to put pressure on the prices offered by wind power providers. To address this trend, SGRE focuses on improving its supply chain and significantly decreasing costs by optimizing production within its post-merger manufacturing footprint, including the streamlining of its merged product portfolios. 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. 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. However, with continued technological progress and cost reduction, dependency on subsidy schemes is expected to continue to decrease.

SGRE's **R&D** efforts focus on developing the next generation of turbine technology that leads to improved and more cost-effective products and solutions. Another focus is to become a leading company in mastering the balance between power generation and power demand for the renewable sector. To accomplish that goal, SGRE is developing cost-effective energy storage solutions, and solutions for hybridization that are designed to help utility customers optimize utilization of renewable energy and thereby increase profitability. A third focus area is digitalization: advances in this field are expected to enable more intelligent monitoring and analysis of turbine conditions as well as smart diagnostic services. The **investments** of SGRE in fiscal 2018 focused on the expansion of project delivery capacity from Germany for offshore wind turbines. Further investments were related to project delivery capacity for onshore wind turbines in Morocco, Turkey, the U.S. and China.

| | Fiscal year | | % Change | |
|---|---|---|---|---|
| (in millions of €) | 2018 | 2017 | Actual | Comp. |
| Orders | **11,875** | 8,768 | 35% | 8% |
| Revenue | **9,122** | 7,922 | 15% | (5%) |
| Profit | **483** | 339 | 43% | |
| Profit margin | **5.3%** | 4.3% | | |

Order and revenue growth were held back by negative currency translation effects, but benefited from the merger in fiscal 2017, which added portfolio effects of 33 percentage points to order growth and 23 percentage points to revenue growth. **Order** intake in the year under review included a substantially higher volume from large orders, among them an order for an offshore wind-farm, including service, in the U.K. worth €1.3 billion. Order growth in the Americas and Asia, Australia was driven by the U.S. and India, which continue to be the most important markets for the onshore business. Reported **revenue** increased year-over-year with growth mainly coming from the region Asia, Australia, in particular from India where the market in the prior year was impacted by the introduction of an auction system for wind-farm tenders. **Profit** was up on the revenue increase, a higher share from the services business, and operational improvements. These factors were partially offset by price declines, especially in the onshore markets. In the prior year, profit was burdened by expenses totaling €134 million primarily from inventory write-downs. Both years included significant expenses for integration costs and capacity adjustments including severance, totaling €176 million and €103 million in fiscal 2018 and fiscal 2017, respectively. SGRE's order backlog was €23 billion at the end of the fiscal year, of which €8 billion are expected to be converted into revenue in fiscal 2019.

These results were achieved in **markets** that grew in fiscal 2018 due to higher demand in both the onshore and offshore markets, with the latter growing faster. On a regional basis, growth in the onshore business was driven primarily by China where the largest national wind market in the world remains largely closed to foreign manufacturers, and secondarily by the U.S. In contrast, the onshore market in Germany declined significantly. In the offshore market, growth was also driven by China, while the market volume in Europe remained stable. SGRE expects global wind installations to grow substantially in fiscal 2019, with growth driven by higher demand for onshore installations in markets such as the U.S., India and Spain. Offshore installations are also expected to grow, mostly in China. Market volume in euros is expected to be subject to adverse price development and currency translation effects.

## A.3.10 Financial Services

The Financial Services 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, Financial Services provides financial solutions for Siemens customers as well as other companies, and also manages financial risks of Siemens. Financial Services operates the Corporate Treasury of Siemens, 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.

Under the new organizational structure, Corporate Treasury and corporate financial risk management will be operated centrally.

| | | Fiscal year |
|---|---|---|
| (in millions of €) | 2018 | 2017 |
| Income before income taxes | **653** | 639 |
| ROE (after taxes) | **20.0%** | 19.9% |

| | | Sep 30, |
|---|---|---|
| (in millions of €) | 2018 | 2017 |
| Total assets | **28,281** | 26,474 |

Financial Services again delivered a strong income before income taxes, including lower credit hits and growth in the debt business, along with an increase in total assets.

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

## A.3.11 Reconciliation to Consolidated Financial Statements

**Profit**

| | | Fiscal year |
|---|---|---|
| (in millions of €) | 2018 | 2017 |
| Centrally managed portfolio activities | **1,188** | 488 |
| Siemens Real Estate | **140** | 187 |
| Corporate items | **(813)** | (714) |
| Centrally carried pension expense | **(433)** | (407) |
| Amortization of intangible assets acquired in business combinations | **(1,164)** | (1,016) |
| Eliminations, Corporate Treasury and other reconciling items | **(335)** | (323) |
| **Reconciliation to Consolidated Financial Statements** | **(1,418)** | **(1,785)** |

The increase at Centrally managed portfolio activities (CMPA) included a gain of €900 million resulting from the transfer of Siemens' shares in Atos SE to Siemens Pension-Trust e.V. in Germany to fund pension plans and a gain of €655 million from the sale of OSRAM Licht AG shares; these positive effects were partly offset by an impairment loss of €154 million related to an equity investment. In fiscal 2017 the positive result 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, as well as gains from reversals of provisions for guarantees related to a previous divestment. These positive effects in fiscal 2017 were partly offset by higher losses from at-equity investments including a €230 million impairment of Siemens' stake in Primetals Technologies Ltd.

Corporate items included corporate costs, such as group managing costs, basic research of Corporate Technology, corporate projects and non-operating investments or results of corporate-related derivative activities. The increase of negative results from Corporate items included higher expenses for corporate reorganization of support functions including severance charges of €132 million (€71 million in fiscal 2017).

The increase in Amortization of intangible assets acquired in business combinations related mainly to the acquisition of Mentor and the merger with Gamesa, which were closed in March 2017 and April 2017, respectively.

# A.4 Results of operations

## A.4.1 Orders and revenue by region

Negative currency translation effects took five percentage points from order and four percentage points from revenue growth; portfolio transactions, primarily the merger of the wind power business with Gamesa and the acquisition of Mentor, both during fiscal 2017, added four percentage points to order and three percentage points to revenue growth. The resulting ratio of orders to revenue (book-to-bill) for Siemens in fiscal 2018 was 1.10, again well above 1. The order backlog for the Siemens Group was €132 billion as of September 30, 2018, a new high.

**Orders** (location of customer)

| (in millions of €) | Fiscal year 2018 | 2017 | % Change Actual | Comp. |
|---|---|---|---|---|
| Europe, C.I.S., Africa, Middle East | **46,495** | 45,130 | 3% | 3% |
| *therein: Germany* | *11,254* | *14,015* | *(20%)* | *(20%)* |
| Americas | **25,060** | 22,923 | 9% | 16% |
| *therein: U.S.* | *18,106* | *16,914* | *7%* | *10%* |
| Asia, Australia | **19,742** | 17,731 | 11% | 7% |
| *therein: China* | *8,459* | *7,493* | *13%* | *15%* |
| **Siemens** | **91,296** | **85,784** | **6%** | **8%** |
| *therein: emerging markets[1]* | *30,564* | *27,201* | *12%* | *15%* |

1 As defined by the International Monetary Fund.

Orders related to external customers were clearly up year-over-year on growth in the majority of industrial businesses and in all reporting regions. Substantially higher orders at SGRE benefited from substantial portfolio effects following the merger. Digital Factory and Mobility both recorded double-digit order growth, the former benefiting from portfolio effects arising from the acquisition of Mentor. Energy Management, which had recorded a substantial volume from large orders in fiscal 2017, saw its orders decline significantly year-over-year. Volume from large orders for Industrial Business overall was up clearly, driven by Mobility and SGRE. The significant growth in emerging markets was driven by orders from China, India and Mexico.

In the **Europe, C.I.S., Africa, Middle East** region, the majority of industrial businesses posted order growth, led by Mobility, which won several large contracts in the year under review. Order intake in the region was down substantially in Energy Management due to a sharply lower volume from large orders, which in the prior year included large contracts in Germany and Qatar. In contrast to the region overall, orders were down significantly in Germany, with all businesses other than Building Technologies and Digital Factory posting declines. SGRE and Energy Management, which both had recorded a substantial volume from large orders in the prior year, recorded the largest decreases in order intake there.

Orders in the **Americas** region were up clearly year-over-year on sharp growth in SGRE and substantial order increases in Digital Factory and Mobility. The pattern of order development in the U.S. was largely the same as in the Americas region, except for Power and Gas, which saw a significant decline in order intake in the U.S. but only a slight decrease in the Americas overall.

Orders were up significantly in the **Asia, Australia** region due to growth in the majority of industrial businesses. Growth drivers were SGRE, which recorded sharply higher orders in the onshore business in India, and Digital Factory, with substantial growth in China. Order intake was lower at Energy Management, which had won a large contract in India in fiscal 2017, and in Power and Gas.

**Revenue** (location of customer)

| (in millions of €) | Fiscal year 2018 | 2017 | % Change Actual | Comp. |
|---|---|---|---|---|
| Europe, C.I.S., Africa, Middle East | **42,782** | 43,269 | (1%) | 0% |
| *therein: Germany* | *11,729* | *11,125* | *5%* | *6%* |
| Americas | **22,115** | 23,463 | (6%) | (2%) |
| *therein: U.S.* | *16,012* | *16,932* | *(5%)* | *(1%)* |
| Asia, Australia | **18,147** | 16,131 | 12% | 12% |
| *therein: China* | *8,102* | *7,206* | *12%* | *14%* |
| **Siemens** | **83,044** | **82,863** | **0%** | **2%** |
| *therein: emerging markets[1]* | *28,272* | *28,397* | *0%* | *1%* |

1 As defined by the International Monetary Fund.

Revenue related to external customers went up slightly year-over-year as strong growth at Digital Factory and Mobility and new volume from the Gamesa merger at SGRE were largely offset by a significant decline at Power and Gas in contracting markets.

Revenue in **Europe, C.I.S., Africa, Middle East** was close to the prior-year level as increases in the majority of industrial businesses almost offset a substantial decline in Power and Gas. Mobility and Digital Factory recorded the highest growth rates. In Germany, revenue was up with sharp growth in Mobility and increases in most other businesses more than offsetting a substantial decline in SGRE.

In the **Americas**, revenue came in lower year-over-year, including a substantial decline in Power and Gas and decreases in a number of other industrial businesses, partly offset by substantial growth in Digital Factory. This pattern was roughly the same in the U.S.

Revenue in Asia, Australia was up significantly year-over-year, driven by sharply higher revenue in SGRE, in particular coming from India, and substantial growth in Digital Factory that was driven by China. All industrial businesses recorded higher revenue in that country, with Digital Factory and Process Industries and Drives posting the highest contributions to the increase.

## A.4.2 Income

| (in millions of €, earnings per share in €) | 2018 | Fiscal year 2017 | % Change |
|---|---|---|---|
| Power and Gas | 377 | 1,571 | (76%) |
| Energy Management | 1,003 | 931 | 8% |
| Building Technologies | 755 | 784 | (4%) |
| Mobility | 872 | 747 | 17% |
| Digital Factory | 2,586 | 2,102 | 23% |
| Process Industries and Drives | 518 | 440 | 18% |
| Siemens Healthineers | 2,221 | 2,423 | (8%) |
| Siemens Gamesa Renewable Energy | 483 | 339 | 43% |
| **Industrial Business** | **8,815** | **9,335** | **(6%)** |
| *Profit margin Industrial Business* | ***10.4%*** | *11.1%* | |
| Financial Services | 653 | 639 | 2% |
| Reconciliation to Consolidated Financial Statements | (1,418) | (1,785) | 21% |
| **Income from continuing operations before income taxes** | **8,050** | **8,189** | **(2%)** |
| Income tax expenses | (2,054) | (2,148) | 4% |
| **Income from continuing operations** | **5,996** | **6,041** | **(1%)** |
| Income from discontinued operations, net of income taxes | 124 | 53 | 134% |
| **Net income** | **6,120** | **6,094** | **0%** |
| Basic earnings per share | 7.12 | 7.34 | (3%) |
| ROCE | 12.7% | 13.3% | |

As a result of the development described for the segments, Income from continuing operations before income taxes declined 2%. Severance charges for continuing operations were €923 million, of which €754 million were in the Industrial Business. Profit margin Industrial Business excluding severance charges was 11.3% in fiscal 2018. In fiscal 2017, severance charges for continuing operations were €466 million, of which €385 million were in the Industrial Business.

The tax rate for fiscal 2018 was 26%, positively influenced by effects from the reassessment of tax positions, including a net effect of €435 million following the U.S. tax reform, and the largely tax-free gains from the transfer of Siemens' shares in Atos SE to Siemens Pension-Trust e.V. and the sale of OSRAM Licht AG shares. These factors were only partly offset by negative income tax effects related to establishing the Siemens Healthineers Group and tax expenses stemming from carve-out activities related to Mobility. The tax rate of 26% in the prior year was positively influenced mainly by decisions arising from tax audits. As a result, Income from continuing operations declined 1%.

Income from discontinued operations, net of income taxes was higher compared to the prior year and included positive effects from the release of a provision related to former Communications activities.

The decline in basic earnings per share reflects the decrease of Net income attributable to Shareholders of Siemens AG, which was €5,807 million in fiscal 2018 compared to €5,961 million in fiscal 2017. Basic earnings per share excluding severance charges was €7.88.

At 12.7%, ROCE was below the target range established in our One Siemens financial framework, as expected. The decline year-over-year was due primarily to higher average capital employed, as increases associated with the SGRE merger and the acquisition of Mentor were reflected in all four quarters of fiscal 2018 as compared to only two quarters for SGRE and three quarters for Mentor in fiscal 2017.

## A.4.3 Research and development

In fiscal 2018, we reported research and development (R&D) expenses of €5.6 billion, compared to €5.2 billion in fiscal 2017. The resulting R&D intensity, defined as the ratio of R&D expenses and revenue, was 6.7%, thus above the R&D intensity of 6.2% in fiscal 2017. Additions to capitalized development expenses amounted to €0.3 billion in fiscal 2018, compared to €0.4 billion in fiscal 2017. As of September 30, 2018, Siemens held approximately 65,000 granted patents worldwide in its continuing operations. As of September 30, 2017, we held approximately 63,600 granted patents. On average, we had 41,800 R&D employees in fiscal 2018.

Our research and development activities are ultimately geared to developing innovative, sustainable solutions for our customers – and the Siemens businesses – while also strengthening our own competitiveness. Joint implementation by the operating units and Corporate Technology, our central R&D department, ensures that research activities and business strategies are closely aligned with one another, and that all units benefit equally and quickly from technological developments. The following technologies were the focus in fiscal 2018: additive manufacturing, autonomous robotics, blockchain applications, connected (e-)mobility, connectivity and edge devices, cyber security, data analytics and artificial intelligence, distributed energy systems, energy storage, future of automation, materials, power electronics, simulation and digital twin as well as software systems and processes.

We further develop technologies through our "open innovation" concept. We are working closely with scholars from leading universities and research institutions, not only under bilateral research cooperation agreements but in publicly funded collective research projects. Our focus here is on our strategic research partners, and especially the eight Centers of Knowledge Interchange that we maintain at leading universities worldwide.

Siemens' global venturing unit, next47, provides capital to help start-ups expand and scale. It serves as the creator of next-generation businesses for Siemens by building, buying and partnering with start-ups at any stage. next47 is focused on anticipating how technologies will impact our end markets. This fore-knowledge enables Siemens and Siemens' customers to grow and thrive in the age of digitalization.

# A.5 Net assets position

| (in millions of €) | 2018 | Sep 30, 2017 | % Change |
|---|---|---|---|
| Cash and cash equivalents | **11,066** | 8,375 | 32% |
| Available-for-sale financial assets | **1,286** | 1,242 | 4% |
| Trade and other receivables | **17,918** | 16,754 | 7% |
| Other current financial assets | **8,693** | 7,664 | 13% |
| Contract assets | **8,912** | 8,781 | 1% |
| Inventories | **13,885** | 13,885 | 0% |
| Current income tax assets | **1,010** | 1,098 | (8%) |
| Other current assets | **1,707** | 1,466 | 16% |
| Assets classified as held for disposal | **94** | 1,484 | (94%) |
| **Total current assets** | **64,570** | **60,750** | **6%** |
| Goodwill | **28,344** | 27,906 | 2% |
| Other intangible assets | **10,131** | 10,926 | (7%) |
| Property, plant and equipment | **11,381** | 10,977 | 4% |
| Investments accounted for using the equity method | **2,579** | 2,727 | (5%) |
| Other financial assets | **17,759** | 19,044 | (7%) |
| Deferred tax assets | **2,341** | 2,283 | 3% |
| Other assets | **1,810** | 1,498 | 21% |
| **Total non-current assets** | **74,345** | **75,361** | **(1%)** |
| **Total assets** | **138,915** | **136,111** | **2%** |

Our total assets in fiscal 2018 were influenced by negative currency translation effects of €1.3 billion.

**Trade and other receivables** increased in all industrial businesses, with the increase most evident at Digital Factory, Energy Management and Mobility.

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

**Assets classified as held for disposal** decreased due primarily to the sale of €1.2 billion in shares in OSRAM Licht AG.

The decrease in **other financial assets** mainly resulted from the transfer of Siemens' shares in Atos SE to Siemens Pension-Trust e.V., partly offset by higher loans receivable at Financial Services.

# A.6 Financial position

## A.6.1 Capital structure

| (in millions of €) | 2018 | Sep 30, 2017 | % Change |
|---|---|---|---|
| Short-term debt and current maturities of long-term debt | **5,057** | 5,447 | (7%) |
| Trade payables | **10,716** | 9,756 | 10% |
| Other current financial liabilities | **1,485** | 1,444 | 3% |
| Contract liabilities | **14,464** | 14,228 | 2% |
| Current provisions | **3,931** | 4,077 | (4%) |
| Current income tax liabilities | **3,102** | 2,355 | 32% |
| Other current liabilities | **9,118** | 8,671 | 5% |
| Liabilities associated with assets classified as held for disposal | **1** | 99 | (99%) |
| **Total current liabilities** | **47,874** | **46,077** | **4%** |
| Long-term debt | **27,120** | 26,777 | 1% |
| Provisions for pensions and similar obligations | **7,684** | 9,582 | (20%) |
| Deferred tax liabilities | **1,092** | 1,635 | (33%) |
| Provisions | **4,216** | 4,366 | (3%) |
| Other financial liabilities | **685** | 902 | (24%) |
| Other liabilities | **2,198** | 2,153 | 2% |
| **Total non-current liabilities** | **42,995** | **45,415** | **(5%)** |
| **Total liabilities** | **90,869** | **91,492** | **(1%)** |
| *Debt ratio* | ***65%*** | *67%* | |
| **Total equity attributable to shareholders of Siemens AG** | **45,474** | 43,181 | 5% |
| *Equity ratio* | ***35%*** | *33%* | |
| Non-controlling interests | **2,573** | 1,438 | 79% |
| **Total liabilities and equity** | **138,915** | 136,111 | 2% |

The decrease in **short-term debt and current maturities of long-term debt** was due mainly to the repayment of fixed-/floating-rate instruments totaling €3.5 billion. This was offset to a large extent by reclassifications of long-term fixed-/floating-rate instruments totaling €3.1 billion from long-term debt.

**Trade payables** increased in nearly all industrial businesses, with the increase most evident at Mobility, Digital Factory and SGRE.

The increase in **current income tax liabilities** was mainly driven by establishing the Siemens Healthineers Group and by carve-out activities related to Mobility.

**Long-term debt** increased due primarily to the issuance of fixed-rate instruments totaling €2.8 billion in three tranches with varied maturities of up to 12 years, currency translation effects for bonds issued in US$ and higher loans from banks. This was to a large extent offset by the above-mentioned reclassifications of fixed-/floating-rate instruments.

The decrease in **provisions for pensions and similar obligations** was due mainly to substantial contributions to Siemens' pension assets in Germany and the U.S. including the transfer of Siemens' shares in Atos SE to Siemens Pension-Trust e.V.

The decrease in **deferred tax liabilities** was primarily driven by the reassessment of tax positions following the U.S. tax reform.

The main factors for the change in **total equity attributable to shareholders of Siemens AG** were €5.8 billion in net income attributable to shareholders of Siemens AG and an increase in equity attributable to shareholders of Siemens AG of €3.0 billion due to the public listing of Siemens Healthineers AG. This increase was partly offset by dividend payments of €3.0 billion (for fiscal 2017) and negative other comprehensive income, net of income taxes of €2.5 billion, resulting mainly from the sale of shares in OSRAM Licht AG and the transfer of Siemens' shares in Atos SE to Siemens Pension-Trust e.V. Another offsetting factor was the repurchase of 13,248,262 treasury shares at an average cost per share of €110.84, totaling €1.5 billion (including incidental transaction charges).

The increase in **non-controlling interests** was due mainly to the public listing of Siemens Healthineers AG.

## Capital structure ratio

Our capital structure ratio as of September 30, 2018 decreased to 0.4 from 0.9 a year earlier, both results being in line with the target established in our One Siemens financial framework. The change was due primarily to a substantial increase in cash and cash equivalents and the above-mentioned decrease of provisions for pensions and similar obligations.

## Debt and credit facilities

As of September 30, 2018, we recorded, in total, €28.4 billion in notes and bonds (maturing until 2047), €2.9 billion in loans from banks (maturing until 2037), €0.8 billion in other financial indebtedness (maturing until 2029) and €0.1 billion in obligations under finance leases. Notes and bonds were issued mainly in the U.S. dollar and euro, and to a lower extent in the British pound.

We have credit facilities totaling €9.5 billion, thereof €8.3 billion unused as of September 30, 2018.

For further information about our debt see → NOTE 16 in → B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. For further information about the functions and objectives of our financial risk management see → NOTE 25 in → B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

## Off-balance-sheet commitments

As of September 30, 2018, the undiscounted amount of maximum potential future payments related primarily to credit guarantees and guarantees of third-party performance amounted to €3.0 billion (September 30, 2017: €3.1 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 amounted to €0.5 billion (September 30, 2017: €0.6 billion).

Future payment obligations under non-cancellable operating leases amounted to €3.2 billion (September 30, 2017: €3.3 billion).

Irrevocable loan commitments amounted to €3.2 billion (September 30, 2017: €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.

## Share buyback

In addition to the above-mentioned treasury shares repurchased in fiscal 2018, we repurchased an additional 3,343,479 treasury shares in October 2018. We thus completed the share buyback program initiated in November 2015 with a total volume of €3.0 billion.

In November 2018, we announced a share buyback of up to €3.0 billion ending at the latest on November 15, 2021. The buybacks will initially be made under the 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.

## A.6.2 Cash flows

| (in millions of €) | Fiscal year 2018 |
|---|---|
| **Cash flows from operating activities** | |
| Net income | 6,120 |
| Change in operating net working capital | (435) |
| Other reconciling items to cash flows from operating activities – continuing operations | 2,730 |
| **Cash flows from operating activities – continuing operations** | **8,415** |
| Cash flows from operating activities – discontinued operations | 10 |
| **Cash flows from operating activities – continuing and discontinued operations** | **8,425** |
| **Cash flows from investing activities** | |
| Additions to intangible assets and property, plant and equipment | (2,602) |
| Acquisitions of businesses, net of cash acquired | (525) |
| Change in receivables from financing activities of SFS | (1,620) |
| Other purchases of assets | (1,958) |
| Other disposals of assets | 2,962 |
| **Cash flows from investing activities – continuing operations** | **(3,741)** |
| Cash flows from investing activities – discontinued operations | (33) |
| **Cash flows from investing activities – continuing and discontinued operations** | **(3,774)** |
| **Cash flows from financing activities** | |
| Purchase of treasury shares | (1,409) |
| Re-issuance of treasury shares and other transactions with owners | 4,064 |
| Issuance of long-term debt | 2,734 |
| Repayment of long-term debt (including current maturities of long-term debt) | (3,530) |
| Change in short-term debt and other financing activities | 333 |
| Interest paid | (1,002) |
| Dividends paid to shareholders of Siemens AG | (3,011) |
| Dividends attributable to non-controlling interests | (126) |
| **Cash flows from financing activities – continuing operations** | **(1,946)** |
| Cash flows from financing activities – discontinued operations | – |
| **Cash flows from financing activities – continuing and discontinued operations** | **(1,946)** |

**Cash flows from operating activities** were mainly driven by the Digital Factory Division and Siemens Healthineers. The main factor for the cash outflows related to the **build-up of operating net working capital** was an increase in trade and other receivables mainly at Mobility and Energy Management. These cash outflows were partly offset by cash inflows related to higher trade payables mainly at Mobility, Digital Factory, SGRE, Siemens Healthineers and Process Industries and Drives.

The **change in receivables from financing activities of SFS** resulted from growth in SFS' debt business.

The cash outflows for **other purchases of assets** primarily included additions of assets eligible as central bank collateral and to payments related to investments such as debt or equity investments related to several projects.

The cash inflows from **other disposals of assets** primarily included €1.2 billion from the sale of OSRAM Licht AG shares, disposals of above-mentioned eligible collateral, proceeds from real estate disposals at SRE, and proceeds from the sale of businesses or other investments.

The cash inflows from the **re-issuance of treasury shares and other transactions with owners** primarily included €4.1 billion (net of transaction costs) from the public listing of Siemens Healthineers.

We report Free cash flow as a supplemental liquidity measure:

**Free cash flow**

| | | | Fiscal year 2018 |
|---|---|---|---|
| (in millions of €) | Continuing operations | Discontinued operations | Continuing and discontinued operations |
| Cash flows from operating activities | 8,415 | 10 | 8,425 |
| Additions to intangible assets and property, plant and equipment | (2,602) | – | (2,602) |
| **Free cash flow** | **5,814** | **10** | **5,824** |

With our ability to generate positive operating cash flows, our total liquidity (defined as cash and cash equivalents as well as current available-for-sale financial assets) of €12.4 billion, our €8.3 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 €2.6 billion in fiscal 2018. 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 €2.0 billion in fiscal 2018. The remaining portion related mainly to SRE, including significant amounts for projects such as new office buildings in Germany. SRE is responsible for uniform and comprehensive management of Company real estate worldwide and supports the Industrial Business and corporate activities with customer-specific real estate solutions; excluded are SGRE, the carved-out real estate of Mobility and, since January 2018, Siemens Healthineers.

With regard to capital expenditures for continuing operations, we expect a spending increase in fiscal 2019. In the coming years, up to €0.6 billion are to be invested in "Siemensstadt 2.0", a new project aiming to transform Siemens' existing industrial area in Berlin into a modern, urban district for a diverse range of purposes, including strengthening key technologies. In addition, we plan to invest significant amounts in coming years in attractive innovation fields in connection with next47.

# A.7 Overall assessment of the economic position

Fiscal 2018 was a particularly successful year for Siemens. We made great progress operationally and from a portfolio standpoint and reached nearly all our "Vision 2020" targets faster than originally expected. Regarding our financial results, the great majority of our businesses are doing very well, including several that are outstanding, particularly with regard to executing our digitalization strategy. A few of our businesses have to tackle structural market challenges. For them, measures to improve competitiveness and adjust capacities are well under way. We also made progress with our portfolio. We successfully executed the initial public offering of Siemens Healthineers AG by floating 15% of its shares in the second quarter of fiscal 2018. In the fourth quarter of fiscal 2018, the shareholders of Alstom SA approved the proposal regarding the combination of our mobility business with Alstom SA. Closing of the transaction is still subject to approval by antitrust authorities and is expected in the first half of calendar 2019. Several of our businesses made acquisitions in the area of digitalization, the most important of which was the acquisition of Mendix, a U.S.-based pioneer and leader in cloud-native low-code application development, which we closed early in fiscal 2019. We expect the Mendix acquisition, among other things, to accelerate the adoption of MindSphere, our open, cloud-based industrial operating system for the Internet of Things. From a position of strength, we announced "Vision 2020+" during the fourth quarter of fiscal 2018. With "Vision 2020+," we intend to accelerate growth and strengthen profitability with a leaner, simpler company structure. United under the strong Siemens brand, we are giving our businesses significantly more entrepreneurial freedom to sharpen the focus on their respective markets. We are currently implementing the new organizational structure. We will begin reporting financial results according to the new company structure beginning with the third quarter of fiscal 2019.

We were again very successful in executing our financial target system in fiscal 2018 and achieved strong results for the Siemens Group, most of our industrial businesses and Financial Services. We raised our guidance for basic earnings per share (EPS) from net income after the second quarter and reached all the targets set for our primary measures for fiscal 2018. We achieved revenue growth of 2% net of currency translation and portfolio effects. We delivered basic EPS from net income of €7.12, which included impacts from severance charges amounting to €0.76. Return on capital employed (ROCE) was double-digit at 12.7%. Our capital structure ratio came in at 0.4.

Orders rose 6% year-over-year to €91.3 billion, for a book-to-bill-ratio of 1.10, thus fulfilling our expectation for a ratio above 1. Six out of eight of our industrial businesses increased orders year-over-year, one remained at the prior-year level and only one reported a decline. We posted double-digit order growth at Mobility due to a larger volume from major contract wins, and at Digital Factory due to strength in its short-cycle and software businesses. Order growth at SGRE included new volume from the merger with Gamesa, while growth at Power and Gas was burdened by significant negative currency translation effects. Excluding currency translation and portfolio effects, orders for Siemens rose 8%.

Revenue came in at €83.0 billion, slightly above the prior-year level. Strong growth at Digital Factory and Mobility and new volume from the merger with Gamesa at SGRE were largely offset by a significant decline at Power and Gas. While the Division completed the world's three largest combined cycle power plants in Egypt in record time in fiscal 2018, it continues to operate in an adverse market environment. Excluding currency translation and portfolio effects, revenue grew 2%. For fiscal 2018, we had forecast modest growth in revenue, net of currency translation and portfolio effects.

Industrial Business profit was €8.8 billion, down 6% year-over-year. The majority of our industrial businesses improved profit year-over-year, with increases led by Digital Factory, SGRE and Mobility. Digital Factory and Siemens Healthineers made the largest contributions to Industrial Business profit. Profit and profitability at Siemens Healthineers were impacted by substantial negative currency effects, which to a lesser extent also affected other Divisions. Overall, the Industrial Business profit was burdened by sharply higher severance charges year-over-year, which came in at €0.8 billion. Nearly half of the severance charges were booked at Power and Gas. Together with challenging factors related to adverse market conditions, this resulted in a sharp decline in the Division's profit year-over-year. As planned, we further increased R&D expenses in our industrial businesses, with a strong emphasis on digitalization.

The profit margin of our Industrial Business was 10.4%, down from 11.1% in fiscal 2017. Six out of eight of our industrial businesses were within or – as in the case of Mobility and Building Technologies – above their margin ranges. The majority also improved their profit margins year-over-year, with SGRE reaching its margin range and Process Industries and Drives reducing the gap. The overall decline in the profit margin for our Industrial Business was due predominately to Power and Gas, where the profit margin declined substantially, falling even further below the Division's margin range than in fiscal 2017. Excluding severance charges, Industrial Business profit margin was 11.3%, clearly in the range of 11% to 12% we had expected it to reach. With a return on equity after tax of 20.0%, Financial Services, which is reported outside our Industrial Business, reached the upper end of its margin range.

The loss outside the Industrial Business came in substantially lower year-over-year. Results in fiscal 2018 included a €0.9 billion gain related to the transfer of Siemens' shares in Atos SE to Siemens Pension-Trust e.V. and a €0.7 billion gain from the sale of shares in OSRAM Licht AG. These gains were partly offset by the higher amortization of intangible assets acquired in business combinations, mainly related to the merger with Gamesa and the Mentor acquisition.

Net income of €6.1 billion came in at the prior-year level and basic EPS from net income declined moderately to €7.12. Both figures were impacted by sharply higher severance charges year-over-year, which reduced basic EPS from net income by €0.76. Excluding severance charges, we achieved basic EPS from net income of €7.88. Thus, we met our raised forecast, which was to achieve basic EPS from net income excluding severance charges in the range of €7.70 to €8.00 (up from the range of €7.20 to €7.70 that we forecast for fiscal 2018 in our Annual Report for fiscal 2017).

ROCE for fiscal 2018 was 12.7%, down from 13.3% in fiscal 2017. This decline was due primarily to an increase in average capital employed, mainly related to the merger with Gamesa and the acquisition of Mentor. We thus met our forecast, which was to achieve a double-digit result below the lower end of our long-term goal of 15% to 20%.

We evaluate our capital structure using the ratio of industrial net debt to EBITDA. For fiscal 2018, this ratio was 0.4, compared to 0.9 in fiscal 2017. 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 2018 rose 22% to €5.8 billion.

We intend to continue providing an attractive return to shareholders. The Siemens Managing Board, in agreement with the Supervisory Board, proposes a dividend of €3.80 per share, up from €3.70 a year earlier.

# 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 2019, the world economy is expected to develop on a solid growth path with some deceleration compared to fiscal 2018. Global GDP is projected to expand by 3.1% in calendar 2019. Fixed investments are anticipated to grow by 4.0%, after 4.2% in 2018.

The U.S. economy is expected to be a main pillar of global growth, with GDP expanding 2.8% supported by strong domestic demand, low unemployment and reduced corporate taxes following the 2017 tax reform. New trade tariffs are expected to have only small negative effects on GDP growth and inflation.

Effects from new tariffs are projected to be more severe for China, with its more trade-dependent economy. Significant deceleration from 6.7% GDP growth in 2018 to 6.1% in 2019 is forecasted, although the Chinese government began addressing slowing growth with policy measures before the end of 2018.

GDP in emerging countries in general is expected to increase by 4.4%, after 4.6% in 2018, assuming that problems related to currency depreciation and U.S. dollar denominated foreign debt will be contained.

Europe is also expected to expand much more slowly in 2019 than in 2018, with GDP growth 0.5 percentage points lower at 1.6%. In particular, uncertainty regarding Brexit and the new actions of the Italian government are taking a toll.

All in all, the macroeconomic development in fiscal 2019 might in large part depend on governmental and political decisions. Uncertainty from governmental policies already slowed the acceleration of global growth in the second half of 2018. Quick resolution of key issues could remove this strain and give economic activity a new impulse.

The forecasts presented here for GDP and fixed investments are based on a report from IHS Markit dated October 15, 2018.

### A.8.1.2 SIEMENS GROUP

At the close of fiscal 2018, we are in the process of reorganizing our operations. Implementation of the new organization is expected to be completed by the end of the second quarter of fiscal 2019. Therefore, expectations for our industrial businesses and activities outside industrial business are based on the organizational structure as of September 30, 2018. We are basing our outlook for fiscal 2019 for the Siemens Group and its reportable segments on the above-mentioned expectations and assumptions regarding the overall economic situation as well as the specific market conditions we expect for our respective industrial businesses, as described in → A.3 SEGMENT INFORMATION. Overall, we assume a continued favorable market environment, particularly for our short-cycle businesses, with limited risks related to geopolitical uncertainties.

This outlook excludes charges related to legal and regulatory matters and post-closing results from combining our mobility business with Alstom SA. We expect the closing in the first half of calendar 2019.

We are exposed to currency translation effects, mainly involving the U.S. dollar, the British pound and currencies of emerging markets, particularly the Chinese yuan. While we expect volatility in global currency markets to continue in fiscal 2019, we have improved our natural hedge on a global basis through geographic distribution of our production facilities in the past. Nevertheless, Siemens is still a net exporter from the Eurozone 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 2019. Based on currency exchange rates as of the beginning of November 2018, we nevertheless expect continued negative currency translation effects, particularly resulting from currencies of emerging countries such as China, India, Turkey and Argentina. We anticipate limited currency-related impacts on the profit margin for our Industrial Business in fiscal 2019.

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

#### Revenue growth

For fiscal 2019 we expect moderate growth in revenue, net of effects from currency translation and portfolio effects. In fiscal 2018, most of our industrial businesses contributed to organic revenue growth, and we expect a similar development in fiscal 2019. A principal exception is Power and Gas, which continues to operate in challenging markets.

As of September 30, 2018, our order backlog totaled €132 billion, and we expect conversion from the backlog to strongly support revenue growth in fiscal 2019. From Siemens' backlog, we expect to convert approximately €47 billion of past orders into current revenue in fiscal 2019. For conversion of order backlog to revenue for our respective segments, see → A.3 SEGMENT INFORMATION.

We anticipate that orders in fiscal 2019 will exceed revenue for a book-to-bill ratio above 1.

## Profitability

For fiscal 2019, we expect net income to result in basic EPS from net income in the range of €6.30 to €7.00, excluding severance charges. Net income and basic EPS from net income for fiscal 2018 were €6.1 billion and €7.12, respectively. In fiscal 2018, net income included €0.9 billion in severance charges (pre-tax), burdening basic EPS from net income by €0.76 per share. Furthermore, net income in fiscal 2018 included €1.6 billion (pre-tax) in portfolio gains related to our stakes in Atos SE and OSRAM Licht AG, resulting in €1.87 per share of basic EPS from net income. The public listing of a minority stake in Siemens Healthineers in fiscal 2018 resulted in a larger share of non-controlling interests, which reduces the share of net income attributable to Siemens AG's shareholders and corresponding EPS.

Our forecast for net income and corresponding basic EPS takes into account a number of additional factors. We expect the solid project execution of the past three years to continue in fiscal 2019, and we plan to again increase R&D expenses year-over-year to strengthen our capacity for innovation. We expect wage inflation to be around 3% to 4%. Furthermore, we anticipate pricing pressure on our offerings of around 2% to 3% overall, primarily driven by our power generation businesses, while prices in our short-cycle businesses are expected to remain stable.

For fiscal 2019, taking into account the above-mentioned assumptions and exclusions, we expect nearly all of our industrial businesses to be in or above their current ranges for profit margin as defined in our financial performance system (see → A.2 FINANCIAL PERFORMANCE SYSTEM). An exception is Power and Gas. Overall, we expect a profit margin for our Industrial Business of 11.0% to 12.0%, excluding severance charges. Profit margin for our Industrial Business excluding severance charges in fiscal 2018 was 11.3%. We expect Financial Services, which is reported outside Industrial Business, to achieve a return on equity (ROE) (after tax) within its margin range in fiscal 2019 and to again make a strong profit contribution.

Within our Reconciliation to Consolidated Financial Statements, we expect expenses for Corporate items and centrally carried pension expenses to be approximately €1.0 billion in fiscal 2019, with costs in the second half-year higher than in the first half. We expect results related to CMPA to be negative and to be volatile from quarter to quarter during the fiscal year. For comparison, CMPA delivered a profit of €1.2 billion in fiscal 2018, benefiting from the above-mentioned €1.6 billion in portfolio gains related to our stakes in Atos SE and OSRAM Licht AG. We do not expect CMPA to benefit from material divestment gains in fiscal 2019. We anticipate that SRE will continue with real estate disposals depending on market conditions. Amortization of intangible assets acquired in business combinations, which was €1.2 billion in fiscal 2018, and Eliminations, Corporate Treasury and other reconciling items, which were a negative €0.3 billion in fiscal 2018, are expected to stay close to these results in fiscal 2019.

We do not expect material influence on financial results from discontinued operations in fiscal 2019. We anticipate our tax rate for fiscal 2019 to be in the range of 25% to 31%, compared to 26% in fiscal 2018.

## Capital efficiency

Our long-term goal is to achieve a return on capital employed (ROCE) in the range of 15% to 20%. Due mainly to factors currently influencing net income and average capital employed, particularly the acquisitions of Mentor and Mendix and the merger with Gamesa among other factors, we expect ROCE to continue to show a double-digit result in fiscal 2019 but to come in below 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 2019.

### A.8.1.3 OVERALL ASSESSMENT

We expect a continued favorable market environment, particularly for our short-cycle businesses, with limited risks related to geopolitical uncertainties. For fiscal 2019, we expect moderate growth in revenue, net of currency translation and portfolio effects. We further 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 based on our current organizational structure, excluding severance charges. Furthermore we expect basic EPS from net income in the range of €6.30 to €7.00 also excluding severance charges. Fiscal 2018 basic EPS from net income of €7.12 benefited from €1.87 per share in portfolio gains related to our stakes in Atos SE and OSRAM Licht AG and was burdened by €0.76 from severance charges, resulting in €6.01 excluding these factors.

This outlook excludes charges related to legal and regulatory matters and post-closing results from combining our mobility business with Alstom SA, which we expect to close in the first half of calendar 2019.

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. Our Strategic Units Siemens Healthineers and SGRE are also subject to our group-wide principles for risk management and are individually responsible for adhering to those principles.

### 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. The frameworks connect the ERM process with our financial reporting process and our internal control system. They consider a company's strategy, the efficiency and effectiveness of its business operations, the reliability of its financial reporting and 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 is typically three years, and we take 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. In order to provide a comprehensive view of our business activities, risks and opportunities are identified in a structured way combining elements of both top-down and bottom-up approaches. Reporting generally follows a quarterly cycle; we complement this periodic reporting with an ad-hoc reporting process that aims to escalate critical issues in a timely manner. Relevant risks and opportunities are prioritized in terms of impact and likelihood, considering different perspectives, including business objectives, reputation and regulatory 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 macroeconomic conditions and developments in relevant industries, and by adjusting capacity and implementing cost-reduction measures in a timely and consistent manner if they are 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. In order to allow for a meaningful discussion of risk at the Siemens group level, this organization aggregates individual risks and opportunities of similar cause-and-effect nature into broader 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 adopt a purely quantitative assessment of risk themes. Thematic risk and opportunity assessments then form the basis for the evaluation of the company-wide risk and opportunity situation. The Chief Risk & Internal Control Officer reports quarterly to 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.

### 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 established competitors and also rising competitors from emerging markets and new industries, 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, increase in inventory of finished or work-in-progress goods or unexpected price erosion. Furthermore, there is a risk that critical suppliers are taken over 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, market and industry 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 increasing uncertainty regarding the global economic outlook. The key risk for the global economic cycle is a further escalation of the U.S.-Chinese trade conflict to a full-fledged global trade war, with a significant deterioration of global growth. Adverse effects on confidence and investment activity would severely hit Siemens business. Increasing trade barriers would negatively impact production costs and productivity along the value chain. The risk of a "No-Deal" Brexit could heighten business and consumer uncertainty, particularly in the European Union (EU) and the U.K., reduce investment activity, and pose risks to financial markets. A further and massive loss of economic confidence and a prolonged period of reluctance in investment decisions and awarding of new orders would negatively impact our businesses. We have established a task force continuously monitoring the exit process and coordinating our local and global mitigation measures. Heightened political risk within the EU, in particular fiscal stability in Italy, further independence debates or sustained success of protectionist, anti EU and anti-business parties and policies may reignite the euro crisis or even increase uncertainty about the future of the EU in general. The tightening of monetary policy by the U.S. Federal Reserve triggered depreciation of several emerging market currencies (e.g. of the Argentine peso and Turkish lira) and raised fears of a renewed emerging market crises, as debt levels of emerging market enterprises have risen making them dependent on favorable global financial conditions to service debts denominated in foreign currencies. A further escalation could severely weigh on asset prices, foreign exchange markets and potential hyperinflation. 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. Additional business risk results from an abrupt weakening of Chinese economic growth. 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, political upheavals, 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 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 changes in 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, Building Technologies and Energy Management Divisions react quickly to volatility in market demand. If the moderate growth of certain markets (e.g. oil & gas) 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, our customers 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, to a greater extent than we currently anticipate. In addition, it may become more difficult for our customers to obtain financing. 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 condition. Siemens' global setup with operations in almost all relevant economies, our wide range of offerings with varied exposures to business cycles, and our balanced mix of business models (e.g. equipment, components, systems, software, services and solutions) help us to absorb impacts from adverse developments in any single market.

**Restructuring:** We see risks that we may not be flexible enough in adjusting our organizational and manufacturing footprint in order to quickly respond to changing markets. The necessary restructuring might not be executed to the extent or in the timeframe planned (e.g. due to local co-determination regulations), limiting our improvements of our cost position with negative profit impacts and the loss of key personnel. Strikes and disputes with unions and workers councils might result in negative media coverage and delivery problems. Additionally, public criticism related to restructuring might negatively impact Siemens' reputation. We mitigate these risks by closely monitoring the implementation of the planned measures, maintain strict cost management, and conduct ongoing discussions with all concerned interest groups.

**Company transformation:** There are risks in substantially changing company structures, policies or management in the interest of enhancing our speed, agility or company culture. These risks include increased costs, missed financial or performance targets, loss of key personnel, loss of (cost) synergies, and reduced investor confidence. We have set up a team within Vision 2020+ which closely monitors the transformation program.

**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. IoT, web of systems, cloud computing, Industry 4.0), there are risks associated with new competitors, substitutions of existing products/solutions/services, new business models (e.g. in terms of pricing, financing, extended scopes for project business or subscription models in the software business) and finally the risk that our competitors may have more advanced time-to-market strategies and introduce their disruptive 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 optimize our cost base accordingly. 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.

**Portfolio measures, at-equity investments, other investments and strategic alliances:** Our strategy includes divesting our 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 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 acquire 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 can lead to substantial additions to intangible assets, including goodwill, in our statements of financial position. If we were to encounter continuing adverse business developments or if 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 condition and results of operations. Our investment portfolio consists of investments held for purposes other than trading. Furthermore, we hold other investments. 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 the systematic processing of all contractual obligations, post-closing claims and centrally managed portfolio activities.

### A.8.3.2 OPERATIONAL RISKS

**Cyber/Information security:** Digital technologies are a deeply integrated part of our business portfolio. 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. There can be no assurance that the measures aimed at protecting our Intellectual Property (IP) and portfolio will address these threats under all circumstances. There is a risk that confidential information may get stolen or that the integrity of our portfolio may be compromised, e.g. by attacks into our networks, social engineering, data manipulations in critical applications and a loss of critical resources, resulting in financial damages. IT security covers our whole enterprise IT including office IT, systems and applications, special purpose networks and our operational environment such as manufacturing and research and development (R&D). 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. We initiated the industrial "Charter of Trust," signed by a growing group of global companies, which sets out principles for building trust in digital technologies and creating a more secure digital world. 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 of 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 operations.

**Operational failures and quality problems in our value chain processes:** Our value chain comprises all steps in the product life-cycle, 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. In addition, we may not be able to fully meet regulatory requirements. Our Siemens Healthineers Strategic Unit, 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 specific efforts to safeguard product safety. If any of our businesses or Strategic Units are not able to comply with regulatory 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.

**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 segments 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 winning 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 capabilities 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.

**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 could be delays in product deliveries or we might even experience delivery failures. Furthermore, delays 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.

**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 production bottlenecks, delivery delays and additional costs. We also rely on third parties to supply us with parts, components and services. Using third parties to manufacture, assemble and test our products 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 price fluctuation in global raw material markets with various hedging instruments.

**Shortage of skilled personnel:** Competition for highly qualified personnel (e.g. specialists, experts, digital talent) 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 identify, assess, hire, integrate, develop and retain engineers, digital talent and other qualified personnel. We address this risk for example with structured succession planning, employer branding, retention and career management. Furthermore, we are strengthening the capabilities and skills of our talent-acquisition teams and have defined a strategy of proactive search for people with the required skills in our respective industries and markets. Technology and digitalization helps us to be more effective in attracting and selecting talent as well as improving the efficiency of our processes.

### 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 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 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 in the 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 such 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 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 17, 24 and 25 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 legal environment in some regions could limit our ability to enforce our rights. As a globally operating organization, we conduct business in countries subject to complex tax rules, which may be interpreted in different ways. 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

**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 of quickly adjusting 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.

**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 EU 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.

**Current and future investigations regarding allegations of corruption, of antitrust violations and of other violations of law:** Proceedings against us or our business partners regarding allegations of corruption, of antitrust violations and of other violations of law may lead to 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, other restrictions and legal consequences as well as negative public media coverage. 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, antitrust violations or other violations of law could as well impair relationships with such business partners or could result in our exclusion from 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 alliances, 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 or internal audit activities.

**Protectionism (including 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 national markets and could impact our business situation, 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 for example in 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 particularly expose us to the risk of liability, penalties, fines, reputational damage or loss of licenses or permits that are important to our business operations. 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 situation, financial condition and results of operations.

**Current or future litigation:** Siemens is and potentially will be 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 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. 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, 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 22 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 risk categories – strategic, operational, financial and compliance. The risks caused by our highly competitive environment continue to be the most significant, as in the prior year.

While our assessments of individual risk exposures have changed during fiscal 2018 due to developments in the external environment, effects of our own mitigation measures and the revision of our plans for assessing risk, 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 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 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 because the Company, our markets and technologies are constantly advancing. It is also possible that opportunities we see today will never materialize.

**Long-term value creation through innovation (e.g. electrification, automation and digitalization):** We drive innovation by investing significantly in R&D in order to develop sustainable solutions for our customers while also strengthening our own competitiveness. Being an innovative company and constantly inventing new technologies that we expect will meet future demands arising from the megatrends of demographic change, urbanization, climate change and globalization is one of our core purposes. We are granted thousands of new patents every year and continuously develop new concepts and new convincing digital and data-driven business models. This helps us create the next generation of ground-breaking innovations in such fields as digitalization, artificial intelligence, autonomous machines and edge computing. Besides our R&D activities, our next47 unit was established to partner with and invest in selected start-ups with innovative ideas for shaping the future, so that we can turn those ideas into viable businesses. Across our Industrial Business, we are profiting from our undisputed strength in the "Digital Enterprise." Foremost, our cloud-based MindSphere platform enhances the availability of our customers' digital products and systems and improves their productivity and efficiency. We see also significant opportunities to generate additional volume and profit from innovative digital products, services and solutions, including cyber security, applications for optimized energy consumption and operation of highly efficient energy grids and scalable solutions for distributed and renewable energy generation. We see growth opportunities in opening up access to new markets and customers through new marketing and sales strategies, which we have hence integrated into our Divisional master plans. Our position along the value chains of electrification, automation and digitalization allows us to further increase market penetration. Along these value chains, we have identified several concrete growth fields in which we see our greatest long-term potential. Hence we are bundling and developing our resources and capabilities around these growth fields.

**Mergers, acquisitions, equity investments, partnerships, divestments and streamlining our portfolio:** We constantly monitor our current and potential markets to identify opportunities for strategic mergers, acquisitions, equity investments and 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 strategic areas. Opportunities might also arise when portfolio optimization measures generate gains which enable us to further pursue our other strategies for growth and profitability.

**Favorable political and regulatory environment:** Government initiatives and subsidies (including tax reforms among others) may lead to more government spending (e.g. infrastructure or digitalization investments) and ultimately result in an opportunity for us to participate in ways that increase our revenue and profit.

**Increased market penetration and enhanced sales activities:** Through Industrial Business 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. Furthermore, we aim to increase our sales via improved account management and new distribution channels, among other strategies.

**Excellent project execution:** As a result of improving project management efforts and learning from our mistakes in project execution through a formalized lessons-learned approach, we see the 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, there is an opportunity to win new projects or follow-on orders related to existing projects, and to effectively use our claim management processes to reduce costs incurred as a result of customer claims, such as by finding a consensus with our 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 provides the opportunity to take advantage of growth markets and market shifts around the world, which could result in increased market penetration and market share.

**Climate change:** While climate change represents a serious risk for business and society, it also presents an opportunity for Siemens to help mitigate its effects. 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 our 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 long-term value creation through innovation (e.g. electrification, automation and digitalization) as described above.

While our assessment of individual opportunities has changed during fiscal 2018 due to developments in the external environment, our endeavors to profit from them and revision of our strategic 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 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. As one of the objectives of these frameworks 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 for 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.

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 activities, are usually bundled on a regional level. In particular cases, such as valuations relating to post-employment benefits, we use external experts. 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 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 International Financial Reporting Standards (IFRS) closing data to the Annual Financial Statements of Siemens AG.

On a quarterly basis, we execute an internal certification process. Management at different levels of our organization, supported by confirmations by managements 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 Strategic Units Siemens Healthineers and SGRE are also subject to our group-wide principles for the accounting-related internal control and risk management system and are individually responsible for adhering to those principles. The management of Siemens Healthineers and SGRE provide periodic sign-offs to the Managing Board of Siemens AG, certifying the effectiveness of their respective accounting-related internal control systems as well as the completeness, accuracy, and reliability of the financial data reported to us.

After the fiscal 2017 merger of our wind power business with Gamesa, SGRE commenced to integrate the former Gamesa entities into our accounting-related internal control and risk management system and to enhance their internal controls. The integration efforts have been completed in the course of fiscal 2018.

Our internal audit function systematically evaluates our financial reporting integrity, the effectiveness of the control system and the risk management system, and adherence to our compliance policies. In addition, the Audit Committee is integrated into our control system. In particular, it oversees the accounting and accounting process and the effectiveness of the internal control system, the risk management system and the internal audit system. 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. At the end of fiscal 2018, results for Siemens AG comprise the fields of business activities mainly of Power and Gas, Energy Management, Building Technologies, 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 or profit transfer agreements with affiliated companies 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 attributable to shareholders of Siemens AG, which we may adjust for this purpose to exclude selected exceptional non-cash effects. For fiscal 2019, we expect a net income of Siemens AG sufficient to fund the distribution of a corresponding dividend.

In December 2017, in preparation for the public listing of Siemens Healthineers, Siemens Healthineers AG, Germany, was established. Several entities, including Siemens Healthcare GmbH, Germany, held by Siemens AG or its direct and indirect subsidiaries were contributed against shares or sold and transferred to subsidiaries of Siemens Healthineers AG, which resulted in a significant increase in shares in affiliated companies. The profit and loss transfer agreement with Siemens Healthcare GmbH was terminated with effect at the end of March 2018.

Beginning of August 2018, in preparation for the proposed combination of Siemens' mobility business with Alstom, Siemens AG carved-out its mobility business to Siemens Mobility GmbH by way of singular succession. The carve-out resulted mainly in additions to shares in affiliated companies and disposals of transferred assets and liabilities, particularly property, plant and equipment, inventories, provisions for pensions and other provisions.

As of September 30, 2018, the number of employees was 77,000.

## A.9.1 Results of operations

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

| | Fiscal year | | |
|---|---|---|---|
| (in millions of €) | 2018 | 2017 | % Change |
| **Revenue** | **28,185** | 26,888 | 5% |
| Cost of Sales | **(21,074)** | (19,979) | (5%) |
| **Gross profit** | **7,111** | 6,909 | 3% |
| *as percentage of revenue* | ***25%*** | *26%* | |
| Research and development expenses | **(2,788)** | (2,619) | (6%) |
| Selling and general administrative expenses | **(3,767)** | (3,627) | (4%) |
| Other operating income (expenses), net | **1** | (30) | n/a |
| Financial income, net *thereof Income from investments, net 5,381 (prior year 3,798)* | ***4,643*** | *3,828* | *21%* |
| **Income from business activity** | **5,199** | 4,462 | 17% |
| Income taxes | **(653)** | (385) | (70%) |
| **Net income** | **4,547** | 4,076 | 12% |
| Profit carried forward | **134** | 146 | (8%) |
| Allocation to other retained earnings | **(1,451)** | (1,077) | (35%) |
| **Unappropriated net income** | **3,230** | 3,145 | 3% |

Increases in **revenue** mainly included Mobility with €1.1 billion, Power and Gas with €0.6 billion, Energy Management with €0.4 billion and Digital Factory with €0.4 billion, partly offset by Process Industries and Drives with a decrease of €1.0 billion. On a geographical basis, 77% of revenue was generated in the Europe, C.I.S., Africa, Middle East region, 16% in the Asia, Australia region and 7% in the Americas region. Exports from Germany accounted for 65% of overall revenue. In fiscal 2018, orders for Siemens AG amounted to €24.2 billion. Within Siemens AG, the development of revenue depends strongly on the completion of contracts, primarily in connection with large orders.

The positive change in **gross profit** was mainly due to industrial businesses, which included an increase of €0.4 billion in Mobility.

**Research and development (R&D) expenses increased** year-over-year, mainly driven by Digital Factory with an increase of €0.1 billion. The R&D intensity (R&D as a percentage of revenue) increased by 0.2 percentage points year-over-year. The research and development activities of Siemens AG are fundamentally the same as for the Siemens Group or its industrial businesses, respectively. On an average basis, we employed 9,500 people in R&D in fiscal 2018.

The increase in Financial income, net was primarily attributable to higher income from investments, net. The main factor for this increase was lower income in the prior year due to impairments of investments, which included primarily an impairment of Siemens AG's investment in Siemens Gamesa Renewable Energy, S.A., Spain, of €1.2 billion. In the current period, income from investments increased by €1.1 billion, which was largely offset by a decrease in income from profit transfer agreements with affiliated companies of €0.9 billion. Other financial income (expenses) changed from a negative €0.3 billion in the prior year to a negative €1.0 billion. The main factor was a negative effect of €0.4 billion from changes in provisions for risks in derivative financial instruments.

Higher income taxes are based in part on the increase of foreign withholding taxes. In addition, income taxes included deferred tax expenses and deferred tax benefits resulting from the origination and reversal of temporary differences.

## 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, 2018 | 2017 | % Change |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible and tangible assets | **1,894** | 2,348 | (19%) |
| Financial assets | **55,747** | 44,802 | 24% |
| | **57,641** | 47,150 | 22% |
| **Current assets** | | | |
| Receivables and other assets | **18,236** | 19,884 | (8%) |
| Cash and cash equivalents, securities | **3,177** | 884 | >200% |
| | **21,413** | 20,769 | 3% |
| **Prepaid expenses** | **163** | 87 | 87% |
| **Deferred tax assets** | **2,064** | 2,174 | (5%) |
| **Active difference resulting from offsetting** | **62** | 60 | 4% |
| **Total assets** | **81,344** | 70,239 | 16% |
| | | | |
| **Liabilities and equity** | | | |
| **Equity** | **22,049** | 21,123 | 4% |
| **Special reserve with an equity portion** | **671** | 681 | (2%) |
| **Provisions** | | | |
| Pensions and similar commitments | **11,885** | 11,761 | 1% |
| Other provisions | **6,011** | 7,417 | (19%) |
| | **17,896** | 19,178 | (7%) |
| **Liabilities** | | | |
| Liabilities to banks | **53** | 81 | (34%) |
| Advance payments received | **1,504** | 750 | 100% |
| Trade payables, liabilities to affiliated companies and other liabilities | **38,863** | 28,065 | 38% |
| | **40,420** | 28,896 | 40% |
| **Deferred income** | **308** | 361 | (14%) |
| **Total liabilities and equity** | **81,344** | 70,239 | 16% |

The decrease in receivables and other assets included discontinuation of the purchase of trade receivables from affiliated companies.

**Cash and cash equivalents, 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 driven only by business activities of Siemens AG.

The increase in **equity** was attributable to net income for the year of €4.6 billion and the issuance of treasury stock of €0.9 billion in conjunction with our share-based payments and employee share programs. These factors were partly offset by dividends paid in fiscal 2018 (for fiscal 2017) of €3.0 billion. In addition, equity was reduced due to share buybacks during the year amounting to €1.5 billion. The equity ratios at September 30, 2018 and 2017 were 27% and 30%, respectively. For the disclosures in accordance with Section 160 para. 1 no. 2 of the German Stock Corporation Act (*Aktiengesetz*) about treasury shares we refer to ↗ NOTE 15 of our ANNUAL FINANCIAL STATEMENTS OF SIEMENS AG FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018.

The increase in **trade payables, liabilities to affiliated companies and other liabilities** was due primarily to higher 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 289f and 315d 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 289F AND 315D 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 Rechnungslegungsstandards*) and the International Financial Reporting Standards (IFRS).

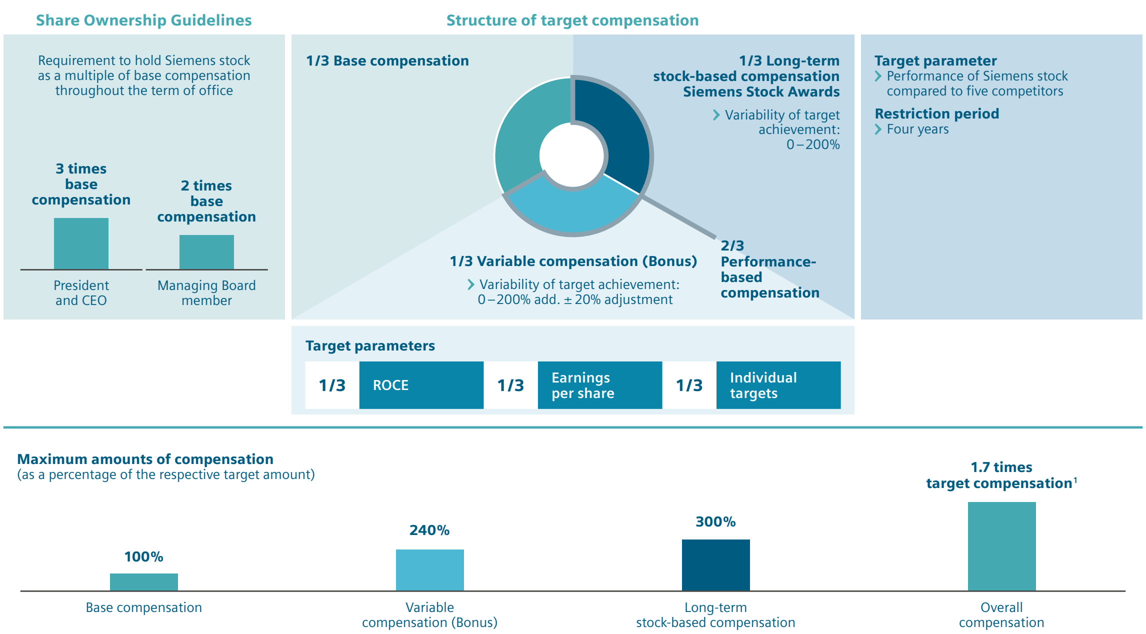
## A.10.1 Remuneration of Managing Board members

### A.10.1.1 REMUNERATION SYSTEM

The remuneration system for 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. Furthermore, 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 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 Managing Board's remuneration system and remuneration levels 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 future prospects 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 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. The three target parameters of variable compensation (Bonus) are also weighted equally.

**Remuneration system for Managing Board members**




1 Plus fringe benefits and pension benefit commitments.

In fiscal 2018, 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, 2017, the base compensation of President and CEO Joe Kaeser has amounted to €2,161,500 per year. The base compensation of the other members of the Managing Board has been €1,080,000 per year.

### Fringe benefits

Fringe benefits include the costs 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 provided by the company 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 the achievement of three equally-weighted 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 targets – 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%). The Bonus is paid entirely in cash.

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. Decisions to make 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.

Beginning in fiscal 2019, plans call for the Supervisory Board to review and, if appropriate, reduce bonus payout amounts in the event of a breach of duty or a violation of compliance regulations (clawback).

### 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 grant is €2,233,000 for the President and CEO (effective October 1, 2017). For the other Managing Board members, it is €1,117,000. 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 – a cash payment corresponding to the outperformance. If target attainment is less than 100%, a number of Stock Awards equivalent to the shortfall from the target will be forfeited without replacement. The total value of the Siemens shares and of the cash payment is subject to a ceiling of 300% of the relevant target amount. If this maximum amount is exceeded, the corresponding entitlement to Stock Awards will be forfeited without replacement. Beginning in fiscal 2019, plans call for target attainment above 100% to be compensated with a transfer of Siemens shares instead of the cash payment currently provided for.

Target attainment relating to long-term stock-based compensation is linked to the performance of Siemens stock compared to certain 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, Eaton, General Electric, Mitsubishi Heavy Industries 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 granted Stock Awards retroactively, or it may decide that in lieu of a transfer of Siemens shares only a cash settlement in a defined and limited amount will be paid, or it may decide to postpone the transfer of Siemens shares arising from 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 Stock Awards, depending on the gravity of the compliance violation (clawback).

If a Managing Board member's employment contract begins during the fiscal year, an equivalent number of Siemens Phantom Stock Awards will be granted instead of Stock Awards, and only a cash equivalent is given at the end of the restriction period. Beyond that, the same provisions agreed upon for 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 explained in more detail in → NOTE 26 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 payout/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 | On the basis of a twelve-month reference period (compensation year), change in share price measured over the following 36 months (performance period) | 0 – 200% | 300% of the respective target amount | Dependent on<br>– Target achievement<br>– Stock price at transfer |

## Maximum amount for overall compensation

In addition to the maximum amounts for variable compensation and long-term stock-based compensation, a maximum amount for overall compensation 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 (Bonus) and the target amount for long-term stock-based compensation, excluding fringe benefits and pension benefit commitments. When fringe benefits and pension benefit commitments are included, the maximum amount of overall compensation 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 build-up phase – Managing Board members continuously hold Siemens shares 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 decisive 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 date of proof of adherence. 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 adherence to the Share Ownership Guidelines.

Adherence to these guidelines must be proven for the first time after a four-year build-up phase. Thereafter, it must be proven annually. If the value of a Managing Board member's accrued holdings falls below the required minimum due to fluctuations in Siemens' share price, 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 of their Bonus. This percentage is decided upon annually by the Supervisory Board and was most recently set at 28%. In making its decision, 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 goes 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.

Due to Lisa Davis' tax status in the U.S., some of the details of her pension benefit commitment differ from the standard provisions, in particular, details regarding collateral.

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. Payout in installments or a lump-sum payment may – in this case, too – 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.

## 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 (severance 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 aforementioned 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 shareholder or multiple shareholders acting 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 equal to 5% of the total compensatory 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 Awards that were granted 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 spin-off, the transfer of an operation, or a change of activity within the 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 holding of positions in Siemens companies is considered to be covered by the contractual Managing Board remuneration. As a rule, Managing Board members are obligated to waive any remuneration 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 remuneration 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 2018

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. An internal review of the appropriateness of Managing Board compensation for fiscal 2018 has confirmed that the remuneration of the Managing Board resulting from target achievement for fiscal 2018 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-based compensation 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 (Bonus):

| Target parameter | 100% of target | Actual figure for FY 2018 | Target achievement |
|---|---|---|---|
| Return on capital employed, ROCE[1] | 11.00% | 12.67% | 155.67% |
| Earnings per share, basic EPS[1] (Ø 2016 – 2018) | €7.67 | €7.10 | 62.00% |
| Individual targets | Focus topics 2018: Customer/Growth, Efficiency, Digitalization, Leadership | – | 100 – 140% |

1 Continuing and discontinued operations.

In fiscal 2018, Bonus-related target attainment by Managing Board members was between 105.89% and 119.23%. 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 Awards granted for fiscal 2018 was based on the closing price of Siemens stock in Xetra trading on the date of grant in November 2017, less the present value of dividends expected during the restriction period. The share price used to determine the number of Stock Awards was €100.01 (2017: €91.32).

### Total compensation

On the basis of the Supervisory Board's decisions described above, Managing Board compensation for fiscal 2018 totaled €31.72 million (2017: €33.97 million), a decrease of 6.6%. Of this total amount, €21.93 million (2017: €20.73 million) was attributable to cash compensation and €9.79 million (2017: €13.24 million) to stock-based compensation.

The compensation presented on the following pages was granted to the members of the Managing Board for fiscal 2018 (individual disclosure).

**Managing Board members serving as of September 30, 2018**

(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 compensation (Code)** [6] | |
| Total compensation of all Managing Board members for fiscal 2018, in accordance with the applicable reporting standards, amounted to €31.72 million (2017: €33.97 million). In this context, the payout amount for one-year variable compensation (Bonus) presented below is used instead of the target value according to the Code. 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** | | |


**Managing Board members serving as of September 30, 2018**

(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 compensation (Code)** [6] | |
| Total compensation of all Managing Board members for fiscal 2018, in accordance with the applicable reporting standards, amounted to €31.72 million (2017: €33.97 million). In this context, the payout amount for one-year variable compensation (Bonus) presented below is used instead of the target value according to the Code. 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 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 provided by the company for any taxes due in this regard, currency adjustment payments and costs relating to preventive medical examinations.

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 2018; 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 IFRS in fiscal 2018 and fiscal 2017 amounted to €13,573,256 and €19,031,892, respectively. The following amounts pertained to the members of the Managing Board in fiscal 2018: Joe Kaeser €3,474,486 (2017: €3,344,690), Dr. Roland Busch €1,785,096 (2017: €1,781,634), Lisa Davis €1,701,198 (2017: €1,301,296), Klaus Helmrich €1,785,401 (2017: €1,784,593), Janina Kugel €1,566,652 (2017: €1,278,363), Cedrik Neike €419,403 (2017: €2,978,584), Michael Sen €653,500 (2017: €135,659) and Prof. Dr. Ralf P. Thomas €1,855,216 (2017: €1,393,673). The corresponding expense, determined in the same way, for former Managing Board members was as follows: Brigitte Ederer €0 (2017: €218,614), Barbara Kux – €72,498 (2017: €218,614), Peter Löscher €0 (2017: €538,356), Prof. Dr. Hermann Requardt – €26,232 (2017: €32,566), Prof. Dr. Siegfried Russwurm €379,331 (2017: €3,303,141), Peter Y. Solmssen €74,155 (2017: €692,506), and Dr. Michael Süß – €22,452 (2017: €29,604). The payout of Stock Awards and Bonus Awards received in fiscal 2018 amounted to less than the accrued provisions. Provisions equal to the difference were reversed and recognized in the income statements, which led to a total gain of €526,667. Since no further provisions for outstanding tranches were accrued for former Managing Board members, the reversal led to a reported gain in connection with these former members.

4 The Stock Awards granted in fiscal 2018 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 €10,052,107 (2017: €12,930,417). The amounts for individual Managing Board members were as follows: Joe Kaeser €2,233,023 (2017: €2,200,081), Dr. Roland Busch €1,117,012 (2017: €1,100,041), Lisa Davis €1,117,012 (2017: €1,100,041), Klaus Helmrich €1,117,012 (2017: €1,100,041), Janina Kugel €1,117,012 (2017: €1,055,020), Cedrike Neike €1,117,012 (2017: €3,700,065), Michael Sen €1,117,012 (2017: €1,025,067), Prof. Dr. Ralf P. Thomas €1,117,012 (2017: €1,100,041) and for former Managing Board member Prof. Dr. Siegfried Russwurm €0 (2017: €550,020).

5 Total maximum compensation for fiscal 2018 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

| | Joe Kaeser | | | | Dr. Roland Busch | | | | Lisa Davis[7] | | | | Klaus Helmrich | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | President and CEO | | | | Managing Board member | | | | Managing Board member | | | | Managing Board member | | | |
| | 2017 | 2018 | 2018 (Min) | 2018 (Max) | 2017 | 2018 | 2018 (Min) | 2018 (Max) | 2017 | 2018 | 2018 (Min) | 2018 (Max) | 2017 | 2018 | 2018 (Min) | 2018 (Max) |
| | 2,130 | **2,162** | 2,162 | 2,162 | 1,065 | **1,080** | 1,080 | 1,080 | 1,065 | **1,080** | 1,080 | 1,080 | 1,065 | **1,080** | 1,080 | 1,080 |
| | 104 | **115** | 115 | 115 | 55 | **55** | 55 | 55 | 512 | **401** | 401 | 401 | 52 | **44** | 44 | 44 |
| | 2,234 | **2,277** | 2,277 | 2,277 | 1,120 | **1,135** | 1,135 | 1,135 | 1,577 | **1,481** | 1,481 | 1,481 | 1,117 | **1,124** | 1,124 | 1,124 |
| | 2,130 | **2,162** | 0 | 5,188 | 1,065 | **1,080** | 0 | 2,592 | 1,065 | **1,080** | 0 | 2,592 | 1,065 | **1,080** | 0 | 2,592 |
| | 2,096 | **2,175** | 0 | 6,699 | 1,048 | **1,088** | 0 | 3,351 | 1,048 | **1,088** | 0 | 3,351 | 1,048 | **1,088** | 0 | 3,351 |
| | 6,460 | **6,613** | 2,277 | 11,145 | 3,233 | **3,303** | 1,135 | 5,571 | 3,690 | **3,649** | 1,481 | 5,571 | 3,230 | **3,291** | 1,124 | 5,571 |
| | 1,193 | **1,207** | 1,207 | 1,207 | 622 | **593** | 593 | 593 | 566 | **581** | 581 | 581 | 621 | **593** | 593 | 593 |
| | 7,653 | **7,820** | 3,484 | 12,352 | 3,855 | **3,896** | 1,728 | 6,164 | 4,256 | **4,230** | 2,062 | 6,152 | 3,851 | **3,884** | 1,717 | 6,164 |
| | | | | | | | | | | | | | | | | |
| | 2,639 | **2,505** | | | 1,284 | **1,216** | | | 1,248 | **1,180** | | | 1,284 | **1,288** | | |
| | 6,969 | **6,956** | | | 3,452 | **3,439** | | | 3,873 | **3,749** | | | 3,448 | **3,499** | | |

| | Janina Kugel | | | | Cedrik Neike[8, 9] | | | | Michael Sen | | | | Prof. Dr. Ralf P. Thomas | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Managing Board member | | | | Managing Board member | | | | Managing Board member | | | | CFO | | | |
| | 2017 | 2018 | 2018 (Min) | 2018 (Max) | 2017 | 2018 | 2018 (Min) | 2018 (Max) | 2017 | 2018 | 2018 (Min) | 2018 (Max) | 2017 | 2018 | 2018 (Min) | 2018 (Max) |
| | 1,011 | **1,080** | 1,080 | 1,080 | 533 | **1,080** | 1,080 | 1,080 | 533 | **1,080** | 1,080 | 1,080 | 1,065 | **1,080** | 1,080 | 1,080 |
| | 40 | **40** | 40 | 40 | 15 | **29** | 29 | 29 | 115 | **510** | 510 | 510 | 69 | **72** | 72 | 72 |
| | 1,051 | **1,120** | 1,120 | 1,120 | 548 | **1,109** | 1,109 | 1,109 | 648 | **1,590** | 1,590 | 1,590 | 1,134 | **1,152** | 1,152 | 1,152 |
| | 1,011 | **1,080** | 0 | 2,592 | 533 | **1,080** | 0 | 2,592 | 533 | **1,080** | 0 | 2,592 | 1,065 | **1,080** | 0 | 2,592 |
| | 1,005 | **1,088** | 0 | 3,351 | 4,079 | **1,088** | 0 | 3,351 | 1,347 | **1,088** | 0 | 3,351 | 1,048 | **1,088** | 0 | 3,351 |
| | 3,067 | **3,288** | 1,120 | 5,571 | 5,159 | **3,277** | 1,109 | 5,571 | 2,528 | **3,757** | 1,590 | 5,571 | 3,247 | **3,319** | 1,152 | 5,571 |
| | 593 | **577** | 577 | 577 | 1,214 | **553** | 553 | 553 | 703 | **559** | 559 | 559 | 622 | **596** | 596 | 596 |
| | 3,659 | **3,865** | 1,697 | 6,148 | 6,373 | **3,830** | 1,662 | 6,124 | 3,231 | **4,316** | 2,148 | 6,130 | 3,869 | **3,915** | 1,747 | 6,167 |
| | | | | | | | | | | | | | | | | |
| | 1,151 | **1,144** | | | 606 | **1,144** | | | 624 | **1,252** | | | 1,284 | **1,216** | | |
| | 3,207 | **3,352** | | | 5,233 | **3,341** | | | 2,619 | **3,929** | | | 3,466 | **3,455** | | |

compensation), the maximum amount is less than the total of the individual contractual caps for performance-based components.

6 Total compensation reflects the respective fair value of stock-based compensation components on the grant date. On the basis of the respective monetary values of stock-based compensation components, total compensation amounted to €31,982,259 (2017: €33,657,370).

7 Lisa Davis' 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 2016 and 2017, as well as for the Bonus for fiscal years 2016 and 2017, a currency-adjustment payment was granted.

8 To compensate for the forfeiture of stock at his previous employer, the Supervisory Board granted Cedrik Neike a one-time amount of €4,200,000 in fiscal 2017. Of this amount, 75% 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 settled in September 2017. The other half fell due and was settled in September 2018. The value of these Siemens Phantom Stock Awards depended solely on the performance of Siemens stock. Because they were granted as compensation for the forfeiture of stock at Cedrik Neike's 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 In addition to his role as a member of the Managing Board of Siemens AG, Cedrik Neike serves as Executive Chairman of the Board of Directors of Siemens Ltd. China. Of the fixed compensation as well as the one-year (payout amount) and multi-year variable compensation reported here, an amount of €776,350 (2017: €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 €13,409 (2017: €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 Cedrik 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. To date, no such offset payments have been made.

## Benefits received

The following table shows the benefits received for fiscal 2018 for fixed compensation, fringe benefits, one-year variable compensation (Bonus) 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 2018 and shown in the previous table, this table includes the actual figure for multi-year variable compensation granted in previous years and received in fiscal 2018.

**Managing Board members serving as of September 30, 2018**

(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: 2013 – 2017)[3] |
| | | Siemens Stock Awards (restriction period: 2012– 2016)[4] |
| | | Bonus Awards (waiting period: 2013 – 2017)[5] |
| | | Bonus Awards (waiting period: 2012 – 2016)[5] |
| | Other[6] | |
| | **Total** | |
| | Service Cost | |
| | **Total compensation (Code)** | |

**Managing Board members serving as of September 30, 2018**

(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: 2013 – 2017)[3] |
| | | Siemens Stock Awards (restriction period: 2012– 2016)[4] |
| | | Bonus Awards (waiting period: 2013 – 2017)[5] |
| | | Bonus Awards (waiting period: 2012 – 2016)[5] |
| | Other[6] | |
| | **Total** | |
| | Service Cost | |
| | **Total compensation (Code)** | |

1 Fringe benefits include the costs 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 provided by the company for any taxes due in this regard, currency adjustment payments and costs relating to preventive medical examinations.

2 The payout amount of the one-year variable compensation (Bonus) reported above represents the amount awarded for fiscal 2018, which will be paid out in January 2019.

3 For one half of the Siemens Stock Awards 2013, target attainment depended on the EPS for the last three fiscal years and amounted to 118%. 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 100%. As a result, the Siemens Stock Awards 2013 that had already been granted on the basis of 100% target attainment were settled in the form of cash compensation, in accordance with plan rules.

4 For one half of the Siemens Stock Awards 2012, target attainment depended on the EPS 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 without replacement, in accordance with plan rules.

5 One half of the Bonus for fiscal 2012 and fiscal 2013 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 2016 and November 2017, respectively, the Bonus Awards were settled in the form of cash compensation.

6 For Joe Kaeser, Dr. Roland Busch, Klaus Helmrich and Prof. Dr. Ralf P. Thomas, "Other" includes, in fiscal 2017, the adjustment of the Siemens Stock Awards 2012 and Bonus Awards 2012 (transfer in November 2016) 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 her previous employer, Janina Kugel was granted a special allocation of 3,999 Siemens Stock Awards in February 2014. This commitment arose out of an entitlement that Janina Kugel had acquired when she was an employee of Siemens AG before she became a member of the Managing Board. In February 2018, after expiration of the four-year restriction period, the Siemens Stock Awards were settled in the form of cash compensation. The value of these Siemens Stock Awards is included under "Other."

| | Joe Kaeser | | Dr. Roland Busch | | Lisa Davis | | Klaus Helmrich | |
|---|---|---|---|---|---|---|---|---|
| | President and CEO | | Managing Board member | | Managing Board member | | Managing Board member | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | 2,162 | 2,130 | 1,080 | 1,065 | 1,080 | 1,065 | 1,080 | 1,065 |
| | 115 | 104 | 55 | 55 | 401 | 512 | 44 | 52 |
| | 2,277 | 2,234 | 1,135 | 1,120 | 1,481 | 1,577 | 1,124 | 1,117 |
| | 2,505 | 2,639 | 1,216 | 1,284 | 1,180 | 1,248 | 1,288 | 1,284 |
| | 3,609 | 4,570 | 2,205 | 2,949 | 0 | 0 | 2,196 | 3,052 |
| | 2,800 | 0 | 1,577 | 0 | 0 | 0 | 1,577 | 0 |
| | 0 | 3,542 | 0 | 2,024 | 0 | 0 | 0 | 2,024 |
| | 809 | 0 | 628 | 0 | 0 | 0 | 619 | 0 |
| | 0 | 1,028 | 0 | 925 | 0 | 0 | 0 | 1,028 |
| | 0 | 200 | 0 | 129 | 0 | 0 | 0 | 133 |
| | 8,391 | 9,643 | 4,556 | 5,482 | 2,661 | 2,825 | 4,608 | 5,586 |
| | 1,207 | 1,193 | 593 | 622 | 581 | 566 | 593 | 621 |
| | 9,597 | 10,835 | 5,149 | 6,104 | 3,242 | 3,391 | 5,201 | 6,207 |

| | Janina Kugel [7, 8] | | Cedrik Neike [9, 10] | | Michael Sen | | Prof. Dr. Ralf P. Thomas | |
|---|---|---|---|---|---|---|---|---|
| | Managing Board member | | Managing Board member | | Managing Board member | | CFO | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | 1,080 | 1,011 | 1,080 | 533 | 1,080 | 533 | 1,080 | 1,065 |
| | 40 | 40 | 29 | 15 | 510 | 115 | 72 | 69 |
| | 1,120 | 1,051 | 1,109 | 548 | 1,590 | 648 | 1,152 | 1,134 |
| | 1,144 | 1,151 | 1,144 | 606 | 1,252 | 624 | 1,216 | 1,284 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 775 | 891 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 751 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 891 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 24 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 453 | 0 | 1,457 | 1,402 | 0 | 0 | 0 | 39 |
| | 2,718 | 2,202 | 3,710 | 2,556 | 2,841 | 1,272 | 3,143 | 3,347 |
| | 577 | 593 | 553 | 1,214 | 559 | 703 | 596 | 622 |
| | 3,295 | 2,795 | 4,263 | 3,770 | 3,400 | 1,975 | 3,738 | 3,969 |

8 At the beginning of fiscal 2018, Janina Kugel was also entitled to 2.501 matching shares from the Share Matching Program (see → **NOTE 26** in **B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**). She had acquired this entitlement when she was an employee of Siemens AG before she became a member of the Managing Board. The entitlement fell due and was settled in February 2018. At the time of transfer, the shares had a value equivalent to €291.37.

9 To compensate for the forfeiture of stock at his previous employer, the Supervisory Board granted Cedrik Neike a one-time amount of €4,200,000 in fiscal 2017. Of this amount, 75% 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 settled in September 2017. The other half fell due and was settled in September 2018. The value of these Siemens Phantom Stock Awards depended solely on the performance of Siemens stock and is included under "Other."

10 In addition to his role as a member of the Managing Board of Siemens AG, Cedrik Neike serves as Executive Chairman of the Board of Directors of Siemens Ltd. China. Of the fixed compensation and payout amount for one-year variable compensation (Bonus) reported here, an amount of €514,725 (2017: €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 €13,409 (2017: €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 Cedrik 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. To date, no such offset payments have been made.

## Pension benefit commitments

For fiscal 2018, the members of the Managing Board were granted contributions under the BSAV totaling €5.4 million (2017: €5.0 million), based on a resolution of the Supervisory Board dated November 7, 2018. Of this amount, €0.03 million (2017: €0.06 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 end 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 2018 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 €) | 2018 | 2017 | 2018 | 2017 |
| **Managing Board members serving as of September 30, 2018** | | | | |
| Joe Kaeser | **1,210,440** | 1,192,800 | **12,970,960** | 11,195,488 |
| Dr. Roland Busch | **604,800** | 596,400 | **5,121,226** | 4,742,811 |
| Lisa Davis[4] | **604,800** | 596,400 | **5,322,537** | 4,532,350 |
| Klaus Helmrich | **604,800** | 596,400 | **5,714,522** | 5,007,306 |
| Janina Kugel | **604,800** | 566,160 | **2,157,427** | 1,628,418 |
| Cedrik Neike | **604,800** | 298,200 | **1,757,258** | 1,213,897 |
| Michael Sen | **604,800** | 298,200 | **1,239,785** | 703,169 |
| Prof. Dr. Ralf P. Thomas | **604,800** | 596,400 | **5,235,121** | 4,727,702 |
| **Total[5]** | **5,444,040** | **4,740,960** | **39,518,836** | **33,751,141** |

1 The expenses (service cost) recognized in accordance with IFRS in fiscal 2018 for Managing Board members' entitlements under the BSAV in fiscal 2018 amounted to €5,258,315 (2017: €6,754,665).

2 The defined benefit obligations reflect one-time special contributions to the BSAV for new appointments from outside the Company, amounting to €0 (2017: €1,525,000), therein Cedrik Neike €0 (2017: €1,050,000) and Michael Sen €0 (2017: €475,000).

3 Deferred compensation totals €4,115,237 (2017: €4,001,386), including €3,694,439 for Joe Kaeser (2017: €3,590,178), €362,606 for Klaus Helmrich (2017: €354,801) and €58,192 for Prof. Dr. Ralf P. Thomas (2017: €56,407).

4 In accordance with the provisions of the BSAV, benefits to be paid to Lisa Davis are not in any way secured or funded through the trust associated with the Company's BSAV plan or with any other trust. They represent only an unsecured, unfunded legal obligation on the part of the Company to pay such benefits in the future under certain conditions, and the payout will only be made from the Company's general assets.

5 Compared to the amounts presented in the 2017 Compensation Report, the total figure for 2017 does not include the contribution of €298,200 for Prof. Dr. Siegfried Russwurm, who left the Managing Board on March 31, 2017, nor does it include his defined benefit obligation of €6,317,937.

In fiscal 2018, 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 €39.9 million (2017: €34.1 million). This figure includes the lump-sum payment of the pension benefit balance of the former Managing Board member Peter Löscher.

The defined benefit obligation (DBO) of all pension commitments to former members of the Managing Board and their surviving dependents as of September 30, 2018, amounted to €168.2 million (2017: €191.5 million). This figure is included in → NOTE 17 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 2018

### Stock commitments

The following table shows the changes in the balance of the stock commitments held by Managing Board members in fiscal 2018:

| | Balance at beginning of fiscal 2018 | | Granted during fiscal year[1] | Vested and settled during fiscal year[2] | Forfeited during fiscal year | Balance at end of fiscal 2018[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, 2018** | | | | | | | |
| Joe Kaeser | **16,206** | **128,784** | 22,328 | 30,833 | 0 | **9,296** | **127,189** |
| Dr. Roland Busch | **10,942** | **67,749** | 11,169 | 18,841 | 0 | **5,578** | **65,441** |
| Lisa Davis | **576** | **65,307** | 11,169 | 0 | 0 | **576** | **76,476** |
| Klaus Helmrich | **10,111** | **67,749** | 11,169 | 18,764 | 0 | **4,824** | **65,441** |
| Janina Kugel | **0** | **40,965** | 11,169 | 3,999 | 0 | **0** | **48,135** |
| Cedrik Neike[4] | **0** | **19,099** | 11,169 | 13,076[5] | 0 | **0** | **17,192** |
| Michael Sen | **0** | **11,225** | 11,169 | 0 | 0 | **0** | **22,394** |
| Prof. Dr. Ralf P. Thomas | **5,030** | **60,690** | 11,169 | 6,624 | 0 | **4,824** | **65,441** |
| **Total** | **42,865** | **461,568** | 100,511 | 92,137 | 0 | **25,098** | **487,709** |

1 The fair value as of the grant date for fiscal 2018 was €97.39 per granted share.

2 For one half of the Siemens Stock Awards 2013, target attainment depended on the EPS value for the past three fiscal years and amounted to 118%. 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 100%. As a result, the Siemens Stock Awards 2013 that had already been granted on the basis of 100% target attainment were settled in the form of cash compensation, in accordance with plan rules.

3 Amounts also include Stock Awards granted in November 2017 for fiscal 2018. These amounts may further include Stock Awards received as compensation by the relevant Managing Board member before joining the Managing Board.

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

5 The amount includes the non-forfeitable Siemens Phantom Stock Awards that Cedrik Neike received to compensate for the forfeiture of stock at his previous employer. One half of the total amount of these granted Siemens Phantom Stock Awards fell due and was settled in September 2017. The other half fell due and was settled in September 2018. The value of these Siemens Phantom Stock Awards depended solely on the performance of Siemens stock.

### Share Ownership Guidelines

The deadlines by which the individual Managing Board members must provide first-time proof of adherence to the Siemens Share Ownership Guidelines vary from member to member, depending on when he or she was appointed to the Managing Board. For Managing Board members in office on September 30, 2018, the following table shows the number of Siemens shares held as of the March 2018 deadline for proving adherence to the Share Ownership Guidelines. It also shows the number of shares to be held throughout their terms of office, with a view toward future deadlines.

| | Obligations under Share Ownership Guidelines | | | | | |
|---|---|---|---|---|---|---|
| | Required | | | Proven | | |
| | Percentage of base compensation[1] | Value[1] in € | Number of shares[2] | Percentage of base compensation[1] | Value[2] in € | Number of shares[3] |
| **Managing Board members serving as of September 30, 2018, and required to show proof as of March 9, 2018** | | | | | | |
| Joe Kaeser | 300% | 6,014,156 | 51,106 | 348% | 6,970,099 | 59,229 |
| Dr. Roland Busch | 200% | 2,075,300 | 17,635 | 249% | 2,584,183 | 21,959 |
| Klaus Helmrich | 200% | 2,075,300 | 17,635 | 265% | 2,745,716 | 23,332 |
| Prof. Dr. Ralf P. Thomas | 200% | 2,075,300 | 17,635 | 239% | 2,479,006 | 21,066 |
| **Total** | | **12,240,056** | **104,011** | | **14,779,004** | **125,586** |

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 €117.68 for the fourth quarter of 2017 (October – December).

3 As of March 9, 2018 (date of proof), including Bonus Awards.

## A.10.1.4 OUTLOOK FOR FISCAL 2019

### Changes under Vision 2020+

Due to the strategic realignment of the Siemens Group under Vision 2020+, a comprehensive review of the compensation policy is being performed in view of all regulatory requirements. In addition, implementation of the European Shareholder Rights Directive can be expected to lead to further legal requirements. Plans call for submitting the compensation policy to the Annual Shareholders' Meeting for approval following implementation of these statutory provisions.

### Transfer of the 2014 and 2015 Stock Awards tranches in November 2018

In November 2015, the target measurement period for Siemens Stock Awards was shortened by one year in order to be aligned with prevailing market practice. For the Managing Board, this change resulted in a one-time transfer of two tranches in November 2018 (for fiscal years 2014 and 2015).

## 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 have been in effect since 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 car service.

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

The compensation shown in the following table was determined for each of the members of the Supervisory Board for fiscal 2018 (individualized disclosure).

| (Amounts in €) | 2018 Base compen-sation | 2018 Additional compensa-tion for com-mittee work | 2018 Meeting attendance fee | 2018 Total | 2017 Base compen-sation | 2017 Additional compensa-tion for com-mittee work | 2017 Meeting attendance fee | 2017 Total |
|---|---|---|---|---|---|---|---|---|
| **Supervisory Board members serving as of September 30, 2018** | | | | | | | | |
| Jim Hagemann Snabe[1] | 245,000 | 240,000 | 51,000 | 536,000 | 133,333 | 114,286 | 31,500 | 279,119 |
| Birgit Steinborn[2] | 220,000 | 200,000 | 57,000 | 477,000 | 220,000 | 200,000 | 48,000 | 468,000 |
| Werner Wenning | 220,000 | 140,000 | 43,500 | 403,500 | 220,000 | 140,000 | 42,000 | 402,000 |
| Dr. Werner Brandt[3] | 105,000 | 120,000 | 15,000 | 240,000 | – | – | – | – |
| Michael Diekmann | 140,000 | 60,000 | 16,500 | 216,500 | 133,333 | 57,143 | 13,500 | 203,976 |
| Dr. Andrea Fehrmann[2, 3] | 105,000 | – | 7,500 | 112,500 | – | – | – | – |
| Reinhard Hahn[2] | 140,000 | – | 12,000 | 152,000 | 140,000 | – | 10,500 | 150,500 |
| Bettina Haller[2] | 140,000 | 80,000 | 24,000 | 244,000 | 133,333 | 76,190 | 21,000 | 230,524 |
| Robert Kensbock[2] | 140,000 | 180,000 | 31,500 | 351,500 | 140,000 | 180,000 | 31,500 | 351,500 |
| Harald Kern[2] | 140,000 | 80,000 | 24,000 | 244,000 | 133,333 | 76,190 | 19,500 | 229,024 |
| Jürgen Kerner[2] | 140,000 | 200,000 | 54,000 | 394,000 | 140,000 | 200,000 | 40,500 | 380,500 |
| Dr. Nicola Leibinger-Kammüller | 140,000 | 80,000 | 28,500 | 248,500 | 133,333 | 76,190 | 33,000 | 242,524 |
| Benoît Potier[3] | 105,000 | – | 7,500 | 112,500 | – | – | – | – |
| Dr. Norbert Reithofer | 134,167 | 38,333 | 16,500 | 189,000 | 133,333 | 38,095 | 16,500 | 187,929 |
| Dame Nemat Talaat Shafik[3] | 105,000 | – | 7,500 | 112,500 | – | – | – | – |
| Dr. Nathalie von Siemens | 140,000 | 30,000 | 15,000 | 185,000 | 140,000 | – | 10,500 | 150,500 |
| Michael Sigmund | 140,000 | – | 12,000 | 152,000 | 140,000 | – | 10,500 | 150,500 |
| Dorothea Simon[2, 4] | 140,000 | – | 12,000 | 152,000 | – | – | – | – |
| Matthias Zachert[3] | 105,000 | 60,000 | 12,000 | 177,000 | – | – | – | – |
| Gunnar Zukunft[2, 3] | 105,000 | – | 7,500 | 112,500 | – | – | – | – |
| **Former members of the Supervisory Board[3]** | | | | | | | | |
| Dr. Gerhard Cromme | 93,333 | 93,333 | 22,500 | 209,167 | 280,000 | 280,000 | 57,000 | 617,000 |
| Olaf Bolduan[2] | 46,667 | – | 4,500 | 51,167 | 140,000 | – | 10,500 | 150,500 |
| Dr. Hans Michael Gaul | 46,667 | 53,333 | 13,500 | 113,500 | 140,000 | 160,000 | 34,500 | 334,500 |
| Gérard Mestrallet | 46,667 | – | 4,500 | 51,167 | 140,000 | – | 10,500 | 150,500 |
| Güler Sabancı | 46,667 | – | 4,500 | 51,167 | 140,000 | – | 10,500 | 150,500 |
| Sibylle Wankel[2] | 46,667 | 13,333 | 7,500 | 67,500 | 140,000 | 40,000 | 16,500 | 196,500 |
| **Total[5]** | 3,175,833 | 1,668,333 | 511,500 | 5,355,667 | 2,920,000 | 1,638,095 | 468,000 | 5,026,095 |

1 Jim Hagemann Snabe was elected Chairman of the Supervisory Board, effective at the end of the Annual Shareholders' Meeting on January 31, 2018.

2 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).

3 Dr. Werner Brandt, Dr. Andrea Fehrmann, Benoît Potier, Dame Nemat Talaat Shafik, Matthias Zachert and Gunnar Zukunft were elected members of the Supervisory Board, effective at the end of the Annual Shareholders' Meeting on January 31, 2018. They succeeded Olaf Bolduan, Dr. Gerhard Cromme, Dr. Hans Michael Gaul, Gérard Mestrallet, Güler Sabancı and Sibylle Wankel, who left the Supervisory Board, effective at the end of the Annual Shareholders' Meeting on January 31, 2018.

4 Dorothea Simon has been a member of the Supervisory Board since October 1, 2017. She was initially appointed by court order for the period until the end of the Annual Shareholders' Meeting on January 31, 2018. Pursuant to the provisions of the German Codetermination Act, she was elected to the Supervisory Board, effective at the end of the Annual Shareholders' Meeting on January 31, 2018.

5 Compared to the amounts reported in the 2017 Compensation Report, this amount does not include compensation totaling €150,500 for former Supervisory Board member Hans-Jürgen Hartung.

## 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 2018 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 289a para. 1 and 315a para. 1 of the German Commercial Code) and explanatory report**

## A.11.1 Composition of common stock

As of September 30, 2018, the Company's common stock totaled €2.550 billion. The capital stock is divided into 850 million registered shares of 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, 53a 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 9,862,275 shares (as of September 30, 2018) 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, 2018, 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 registered shares of no par value.

The new shares under Authorized Capital 2014 and the aforementioned bonds 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 used to grant holders of conversion or option rights or conversion or option obligations on Siemens shares a compensation for the effects of dilution.

The new shares issued or to be issued in exchange for contributions in cash and in kind and with shareholders' subscription rights excluded, may in certain cases be subject to further restrictions. This includes, in particular, the restriction that the total amount of shares issued or to be issued under the Authorized Capital 2014 or in accordance with the bonds mentioned above 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 71d and 71e 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 23,688,118 shares by September 30, 2018. The total consideration paid for these shares amounted to about €2.632 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, 2018, the Company held 39,951,459 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.