A.1 Business and economic environment

A.1.1 The Siemens Group

A.1.1.1 ORGANIZATION AND BASIS OF PRESENTATION

We are a technology company with core activities in the fields of electrification, automation and digitalization, and activities in nearly all countries of the world. Siemens comprises Siemens AG, a stock corporation under the Federal laws of Germany, as the parent company and its subsidiaries. Our Company is incorporated in Germany, with our corporate headquarters situated in Munich. As of September 30, 2016, Siemens had around 351,000 employees.

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

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

A.1.1.2 BUSINESS DESCRIPTION

The **Power and Gas** Division offers a broad spectrum of products and solutions for generating electricity from fossil fuels and for producing and transporting oil and gas. The portfolio includes gas turbines, steam turbines, generators to be applied to gas or steam power plants, compressor trains, integrated power plant solutions, and instrumentation and control systems for power generation. Customers are public utilities and independent power producers; companies in engineering, procurement and construction that serve these companies; international and national oil companies; and industrial customers that generate power for their own consumption. Due to the broad range of its offerings, the Division's revenue mix may vary from reporting period to reporting period depending on the share of revenue attributable to products, solutions and services. Because typical profitability levels differ among these three revenue sources, the revenue mix in a reporting period accordingly affects Division profit for that period.

The **Wind Power and Renewables** Division designs, manufactures and installs wind turbines for onshore and offshore applications. This includes both geared turbines and direct drive turbines. The product portfolio is based on four product platforms, two each for onshore and offshore applications. The Division primarily serves large utilities and independent power producers. Due to the significant offshore business of the Division and its activities in the Northern hemisphere, production and installations are typically higher during spring and summer months because of the more favorable weather and marine conditions during those seasons. The Division's revenue mix may vary from reporting period to reporting period depending on the project mix between onshore and offshore projects in the respective period. The Division also includes a minority stake in a hydro power business.

In June 2016, Siemens and Gamesa Corporación Tecnológica, S.A. (Gamesa) signed binding agreements to merge the Siemens wind power business, including service, with Gamesa. The two businesses are highly complementary regarding global footprint, existing product portfolios and technologies. The combined business is expected to have a global reach across all relevant regions and manufacturing footprints on all continents. Accordingly, the transaction will result in a product offering covering all wind classes and addressing all key market segments. Siemens will own 59% of the shares of the combined entity. As part of the merger, Siemens will fund a cash payment of €1 billion which will be distributed to Gamesa's shareholders (excluding Siemens) immediately following the completion of the merger. Closing of the transaction is subject to the approvals of the antitrust and regulatory authorities.

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

The **Energy Management** Division offers a wide spectrum of products, systems, solutions, software and services for transmitting and distributing power and for developing intelligent grid infrastructure. The Division's customers include power providers, network operators, industrial companies, infrastructure developers and construction companies. The offerings are used to process and transmit electrical power from the source down to various load points along the power transmission and distribution networks to the power consumers. Our solutions for smart grids enable a bidirectional flow of energy and information, which is required for the integration of more renewable energy sources into conventional power transmission and distribution networks. The Division also offers solutions and energy storage systems for integrating renewable energy into power grids, together with vertical IT software applications that link energy consumers and producers. In addition, the Division's portfolio includes power supply solutions for conventional power plants and renewable energy systems as well as substations for urban and rural distribution networks. The Division also offers energy-efficient solutions for heavy industry, the oil and gas industry and the process industries.

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

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

The **Digital Factory** Division offers a comprehensive product portfolio and system solutions used in manufacturing industries, complemented by lifecycle and data-driven services. These offerings enable customers to optimize entire value chains from product design and development to production and services. With its comprehensive offering, the Division supports manufacturing companies with the 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 in discrete, process and hybrid manufacturing industries. Changes in the level of demand are strongly driven by macroeconomic cycles, and can lead to significant short-term variation in market performance. In the third quarter of fiscal 2016, Digital Factory further strengthened and expanded its software business by acquiring CD-adapco, a U.S.-based provider of simulation software. For more information on the acquisition of CD-adapco, see → NOTE 3 in → B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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

Healthineers ("Healthcare" before renaming in May 2016) is one of the world's largest suppliers of technology to the healthcare industry and a leader in medical imaging and laboratory diagnostics. We provide medical technology and software solutions as well as clinical consulting services, supported by a complete set of training and service offerings. Therefore, we offer our customers a comprehensive portfolio of medical solutions along the continuum of care – from prevention and early detection to diagnosis, treatment and follow-up care. Because large portions of our revenue stem from recurring business, our business activities are to a certain extent resilient to short-term economic trends. They are, however, dependent on regulatory and public policy developments around the world. Healthineers is organized into six business areas: Diagnostic Imaging, Laboratory Diagnostics, Advanced Therapies, Ultrasound, Point of Care Diagnostics and Services.

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

A.1.1.3 RESEARCH AND DEVELOPMENT

Our research and development (R&D) activities are ultimately geared to developing innovative, sustainable solutions for our customers – and the Siemens businesses – and simultaneously safeguarding our competitiveness. For these reasons, we focus in particular on

- enabling energy supplies that are economically sustainable;
- further enhancing efficiency in the generation of renewable and conventional power and minimizing losses during power transmission;
- finding novel solutions for smart grids and for the storage of energy from renewable sources with irregular availability;
- promoting the efficient utilization of energy, especially in buildings, industry and transportation, e.g. through highly efficient drives for production facilities or for local and long-distance trains;
- creating the highly flexible, connected factories of tomorrow using advanced automation and digitalization technologies;
- turning unstructured data into value-adding information, e.g. when providing services such as preventive maintenance;
- advancing the integration of medical imaging technology, in vitro diagnostics and IT for medical engineering to support improved patient outcomes.

Beyond these points of focus, we recognize how important highly sophisticated software solutions are for all the fields of business in which Siemens is active. R&D activities are carried out by our businesses as well as our Corporate Technology (CT) department.

Corporate Technology is both a creative driver of disruptive innovations and a partner to the Siemens businesses. Its R&D activities are focused on the Company's core activities in the fields of electrification, automation and digitalization. In many research projects, CT works closely with scholars from leading universities and research institutions. These partnerships, along with close collaborations with start-ups, are an important part of Siemens' open innovation concept, which is designed to make the Company even more innovative.

In fiscal 2016, Siemens announced the creation of an autonomous unit that will place the Company's partnership with start-ups on a much higher level: next47. The unit went into operation in October 2016. It has been given a budget of €1 billion for its first five years. With the creation of next47, Siemens plans to further enhance its innovativeness and speed up the introduction of innovations to the marketplace. next47 is focusing on five innovation fields: artificial intelligence, distributed electrification, autonomous machines, blockchain applications and connected electric mobility. Electrically powered flight is an example of a disruptive development being pursued by next47. In cooperation with Airbus, Siemens intends to demonstrate by 2020 that electricity can be used to power large planes.

In fiscal 2016, we reported research and development expenses of €4.7 billion, compared to €4.5 billion in fiscal 2015. The resulting R&D intensity, defined as the ratio of R&D expenses and revenue, was 5.9% – the same level as in fiscal 2015. Additions to capitalized development expenses amounted to €0.3 billion in both fiscal 2016 and 2015, mainly at Healthineers. As of September 30, 2016, Siemens held approximately 59,800 granted patents worldwide in its continuing operations. As of September 30, 2015, it held approximately 56,200 granted patents. On average, we had 33,000 R&D employees in fiscal 2016.

Research and Development in our Businesses

R&D at the **Power and Gas** Division concentrates on developing products and solutions for enhancing efficiency, flexibility and economy in power generation and in the oil and gas industry. These products and solutions include turbomachinery – primarily high-performance, low-emission gas turbines for single operation or for combined cycle power plants – and compressor solutions for various process industries. The Division's current technology initiative, which started in fiscal 2015, is aimed at intensifying R&D in innovative materials, advanced manufacturing methods and plant optimization. Along with promoting digitalization in overall product lifecycles, Power and Gas is on track preparing for changing energy markets and their increasingly diversified centralized and decentralized structures.

At the **Wind Power and Renewables** Division, our R&D efforts are focused on innovative products and solutions that allow us to take the lead in performance, improve our competitiveness, and build a stronger business case for customers. This includes finding ways to more intelligently monitor and analyze turbine conditions, and smart diagnostic services. Our R&D efforts also focus on digitalization. At our remote diagnostics center in Brande, Denmark, we collect digital data from more than 10,000 turbines in more than 30 countries, which total more than 24 million data sets annually. We use this data to provide value for our customers: in 85% of cases, issues can be corrected and turbines restarted without sending out a service team.

The R&D activities of our **Energy Management** Division focus on preparing our portfolio for changes on all voltage levels in the world of electricity. The increasing infeed of renewable energy to power grids requires that those grids become more flexible and efficient, particularly with distributed generation on the rise. The digitalization of future grids will enable intelligent grid operation and data-driven services. Cost-out programs and optimization of our footprint are improving the competitiveness of our product portfolio on global markets. Our innovations are centered on power electronics, digitalization or grid stabilization. The full integration of energy supply systems with process automation is a core portfolio element for industrial applications and infrastructures.

R&D work at the **Building Technologies** Division focuses on optimizing comfort, operational and energy efficiency in buildings and infrastructures, protecting against fire and security hazards, and minimizing related risks. We aim to create a portfolio of products and services ranging from the field to the cloud, based on open standards wherever possible. This includes data-based services for new ways of optimizing energy consumption, easily scalable and reasonably priced services, a new and harmonized system landscape with effective integration of electrical consumption, fire detection and HVAC (heating, ventilation, air conditioning) systems, and a complete range of products tailored specifically to growing markets.

The **Mobility** Division's R&D strategy addresses customers' demand for maximum availability, high throughput and enhanced passenger experience. Although there is a growing need for mobility worldwide, possibilities for building new roads and railways are limited. Meeting the demand for mobility requires intelligent solutions that make transport more efficient, safe and environmentally friendly. Reflecting this, Mobility's R&D activities emphasize digitalization in developing state-of-the art rail vehicles, automation solutions for rail and road traffic, and rail electrification systems. Most of these goals can be achieved only with intelligent IT solutions such as WLAN-based control systems for driverless and conductorless metro train operation, decentralized wayside architecture for rail automation, cloud-based product solutions, and Integrated Mobility Platforms that intelligently network passengers, mobility service providers and traffic management centers.

One of the R&D priorities at the **Digital Factory Division** is the Digital Enterprise Software Suite. It includes Teamcenter software. Serving as a data backbone, Teamcenter digitizes the entire product lifecycle management (PLM) process – from product design through planning and engineering to production and service. In addition, the TIA (Totally Integrated Automation) Portal engineering platform is being intensively improved. Thanks to its open interfaces, it exchanges data with other systems. The seamless link to simulation tools enhances the benefits of virtual commissioning, which is used to identify flaws at an early stage and in a cost-effective manner. Data-based services are another field of research. Siemens offers MindSphere, an industry cloud that industrial companies can use to develop and provide their own digital services. As a result, new types of services such as predictive maintenance and resource optimization can be provided. Machinery and plant builders can use it to monitor production operations around the world. MindSphere helps them reduce downtimes and offer new business models.

The focus of R&D activities in the **Process Industries and Drives Division** is on the digital transformation of products, solutions and services for all sectors in the process industry, such as oil and gas, chemicals and pharmaceuticals. Information and communication technologies (ICT) play a crucial role in areas such as improvements in instrumentation, analytics, industrial communication and process control systems. The end-to-end use of ICT is as essential a prerequisite for the expansion of drive and transmission platforms by means of integrated condition monitoring and service cloud connections as it is for the commissioning and operation of processing plants or the use of computer-assisted simulations to support their operators. The same applies for new service offerings that complement operational engineering data with additional condition-related data (condition monitoring) and use it for purposes such as asset management. The digitalization of our comprehensive process automation and industrial communication portfolio includes a holistic industrial security concept. Another central objective of our R&D activities is to further increase energy efficiency while reducing the consumption of raw materials and cutting emissions. This applies to our own product creation processes as well as to our customers' processes that are facilitated by our products (systems, solutions and services).

The R&D activities of **Healthineers** are directed toward our growth fields in therapy, molecular diagnostics, and services. We want to tap the full potential of imaging solutions in therapy and to establish a closer connection between diagnostics and therapy in cardiology, interventional clinical disciplines, surgery, and radiation oncology. Strategic partnerships are an essential part of our strategy to reach this goal. Expanding our innovation map beyond our established portfolio, and investing in new ideas will help us tap new business fields. For example, we will extend our activities in the highly dynamic growth field of molecular diagnostics. We will expand our services business beyond product-related services by adding a digital services portfolio and increasing enterprise transformation services to help customers in their transition to value-based care within more and more provider organizations across geographical borders.

A.1.2 Economic environment

A.1.2.1 WORLDWIDE ECONOMIC ENVIRONMENT

The development of the world economy in fiscal 2016 again resulted in diminished expectations through the course of the year. After a slight improvement in sentiment indicators in the first quarter, economic activity unexpectedly slowed down in the second and third quarters of fiscal 2016. The growth slowdown was also evident in the development of international trade volume.

As in recent years, sluggish aggregate demand, particularly for investment goods, held back growth. This was influenced significantly by high levels of political and economic uncertainty arising from conflicts in Syria and Iraq, the failed coup in Turkey and U.K.'s vote to leave the European Union, among other factors.

The growth slowdown was especially evident in the U.S. economy in the second and third quarters of fiscal 2016, followed by modest acceleration of economic activity in the fourth quarter. The main reason for this development was an inventory reduction which was substantially resolved by the end of the fiscal year. In addition, the strong US$ weighed on U.S. exports and improved conditions for imports.

The Chinese economy continued its path of rebalancing toward a more consumption- and domestic-demand-driven economy, which has so far been accompanied by a steady decline in economic growth rates. However, the stability of China's economy was partly caused by stimulus measures which have slowed the country's progress on this path.

In Europe, economic activity also decelerated considerably in the second and third quarters of fiscal 2016. Risks in the European banking system resurfaced. The largely unexpected Brexit vote in June 2016 added uncertainty – though the consequences in the following months did not match the initial concerns.

While raw material prices increased following a slump in the second quarter of fiscal 2016, commodity exporting countries still were burdened with overcapacities due to former investment overhangs in extractive sectors. Associated reductions in government spending further weighed on economic activity.

All in all, the negative effects outweighed the positive ones. During the course of the fiscal year, growth forecasts for global gross domestic product (GDP) for calendar 2016 declined from 2.9% in October 2015 to 2.4% in October 2016. Fixed investments are expected to expand by 1.7% in calendar 2016, down from 3.4% previously forecast in October 2015.

The partly estimated figures presented here for GDP and fixed investments are calculated by Siemens based on an IHS Markit report dated October 15, 2016.

A.1.2.2 MARKET DEVELOPMENT

The markets of the **Power and Gas** Division remained challenging in fiscal 2016. This was again particularly evident in the market for steam turbines, where volume shrank substantially year-over-year due to an ongoing shift from coal-fired to gas-fired power generation in the U.S. and emission regulation such as in China. Demand in compression markets also fell year-over-year due to continued reduction in capital expenditure for oil and gas upstream applications. In contrast, demand in the gas turbine market continued to grow in fiscal 2016, driven by rising demand for energy in emerging countries, demand for replacement of aged, inefficient and inflexible power plants; the above-mentioned shift from coal to gas, particularly in the U.S.; an energy market reform in Mexico; large projects in Egypt; diversification towards gas power plants in China and countries in Latin America and the Middle East. The Division's competition consists mainly of two groups: a relatively small number of equipment manufacturers, some with very strong positions in their domestic markets, and on the other hand a large number of engineering, procurement and construction contractors. The gas turbine market is experiencing overcapacity among original equipment manufacturers and engineering, procurement and construction contractors, which is leading to market consolidation.

Following strong demand in fiscal 2015, market volume for the markets served by the **Wind Power and Renewables** Division declined moderately in fiscal 2016. The decline was due to the onshore wind power market segment, only partly offset by growth in the relatively smaller offshore wind power market segment. On a regional basis, the decline was most evident in the Americas, particularly including Brazil and the U.S., and in Asia, Australia, particularly including China, where the largest national wind market in the world remains largely closed to foreign manufacturers. In Europe, in contrast, demand for wind power grew in both the onshore and the offshore market segments. 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 consist of a few experienced players. Consolidation is moving forward in both on- and offshore segments, including exits of smaller players. The key drivers of consolidation are increasing price pressure as well as technology challenges and market access challenges, which increase development costs and the importance of risk-sharing in offshore wind power. Market development continues to depend strongly on energy policy, including tax incentives in the U.S. and regulatory frameworks in Germany and the U.K. With continued technological progress and cost reduction, dependency on subsidy schemes is expected to decrease in the long term.

Markets addressed by the **Energy Management** Division grew moderately in fiscal 2016. The utilities market, the Division's single largest customer segment, showed clear growth, benefiting from major energy transmission investments in Egypt and Qatar and from large interconnection projects, particularly in China and India. The chemicals and the construction industries grew slightly. Growth in the chemicals industry was driven by the Americas, where some process industries showed a trend towards re-industrialization in the U.S. and a build-up of capacities within the region overall. Within the construction industry, increased investments in North America were largely offset by a slow-down in investing activities in Asia, particularly in China. Demand from the metals industry remained on the prior-year level, while the oil and gas industry continued to reduce capital expenditures due to low oil prices. Competitors of the Energy Management Division consist mainly of a small number of large multinational companies. International competition is increasing from manufacturers in emerging countries such as China, India and Korea.

Markets for the **Building Technologies** Division grew moderately in fiscal 2016. Growth was driven by solid demand from the U.S. and Asia, despite softening growth rates in China. Within the Europe, C.I.S., Africa, Middle East region, markets in the Middle East grew stronger than the region overall. The recovery of the European market was weaker than expected but included stable growth in Germany. The Division's principal competitors are multinational companies. Its solutions and services business also competes with system integrators and small local companies. The Division faces continuing price pressure, particularly in its solutions business, due to strong competition from system houses and some larger competitors.

Markets for the **Mobility** Division grew moderately in fiscal 2016, with all regions contributing to growth. Market development in the Europe, C.I.S., Africa, Middle East region was characterized by continuous investment and awards of large orders. This was particularly evident in Germany and the U.K. Demand in the Middle East and in Africa was mainly driven by turnkey and rail infrastructure projects. In the Americas region, growth continued to benefit from demand for passenger locomotives and urban transport products 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 awarded large orders as part of the country's transportation infrastructure build-out. The Division's principal competitors are multinational companies. Consolidation among Mobility's competitors is continuing.

In fiscal 2016, market volume for the markets addressed by the **Digital Factory** Division came in slightly below the level in fiscal 2015. Global manufacturing production grew only modestly but showed some signs of growth stabilization towards the end of the fiscal year. Consumer-oriented industries and the global automotive industry, which is one of the most important end-customer industries of the Division, remained on a stable growth path. In contrast, mining- and oil-related industries continued to suffer from low raw material prices. Demand from the machine-building industry declined modestly year-over-year as investments were held back due mainly to uncertainties in the global political and economic environment. The competition for Digital Factory's business activities can be grouped into two categories: multinational companies that offer a relatively broad portfolio and companies that are active only in certain geographic or product markets.

Market volume for the markets addressed by the **Process Industries and Drives** Division declined moderately in fiscal 2016. This was due mainly to reductions in capital expenditures by customers in commodity-related industries such as oil and gas, mining, cement and metals. Towards the end of the fiscal year, demand from those industries began to stabilize. As described for Digital Factory above, global manufacturing production grew only modestly while the consumer-oriented industries served by Process Industries and Drives, such as food and beverage and pharmaceuticals continued their growth path. Competitors of the Division'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. Consolidation is taking place mostly in particular market segments and not across the broad base of the Division's portfolio. In particular, consolidation in solution-driven markets is going in the direction of in-depth niche market expertise. Most major competitors have established global bases for their businesses. In addition, the competition has become increasingly focused on technological improvements and cost position.

Markets served by **Healthineers** grew moderately in fiscal 2016 as growth in the U.S. and in Europe more than offset weakness in Latin America. Growth in China was stabilizing, though growth rates came in lower than at the beginning of the decade. The diagnostic imaging market segment grew slightly. While demand for imaging procedures continued to grow, this trend was partly offset by price pressure and increased utilization rates. The markets for ultrasound and in-vitro diagnostics grew moderately. Development in the ultrasound market segment benefits from increasing access to healthcare services. 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. For the healthcare industry as a whole, the trend towards consolidation continues. Competition among the leading companies is strong, including with respect to price.

A.2 Financial performance system

A.2.1 Overview

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

A.2.2 Revenue growth

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

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

A.2.3 Profitability and capital efficiency

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

Profit margin ranges

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

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

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

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

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

A.2.4 Capital structure

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

A.2.5 Dividend

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

At the Annual Shareholders' Meeting, the Managing Board, in agreement with the Supervisory Board, will submit the following proposal to allocate the unappropriated net income of Siemens AG for fiscal 2016: to distribute a dividend of €3.60 on each share of no par value entitled to the dividend for fiscal year 2016 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 February 1, 2017. The prior-year dividend was €3.50 per share.

The proposed dividend of €3.60 per share for fiscal 2016 represents a total payout of €2.9 billion based on the estimated number of shares entitled to dividend at the date of the Annual Shareholders' Meeting. Based on net income of €5.6 billion for fiscal 2016, the dividend payout percentage is 52%.

A.2.6 Calculation of return on capital employed

Calculation of ROCE

	Fiscal year	
(in millions of €)	2016	2015
Net income	5,584	7,380
Less: Other interest expenses/income, net[1]	(544)	(662)
Plus: SFS Other interest expenses/income	784	746
Plus: Net interest expenses from post-employment benefits	282	263
Less: Interest adjustments (discontinued operations)	–	–
Less: Taxes on interest adjustments (tax rate (flat) 30%)	(156)	(104)
(I) Income before interest after tax	**5,949**	**7,623**
(II) Average capital employed	**41,573**	**36,367**
(I)/(II) ROCE	**14.3%**	**21.0%**

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.

Average capital employed is determined using the average of the respective balances as of the quarterly reporting dates in the period under review.

Calculation of capital employed

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

A.3 Results of operations

A.3.1 Orders and revenue by region

Negative currency translation effects took one percentage point each from order and revenue development; portfolio effects added one percentage point to order development and two percentage points to revenue growth. The resulting ratio of orders to revenue (book-to-bill) for Siemens in fiscal 2016 was 1.09, again well above 1. The order backlog (defined as the sum of order backlogs of the industrial businesses) was €113 billion as of September 30, 2016.

Orders (location of customer)

(in millions of €)	Fiscal year 2016	2015	% Change Actual	Comp.
Europe, C.I.S., Africa, Middle East	**46,185**	42,539	9%	9%
therein: Germany	*10,525*	*11,991*	*(12)%*	*(13)%*
Americas	**24,794**	24,769	0%	(3)%
therein: U.S.	*18,162*	*17,357*	*5%*	*(2)%*
Asia, Australia	**15,501**	15,033	3%	3%
therein: China	*6,850*	*6,623*	*3%*	*7%*
Siemens	**86,480**	82,340	5%	4%
therein: emerging markets[1]	*30,512*	*29,730*	*3%*	*5%*

1 As defined by the International Monetary Fund.

Despite further softening in the macroeconomic environment in fiscal 2016, reported orders related to external customers increased moderately year-over-year. Within the regions, order development depended strongly on the timing and location of large contract wins in the Divisions that typically take in such orders. In the **Europe, C.I.S., Africa, Middle East** region, orders increased clearly, as substantial growth in Wind Power and Renewables and in Power and Gas more than offset a substantial decline in Mobility. All three results were due to changes in the volume from large orders. Orders came in significantly lower in Germany, due to lower levels of large orders in Wind Power and Renewables and in Mobility compared to fiscal 2015. Orders in the **Americas** region were flat year-over-year, as growth primarily in Power and Gas, in Building Technologies and in Healthineers offset double-digit declines in Wind Power and Renewables and in Energy Management, both due to a lower volume of large orders. U.S. orders increased moderately, supported by portfolio and currency translation effects, and mainly followed the pattern for the region, with the exception that Energy Management came in near the prior-year level. Orders went up in the **Asia, Australia** region due mainly to a higher volume from large orders in Energy Management and a clear increase in Healthineers, only partially offset by declines primarily in Power and Gas and in Wind Power and Renewables. China increased orders moderately, in particular with double-digit growth in Power and Gas, in Energy Management and in Healthineers. These increases were partly offset by decreases in Mobility, in Wind Power and Renewables and in Process Industries and Drives.

Revenue (location of customer)

(in millions of €)	Fiscal year 2016	2015	% Change Actual	Comp.
Europe, C.I.S., Africa, Middle East	**41,819**	38,799	8%	8%
therein: Germany	*10,739*	*11,244*	*(4)%*	*(5)%*
Americas	**22,707**	21,702	5%	1%
therein: U.S.	*16,769*	*15,263*	*10%*	*3%*
Asia, Australia	**15,118**	15,135	0%	(1)%
therein: China	*6,439*	*6,938*	*(7)%*	*(6)%*
Siemens	**79,644**	75,636	5%	4%
therein: emerging markets[1]	*27,268*	*25,239*	*8%*	*9%*

1 As defined by the International Monetary Fund.

Reported revenue related to external customers went up moderately year-over-year and increased in most industrial businesses. Key growth drivers in **Europe, C.I.S., Africa, Middle East** included Power and Gas, Wind Power and Renewables and Mobility due to strong conversion from their respective order backlogs. These increases were partly offset by declines in Energy Management and in Process Industries and Drives. In Germany, revenues decreased moderately, primarily due to Wind Power and Renewables. In the **Americas**, revenue came in higher year-over-year, driven primarily by increases in Power and Gas, in Healthineers and in Mobility. Wind Power and Renewables reported a substantial decline. The pattern in the U. S. was nearly the same as for the region. Revenue in **Asia, Australia** came in near the prior-year level, as declines in Mobility and Process Industries and Drives offset growth in all other industrial businesses. In China, only Power and Gas, Healthineers and Building Technologies were able to increase revenue for the fiscal year.

A.3.2 Segment information analysis

A.3.2.1 POWER AND GAS

(in millions of €)	Fiscal year 2016	2015	% Change Actual	Comp.
Orders	**19,454**	15,742	24%	16%
Revenue	**16,471**	13,418	23%	12%
Profit	**1,872**	1,415	32%	
Profit margin	**11.4%**	10.5%		

Revenue and orders benefited from portfolio effects. Dresser-Rand and the Rolls-Royce Energy aero-derivative gas turbine and compressor business, which were both acquired in fiscal 2015, contributed nine and 12 percentage points to fiscal 2016 order and revenue growth, respectively. Orders increased year-over-year, due mainly to a higher volume from large orders in the solutions business, including in particular large orders for power plants, including service, from Egypt totaling €4.7 billion. The regional picture was mixed; order intake increased substantially in the reporting regions Europe, C.I.S., Africa, Middle East and the Americas and declined clearly in Asia, Australia. Revenue was also up, due mainly to growth in the solutions and large gas turbine businesses. On a regional basis, strong order execution led to substantial revenue growth in Europe, C.I.S., Africa, Middle East, particularly including in Egypt. Revenue also increased in the other two reporting regions. Profit was substantially higher year-over-year and included a continuing strong contribution from the service business. In fiscal 2016, profit benefited from positive effects totaling €118 million from the measurement of inventories. Both years included positive and negative effects related to large projects. In total, the effect in fiscal 2016 was positive, including €130 million from revised estimates related to resumption of long-term construction and service contracts in Iran following the ending or easing of EU and U.S. sanctions. In contrast, it was negative in fiscal 2015, including charges of €106 million related to a project which incurred higher costs for materials and from customer delays. Costs for the integration of Dresser-Rand were €59 million in fiscal 2016 compared to €19 million in fiscal 2015. Finally, severance charges were sharply lower in fiscal 2016, at €69 million compared to €192 million in fiscal 2015. The Division continues to face challenges in an aggressively competitive market for large gas turbines arising from overcapacities across the industry, which results in increased price pressure.

A.3.2.2 WIND POWER AND RENEWABLES

	Fiscal year		% Change	
(in millions of €)	2016	2015	Actual	Comp.
Orders	**7,973**	6,136	30%	35%
Revenue	**5,976**	5,660	6%	9%
Profit	**464**	160	190%	
Profit margin	**7.8%**	2.8%		

Order intake reached a new high for a fiscal year, due mainly to a higher volume from large orders, particularly in the offshore business, which for Siemens means primarily in Europe. As a result, orders more than doubled in the Europe, C.I.S., Africa, Middle East reporting region and included, among others, a number of orders for large offshore wind-farms in the U.K., including service. Order intake in the Americas and Asia, Australia showed a double-digit decline year-over-year. Revenue was up clearly due to strong conversion from the backlog, which resulted in increases in all of the Division's businesses. On a regional basis, substantial increases in Europe, C.I.S., Africa, Middle East and Asia, Australia more than offset a substantial decline in the Americas. Strong profitability in fiscal 2016 included a more favorable revenue mix including a higher share from the offshore and service businesses, lower production and installation costs, and positive effects from project execution and completion. In fiscal 2015, profit was held back by expenses from ramping up commercial-scale production of certain turbine offerings.

A.3.2.3 ENERGY MANAGEMENT

	Fiscal year		% Change	
(in millions of €)	2016	2015	Actual	Comp.
Orders	**12,963**	12,956	0%	2%
Revenue	**11,940**	11,922	0%	2%
Profit	**895**	570	57%	
Profit margin	**7.5%**	4.8%		

Order intake was flat year-over-year, burdened by negative currency translation effects, as a decline in the solutions business was offset by growth in the Division's other businesses. On a regional basis, a substantial increase in Asia, Australia and slight growth in Europe, C.I.S., Africa, Middle East were offset by a significant decline in the Americas. Revenue was also burdened by negative currency translation effects. A decline in the medium voltage and system business was offset by growth in the Division's other businesses, in particular in the solutions, high voltage products and transformer businesses. On a regional basis, moderate growth in the Americas was offset by a moderate decline in Europe, C.I.S., Africa, Middle East, while revenue in Asia, Australia was flat year-over-year. Stronger profitability in a majority of the Division's businesses compared to the prior-year included significant improvements in the high voltage products business and in the solutions business due to stringent project execution. The prior year included a higher proportion of projects with low margins. Severance charges were €71 million and €88 million in fiscal 2016 and fiscal 2015, respectively.

A.3.2.4 BUILDING TECHNOLOGIES

	Fiscal year		% Change	
(in millions of €)	2016	2015	Actual	Comp.
Orders	**6,435**	6,099	6%	6%
Revenue	**6,156**	5,999	3%	3%
Profit	**577**	553	5%	
Profit margin	**9.4%**	9.2%		

Orders and revenue in Building Technologies increased in both the solutions and service business and the product and systems business. On a geographic basis, orders were up in all regions, while revenue rose in the Americas and Asia, Australia but declined slightly in the Europe, C.I.S., Africa, Middle East region. Growth was particularly strong in the U.S., for both orders and revenue. Profit improvement was due to an increase in the Division's product business, only partly offset by a modest decline in profit in the solutions and service business. Profit in both periods included severance charges, which were €16 million in fiscal 2016, down from €24 million in fiscal 2015.

A.3.2.5 MOBILITY

	Fiscal year		% Change	
(in millions of €)	2016	2015	Actual	Comp.
Orders	**7,875**	10,262	(23)%	(22)%
Revenue	**7,825**	7,508	4%	6%
Profit	**678**	588	15%	
Profit margin	**8.7%**	7.8%		

Orders in Mobility declined due mainly to a sharply lower volume from large orders year-over-year. The largest contract wins in fiscal 2016 included an order for light rail vehicles in the U.S., a commuter rail contract in Germany and a rail automation order in Algeria, totaling €1.2 billion. Large orders in fiscal 2015 included an order worth €1.7 billion for regional trains and maintenance in Germany and a €1.6 billion long-term order for maintenance in Russia. Revenue grew in all businesses except for the rail infrastructure business where revenue was down moderately year-over-year. The strongest contribution to revenue growth came from execution of large rolling stock projects. On a geographic basis, strong revenue increases in Europe, C.I.S., Africa, Middle East and the Americas more than offset a decline in Asia, Australia, which reported a sharp drop in China. Profit development benefited from positive effects related to solid project execution on large contracts, and from a sharp reduction in severance charges which fell to €16 million from €68 million a year earlier.

A.3.2.6 DIGITAL FACTORY

	Fiscal year		% Change	
(in millions of €)	2016	2015	Actual	Comp.
Orders	**10,332**	10,036	3%	3%
Revenue	**10,172**	9,988	2%	2%
Profit	**1,690**	1,685	0%	
Profit margin	**16.6%**	16.9%		

Despite challenging market conditions, Digital Factory increased orders, revenue and profit year-over-year. The driving force for all three was the Division's PLM software business, which achieved double-digit growth in orders and revenue, supported by the acquisition of CD-adapco which closed in the third quarter of fiscal 2016. The Division's high-margin factory automation business contributed to order and revenue growth to a significantly lesser extent, while volume in the motion control business declined slightly year-over-year. On a regional basis, orders and revenue increased in all regions, with the strongest growth coming from the Europe, C.I.S., Africa, Middle East region. Profit came in slightly above the prior-year level as a double-digit increase in the PLM business and a slight increase in the factory automation business were largely offset by declines in other businesses. Profitability in fiscal 2016 was held back by deferred revenue adjustments and transaction and integration costs related to the acquisition of CD-adapco, totaling €43 million. In addition, Division profit included severance charges in both periods, €49 million in fiscal 2016 compared to €53 million in fiscal 2015.

A.3.2.7 PROCESS INDUSTRIES AND DRIVES

	Fiscal year		% Change	
(in millions of €)	2016	2015	Actual	Comp.
Orders	**8,939**	9,144	(2)%	(1)%
Revenue	**9,038**	9,553	(5)%	(4)%
Profit	**243**	581	(58)%	
Profit margin	**2.7%**	6.1%		

The global weakness in oil and gas and other commodity-related markets continued to impact Process Industries and Drives. This was particularly evident in the Division's oil & gas and marine business, where orders fell by a quarter compared to fiscal 2015, and in its large drives business, which saw a moderate decline in orders. These decreases were only partly offset by order growth in the Division's wind power components business. Revenue shows a similar development, as both the oil & gas and marine and the large drives businesses saw considerable declines in revenue only partly offset by growth from the wind power components business. On a regional basis, orders were down in Asia, Australia, particularly in China, and in Europe, C.I.S., Africa, Middle East, while they increased in the Americas, due mainly to strong demand for the Division's offerings for the wind power industry. Revenue was down in all three reporting regions. Underutilization and a shift in demand particularly in the large drives and the oil & gas and marine businesses heavily impacted the Division's profit in fiscal 2016. To reduce the size of its manufacturing capacity and align its global footprint to changed market demand, the Division took €254 million in severance charges. For comparison, profit in the prior fiscal year was burdened by a warranty charge of €96 million and severance charges of €74 million.

A.3.2.8 HEALTHINEERS

	Fiscal year		% Change	
(in millions of €)	2016	2015	Actual	Comp.
Orders	**13,830**	13,349	4%	4%
Revenue	**13,535**	12,930	5%	5%
Profit	**2,325**	2,184	6%	
Profit margin	**17.2%**	16.9%		

All businesses posted order increases and nearly all recorded revenue growth, led by the diagnostic imaging business. Orders grew in the Asia, Australia region, most notably in China, and in the Americas region, due to the U.S. All regions contributed to revenue growth, particularly the Americas region, due to the U.S, and the Asia, Australia region. Profit growth was driven by the diagnostic imaging business, which continued to account for the largest share of Healthineers profit overall. Profit was burdened by severance charges in both periods, totaling €61 million in fiscal 2016 and €62 million in fiscal 2015. Profit development in fiscal 2016 benefited from currency tailwinds. For comparison, fiscal 2015 included a €64 million gain from divestment of the microbiology business.

A.3.2.9 FINANCIAL SERVICES

	Fiscal year	
(in millions of €)	2016	2015
Income before income taxes	**653**	600
ROE (after taxes)	**21.6%**	20.9%

	Sep 30,	
(in millions of €)	2016	2015
Total assets	**26,446**	24,970

Financial Services (SFS) recorded stable results in the debt business. Results from the equity investments business came in above the high level of fiscal 2015, due primarily to a positive effect of €92 million resulting from an at-equity investment. Fiscal 2015 included a net gain in connection with the sale of renewable energy projects. Despite substantial early terminations of financings, total assets have increased since the end of fiscal 2015.

A.3.2.10 RECONCILIATION TO CONSOLIDATED FINANCIAL STATEMENTS

Profit

	Fiscal year	
(in millions of €)	2016	2015
Centrally managed portfolio activities	**(215)**	714
Siemens Real Estate	**132**	205
Corporate items	**(449)**	(690)
Centrally carried pension expense	**(439)**	(440)
Amortization of intangible assets acquired in business combinations	**(674)**	(543)
Eliminations, Corporate Treasury and other reconciling items	**(349)**	(366)
Reconciliation to Consolidated Financial Statements	**(1,994)**	(1,119)

Centrally managed portfolio activities (CMPA) included primarily a loss from at-equity investments (including impairments) after a positive result in the prior year. In particular, fiscal 2015 included a gain of €1.4 billion on the disposal of Siemens' stake in BSH Bosch und Siemens Hausgeräte GmbH (BSH). This was partly offset by an equity investment loss of €275 million related to Unify Holdings B.V. (Unify), an impairment of €138 million related to Siemens' stake in Primetals Technologies Ltd. and losses from other businesses.

Income from **Siemens Real Estate** continues to be highly dependent on the disposals of real estate. In fiscal 2016, the profit of disposals of real estate were lower than in the prior year.

Corporate items were influenced by a number of items, including €43 million in severance charges for corporate reorganization of support functions compared to €198 million in such charges in fiscal 2015.

Expenses in **Eliminations, Corporate Treasury and other reconciling items** were lower despite an increase in interest expenses mainly associated with US$7.75 billion in bonds issued end of May 2015. For comparison, fiscal 2015 was burdened even more by negative effects from changes in the fair value of interest rate derivatives related to interest rate management at Corporate Treasury.

A.3.3 Income

(in millions of €, earnings per share in €)	2016	Fiscal year 2015	% Change
Power and Gas	**1,872**	1,415	32%
Wind Power and Renewables	**464**	160	190%
Energy Management	**895**	570	57%
Building Technologies	**577**	553	5%
Mobility	**678**	588	15%
Digital Factory	**1,690**	1,685	0%
Process Industries and Drives	**243**	581	(58)%
Healthineers	**2,325**	2,184	6%
Industrial Business	**8,744**	**7,737**	**13%**
Profit margin Industrial Business	***10.8%***	*10.1%*	
Financial Services (SFS)	**653**	600	9%
Reconciliation to Consolidated Financial Statements	**(1,994)**	(1,119)	(78)%
Income from continuing operations before income taxes	**7,404**	**7,218**	**3%**
Income tax expenses	**(2,008)**	(1,869)	(7)%
Income from continuing operations	**5,396**	**5,349**	**1%**
Income from discontinued operations, net of income taxes	**188**	2,031	(91)%
Net income	**5,584**	**7,380**	**(24)%**
Basic earnings per share	**6.74**	8.84	(24)%
ROCE	**14.3%**	21.0%	

As a result of the development described for the segments, **Income from continuing operations before income taxes** increased 3%. This amount also included higher expenses – as planned – for selling and R&D, primarily at Digital Factory and Healthineers, as we continued targeted investments aimed at organic volume growth and strengthening our capacities for innovation. Severance charges for continuing operations were €598 million, of which €541 million were in the Industrial Business. In fiscal 2015, severance charges for continuing operations were €804 million, of which €564 million were in the Industrial Business.

The tax rate of 27% was positively influenced by successful appeals of tax decisions for prior years. In fiscal 2015, the tax rate was lower, due mainly to the disposition of the stake in BSH which was mostly tax-free. As a result, **Income from continuing operations** increased 1%.

Income from discontinued operations, net of income taxes was substantially lower compared to the prior year. In fiscal 2016, it primarily included a gain of €102 million from the sale of the remaining assets in the hearing aid business and €76 million related to the former Siemens IT Solutions and Services activities. In the prior year, the line item primarily included gains from the disposal of the hearing aid and hospital information businesses, totaling €1.7 billion and €0.2 billion, respectively.

The decrease in **Basic earnings per share** reflects the lower net income compared to fiscal 2015, which included the substantial disposal gains related to the sale of the hearing aid business and the BSH stake that added €3.66 to basic earnings per share. At 14.3%, **ROCE** was below the range established in our One Siemens financial framework, as expected. ROCE declined compared to fiscal 2015 due to lower net income and a significant increase in average capital employed with the acquisition of Dresser-Rand at the end of the third quarter of fiscal 2015.

A.4 Net assets position

(in millions of €)	2016	Sep 30, 2015	% Change
Cash and cash equivalents	**10,604**	9,957	6%
Available-for-sale financial assets	**1,293**	1,175	10%
Trade and other receivables	**16,287**	15,982	2%
Other current financial assets	**6,800**	5,157	32%
Inventories	**18,160**	17,253	5%
Current income tax assets	**790**	644	23%
Other current assets	**1,204**	1,151	5%
Assets classified as held for disposal	**190**	122	56%
Total current assets	**55,329**	**51,442**	**8%**
Goodwill	**24,159**	23,166	4%
Other intangible assets	**7,742**	8,077	(4)%
Property, plant and equipment	**10,157**	10,210	(1)%
Investments accounted for using the equity method	**3,012**	2,947	2%
Other financial assets	**20,610**	20,821	(1)%
Deferred tax assets	**3,431**	2,591	32%
Other assets	**1,279**	1,094	17%
Total non-current assets	**70,388**	**68,906**	**2%**
Total assets	**125,717**	**120,348**	**4%**

Our total assets in fiscal 2016 were influenced by negative currency translation effects of €1.1 billion, primarily involving the British pound.

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

The increase in **inventories** was driven mainly by a build-up in Energy Management, Power and Gas and Wind Power and Renewables.

The increase in **goodwill** included the acquisition of CD-adapco.

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

A.5 Financial position

A.5.1 Capital structure

Our capital structure developed as follows:

(in millions of €)	2016	Sep 30, 2015	% Change
Short-term debt and current maturities of long-term debt	**6,206**	2,979	108%
Trade payables	**8,048**	7,774	4%
Other current financial liabilities	**1,933**	2,085	(7)%
Current provisions	**4,166**	4,489	(7)%
Current income tax liabilities	**2,085**	1,828	14%
Other current liabilities	**20,437**	20,368	0%
Liabilities associated with assets classified as held for disposal	**40**	39	5%
Total current liabilities	**42,916**	**39,562**	**8%**
Long-term debt	**24,761**	26,682	(7)%
Post-employment benefits	**13,695**	9,811	40%
Deferred tax liabilities	**829**	609	36%
Provisions	**5,087**	4,865	5%
Other financial liabilities	**1,142**	1,466	(22)%
Other liabilities	**2,471**	2,297	8%
Total non-current liabilities	**47,986**	**45,730**	**5%**
Total liabilities	**90,901**	**85,292**	**7%**
Debt ratio	***72%***	*71%*	
Total equity attributable to shareholders of Siemens AG	**34,211**	34,474	(1)%
Equity ratio	***28%***	*29%*	
Non-controlling interests	**605**	581	4%
Total liabilities and equity	**125,717**	120,348	**4%**

The increase in **short-term debt and current maturities of long-term debt** was due mainly to reclassifications of long-term fixed-rate instruments totaling €5.0 billion. This increase was partly offset by repayments of commercial paper of €0.9 billion and fixed-rate instruments of €0.5 billion.

Long-term debt decreased mainly due to the above mentioned reclassifications and the redemption of hybrid capital bonds totaling €1.8 billion. This decrease was partly offset by the issuance in September 2016 of instruments totaling US$6.0 billion (€5.4 billion) in six tranches with different maturities up to 30 years.

The main factors relating to the change in **total equity attributable to shareholders of Siemens AG** were a negative €2.9 billion in other comprehensive income, net of income taxes, mainly due to remeasurements of defined benefit plans, and dividend payments of €2.8 billion (for fiscal 2015). These negative factors were nearly offset by fiscal 2016 net income attributable to shareholders of Siemens AG of €5.5 billion.

Post-employment benefits

The funded status of our defined benefit plans – meaning defined benefit obligation (DBO) less fair value of plan assets – showed an underfunding of €13.4 billion as of September 30, 2016 (€9.5 billion as of September 30, 2015). Within these figures, the underfunding for pension benefit plans amounted to €12.8 billion as of September 30, 2016 (€9.0 billion as of September 30, 2015) and the underfunding of other post-employment benefit plans amounted to €0.5 billion (€0.5 billion as of September 30, 2015). The increase in the underfunding of our defined benefit plans was mainly due to lower discount rate assumptions. This effect was partly offset by a significant increase in return on plan assets and a lower pension progression assumption in Germany.

Capital structure ratio

Our capital structure ratio as of September 30, 2016 increased from 0.6 a year earlier to 1.0, which was in line with our target established in our One Siemens financial framework. The change was due primarily to the increase in post-employment benefits compared to the prior year, reflecting the above-mentioned increase in the underfunding of our defined benefit plans.

In November 2015, we announced a share buyback of up to €3 billion ending at the latest on November 15, 2018. The buybacks will be made under the current authorization granted at the Annual Shareholders' Meeting on January 27, 2015. Shares repurchased may be used solely for cancelling and reducing capital stock; for issuing shares to employees, to members of the Managing Board and board members of affiliated companies; and for meeting obligations from or in connection with convertible bonds or warrant bonds. Under the program we repurchased 2,517,727 treasury shares at an average cost per share of €91.24, totaling €0.2 billion (including incidental transaction charges).

Debt and credit facilities

As of September 30, 2016 we recorded, in total, €28.6 billion in notes and bonds (maturing until 2046), €1.4 billion in loans from banks (maturing until 2023), €0.9 billion in other financial indebtedness (maturing until 2027) and €0.1 billion in obligations under finance leases. Notes, bonds and loans from banks were issued mainly in the euro and U.S. dollar, and to a lower extent in the British pound.

We have three credit facilities at our disposal for general corporate purposes. These credit facilities amounted to €7.1 billion and were unused as of September 30, 2016.

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

Off-balance-sheet commitments

As of September 30, 2016 the undiscounted amount of maximum potential future payments related to credit guarantees, guarantees of third-party performance and HERKULES obligations amounted to €3.7 billion (September 30, 2015: €4.2 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 amounting to €0.9 billion (September 30, 2015: €1.8 billion). The decrease in other guarantees is related to indemnifications issued in connection with dispositions of businesses.

Future payment obligations under non-cancellable operating leases amounted to €3.5 billion (September 30, 2015: €3.4 billion).

Irrevocable loan commitments amounted to €3.4 billion (September 30, 2015: €3.6 billion). A considerable portion of these commitments resulted from asset-based lending transactions, meaning that the respective loans can be drawn only after the borrower has provided sufficient collateral.

A.5.2 Cash flows

(in millions of €)	Fiscal year 2016
Cash flows from operating activities	
Net income	5,584
Change in operating net working capital	(1,241)
Other reconciling items to cash flows from operating activities – continuing operations	3,324
Cash flows from operating activities – continuing operations	**7,668**
Cash flows from operating activities – discontinued operations	(57)
Cash flows from operating activities – continuing and discontinued operations	**7,611**
Cash flows from investing activities	
Additions to intangible assets and property, plant and equipment	(2,135)
Acquisitions of businesses, net of cash acquired	(922)
Change in receivables from financing activities of SFS	(1,356)
Other purchases of assets	(1,409)
Other disposals of assets	1,417
Cash flows from investing activities – continuing operations	**(4,406)**
Cash flows from investing activities – discontinued operations	262
Cash flows from investing activities – continuing and discontinued operations	**(4,144)**
Cash flows from financing activities	
Purchase of treasury shares	(463)
Issuance of long-term debt	5,300
Repayment of long-term debt (including current maturities of long-term debt)	(2,253)
Change in short-term debt and other financing activities	(1,408)
Interest paid	(809)
Dividends paid to shareholders of Siemens AG	(2,827)
Other cash flows from financing activities – continuing operations	(249)
Cash flows from financing activities – continuing operations	**(2,710)**
Cash flows from financing activities – discontinued operations	–
Cash flows from financing activities – continuing and discontinued operations	**(2,710)**

The conversion of profit into **cash inflows from operating activities** was mainly driven by Healthineers as well as the Digital Factory and Power and Gas Divisions. This conversion was affected by a **build-up of operating net working capital** primarily driven by an increase in the line items Inventories and Trade and other receivables in the Industrial Business, which was primarily due to Power and Gas and Energy Management.

The cash outflows for **acquisitions of businesses, net of cash acquired**, primarily included payments totaling €0.9 billion related to the acquisition of CD-adapco.

The cash outflows for **other purchases of assets** primarily included additions of assets eligible as central bank collateral and to a lesser extent payments related to equity investments.

The cash inflows from **other disposals of assets** primarily included disposals from above-mentioned eligible collateral, proceeds from the sale of shares in a fund at Corporate Treasury, and real estate disposals at SRE.

The cash inflows from **investing activities – discontinued operations –** included proceeds from the sale of the remaining assets in the hearing aid business.

The **change in short-term debt and other financing activities** included the net cash outflows related to commercial paper and from loans to banks.

We report Free cash flow as a supplemental liquidity measure:

Free cash flow

(in millions of €)	Continuing operations	Discontinued operations	Fiscal year 2016 Continuing and discontinued operations
Cash flows from operating activities	7,668	(57)	7,611
Additions to intangible assets and property, plant and equipment	(2,135)	–	(2,135)
Free cash flow	**5,533**	**(57)**	**5,476**

With our ability to generate positive operating cash flows, our total liquidity (defined as cash and cash equivalents as well as available-for-sale financial assets) of €11.9 billion, our €7.1 billion in unused lines of credit, and given 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 €2.1 billion in fiscal 2016. Within the Industrial Business ongoing investments related mainly to technological innovations; extending our capacities for designing, manufacturing and marketing new solutions; improving productivity and our global footprint; and replacements of fixed assets. These investments amounted to €1.5 billion in fiscal 2016. The remaining portion in fiscal 2016, €0.6 billion, related mainly to SRE, including significant amounts related to office projects, such as new corporate office buildings in Germany, and to support investing activities particularly at Wind Power and Renewables. 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.

With regard to capital expenditures for continuing operations, we expect a moderate spending increase in fiscal 2017. In addition we plan to invest significant amounts in coming years in attractive innovation fields in connection with next47.

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

The investments of **Power and Gas** are focused on replacement, enhancing productivity and innovation, mainly relating to our large gas turbines and generators business, including upcoming spending for a new technology platform.

The investments of **Wind Power and Renewables** are focused on the extension, modernization and optimization of existing plants to allow for the large-scale manufacturing of innovative products, including construction of production and service facilities such as in the U.K., Germany, Morocco and Egypt. To a lesser extent, Wind Power and Renewables also focuses on transportation solutions particularly for delivering large turbines.

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

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

Mobility's investments mainly focus on meeting project demands and maintaining or enhancing its production and service facilities, including capital expenditures for improving its respective positions in growing market segments.

Major spending of **Digital Factory** relates to the factory automation, motion control systems and control products businesses, including investments in production facilities in China.

Process Industries and Drives makes most of its capital expenditures for the purpose of rationalization, replacement and modification required for transition to innovative products, particularly relating to the large drives business.

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

A.6 Overall assessment of the economic position

In fiscal 2016, we successfully continued implementing our "Vision 2020" concept. We made further significant steps to strengthen our business focus in electrification, automation and digitalization by acquiring CD-adapco, a U.S.-based provider of simulation software, and by signing binding agreements to merge our wind power business, including service, with Gamesa to strengthen our wind power business both regionally and in the global onshore market. We sold our remaining financial assets in the hearing aid business and our share in Unify Holdings B.V. to Atos SE. For Process Industries and Drives we implemented measures to address the Division's structural challenges with regard to adjusting regional footprint and reducing overcapacities. We also made substantial progress in our ongoing initiative to improve profitability of low-margin businesses throughout our Industrial Business. Beginning with fiscal 2017 we founded next47, a separate unit that pools our existing startup activities to foster disruptive ideas more vigorously and accelerate the development of new technologies.

We also made further progress in streamlining our management structures and processes. Following cost savings of approximately €0.4 billion in fiscal 2015, we reduced cost by an additional €0.6 billion in fiscal 2016, thus achieving cost savings of €1.0 billion compared to fiscal 2014.

In fiscal 2016, we were particularly successful in executing on our financial target system, enabling us to twice raise our forecast for basic earnings per share (EPS) (net income) and to gain market share in most of our businesses. Despite an unfavorable economic environment and rising global uncertainties, we reached or exceeded the targets set for our primary measures for fiscal 2016. We achieved revenue growth of 6%, net of effects from currency translation, including two percentage points from portfolio effects. Net income and basic earnings per share (EPS) (net income) rose by more than a quarter compared to fiscal 2015 excluding the portfolio gains from the divestment of the hearing aid business and our stake in BSH. As forecast, Return on capital employed (ROCE) was double-digit. Our capital structure ratio was 1.0, close to our forecast.

Orders increased 5% year-over-year to €86.5 billion, for a book-to-bill ratio of 1.09, thus fulfilling our expectation for a ratio clearly above 1.0. All industrial businesses contributed to order growth except for the Mobility Division, which recorded lower volume from large orders year-over-year, and the Process Industries and Drives Division, which is suffering from weak demand in commodity-related markets. Order growth was particularly impressive in the Power and Gas and the Wind Power and Renewables Divisions. While Power and Gas recorded among others large orders for power plants in Egypt, Wind Power and Renewables won among others a number of contracts for large offshore wind-farms including service in the U.K.

Revenue rose to €79.6 billion, also up 5% compared to fiscal 2015. All our industrial businesses increased revenue year-over-year, except for the Process Industries and Drives Division. Excluding currency translation effects, overall revenue rose 6%. Our forecast was to achieve moderate revenue growth excluding currency translation effects. As expected, portfolio effects added 2 percentage points to growth. The strongest contribution to revenue growth came from the Power and Gas Division, which achieved a double-digit growth rate even after excluding positive portfolio effects, primarily related to the acquisition of Dresser-Rand at the end of the third quarter of fiscal 2015. Revenue growth at Power and Gas included strong contributions from project execution on orders from Egypt.

Industrial Business profit grew 13% to €8.7 billion. As with revenue, all industrial businesses except for Process Industries and Drives increased their profit year-over-year. Wind Power and Renewables nearly tripled its profit compared to fiscal 2015, supported by a number of factors including successful implementation of measures for ramping up commercial-scale production of turbine offerings. The Energy Management Division continued its strong turnaround, with high double-digit profit growth. Power and Gas achieved double-digit profit growth, benefiting from among others a positive effect following the ending or easing of sanctions on Iran; Power and Gas took significant project charges and higher severance in the prior year. Mobility continued its solid project execution and also achieved double-digit profit growth. Healthineers and our Digital Factory and Building Technologies Divisions exceeded the already high profit levels they had reached in fiscal 2015. The decline in profit at Process Industries and Drives was due to the above-mentioned market conditions and charges related to measures taken to address those challenges.

The profit margin of the Industrial Business increased to 10.8%, up from 10.1% in fiscal 2015. We thus reached the upper end of the range of 10% to 11% that was forecast for fiscal 2016. All industrial businesses except for Process Industries and Drives reached their margin ranges, with three Divisions that were below their margin ranges in fiscal 2015, entering their ranges in fiscal 2016: Power and Gas, Wind Power and Renewables and Energy Management. SFS, which is outside our Industrial Business, achieved a return on equity after tax of 21.6%, again above the upper end of its margin range.

Outside the Industrial Business, the loss was higher than in fiscal 2015, which included a gain of €1.4 billion from the sale of our stake in BSH. In contrast, the loss from other at-equity investments was lower and costs related to Corporate Items declined substantially compared to the prior year.

Net income in fiscal 2016 was €5.6 billion and basic EPS from net income was €6.74 both down 24% compared to the prior fiscal year, which included a gain of €3.0 billion within net income and €3.66 within earnings per share from the sale of our hearing aid business and our stake in BSH. Excluding these gains, net income rose 28%. We thus exceeded our fiscal 2016 forecast for a significant increase in net income excluding these gains. This in turn enabled us to exceed our forecast for basic EPS from net income, which we raised twice during fiscal 2016: first from the range of €5.90 to €6.20 to the range of €6.00 to €6.40, and then from the latter range to €6.50 to €6.70. Net income development benefited from our continuous efforts to increase productivity. In fiscal 2016, total cost productivity improved by 5%, above our fiscal 2016 target of 3% to 4%.

ROCE was 14.3% in fiscal 2016. We thus reached our forecast for fiscal 2016, which was to achieve a double-digit ROCE but to come in substantially below the amount of fiscal 2015, which was 21.0%. This decline was due to a combination of lower net income, which in the prior fiscal year benefited from the above-mentioned divestment gains, and an increase in average capital employed, resulting mainly from the acquisition of Dresser-Rand.

We evaluate our capital structure using the ratio of industrial net debt to EBITDA. For fiscal 2016, this ratio was 1.0, up from 0.6 in fiscal 2015. This was close to our forecast, which was to reach a ratio below but near 1.0.

Free cash flow from continuing and discontinued operations for fiscal 2016 rose to €5.5 billion, up 17% compared to the prior fiscal year.

We intend to continue providing an attractive return to shareholders. As in the past, we intend to fund our dividend payout from Free cash flow. The Siemens Managing Board, in agreement with the Supervisory Board, proposes a dividend of €3.60 per share, up from €3.50 a year earlier.

A.7 Subsequent events

In October 2016, the shareholders of Gamesa approved binding agreements to merge Siemens's wind power business, including service, with Gamesa. Closing of the transaction is subject to the approval of the antitrust and regulatory authorities.

In November 2016, Siemens announced the acquisition of Mentor Graphics (U.S.), a design automation and industrial software provider. The purchase price is US$37.25 per share in cash, which represents an enterprise value of US$4.5 billion. Mentor Graphics will be integrated in the Digital Factory Division. Closing of the transaction is subject to customary conditions and is expected in the third quarter of fiscal 2017.

In November 2016, Siemens announced its intention to further strengthen Healthineers in Siemens for the future and is therefore planning to publicly list its healthcare business. Siemens will announce more precise details regarding the date and scope of the placement when plans for the public listing are further advanced. The listing will also depend, among other things, on the stock market environment.

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 year 2017, the world economy is expected to grow only slightly faster than in fiscal 2016, but still well below the long-term historical trend. Global GDP is expected to expand by 2.8%, with fixed investments growing by 3.2%. Fixed investments in emerging countries (+4.4%) are expected to grow faster than in advanced economies (+1.9%).

The U.S. has substantially resolved its inventory reduction, enabling GDP to grow substantially faster (+2.2%) than in 2016 (+1.4%). The good shape of the country's labor markets and increasing wage growth support consumer spending, which is expected to remain the mainstay of the economy. Improved trends in housing and capital spending are also expected to support growth. In particular, business fixed investment is expected to pick up, as a recovery in commodity prices is increasing capital spending in resource extraction and related industries. Nevertheless, potential impacts resulting from political uncertainty in the wake of the U.S. presidential election have to be monitored.

In China, economic growth is projected to slow to 6.3% in 2017 after 6.6% in 2016. Some questions exist about the sustainability of development in the country's financial and real estate sectors. With China's debt-to-GDP ratio rising strongly in recent years, the risks of a financial imbalance have increased. In addition, large housing price increases in several large cities have raised concerns about another real estate bubble.

In Europe, economic activity is expected to remain hampered by political risks. Negotiations between the U.K. and the European Union regarding the U.K.'s exit from the EU have been announced for spring 2017 and could become contentious. The exit process could heighten business and consumer uncertainty, reduce investment in the U.K., and pose some risk to financial markets. This is also true for the banking sector which in some countries suffers from non-performing loans and a capital shortage. GDP growth is forecast at 1.5% in 2017 after 1.8% in 2016.

Despite the positive developments expected for the world economy in 2017, first and foremost the acceleration of the U.S. economy, the risks remain substantial, particularly in the geopolitical sphere (see → A.8.3. RISKS). In addition, central banks raising interest rates might induce financial turbulence, substantial swings in capital flows, and readjustment of exchange rates. Emerging markets might be especially vulnerable to these shocks.

The forecasts presented here for GDP and fixed investments are based on a report from IHS Markit dated October 15, 2016.

A.8.1.2 MARKET DEVELOPMENT

For fiscal 2017, we expect market volume for the markets served by the Power and Gas Division to remain near the level of fiscal 2016. We anticipate a decline in the gas turbine market and a slight recovery in the compression market. Our expectation for the compression market is based on the assumptions that oil prices will continue to recover and replacement demand will grow, particularly to support enhanced extraction techniques employed in partially depleted fields. We expect flat demand in the steam turbine market, and a decline in demand for coal-fired power plants in China. Overall, we assume a shift to more flexible power generation and stronger demand for combined heat and power generation.

We expect the markets served by the Wind Power and Renewables Division to return to moderate growth in fiscal 2017. Growth is expected to be driven by the Americas, particularly the U.S. and continued growth in the offshore wind power market segment. Overall, we expect a continuation of the trend towards an increasing share of renewable energy within the energy mix. Within the onshore wind power market, we expect demand in the low-wind segment to remain significant.

For the markets served by the Energy Management Division, we expect slight overall growth in fiscal 2017. The Division's markets are experiencing rising power consumption due to urbanization and electrification in emerging countries. Also the energy mix is changing, with a rising share of renewable energy. Furthermore, there is a trend towards decentralized power generation. Within the Division's key industries, we expect moderate growth in demand from the metals markets, driven by the Europe, C.I.S., Africa, Middle East and the Asia, Australia regions and from the construction markets. For the oil and gas market, a slight recovery is expected. Demand from data centers is also expected to contribute to growth. The base market for utilities is expected to continue to grow, but with large investments such as in the Middle East not reaching the level of fiscal 2016.

For the markets served by the Building Technologies Division, we expect solid growth in fiscal 2017. The regional differences in growth dynamics are narrowing further, with modestly increasing growth rates in developed countries and slowing growth in emerging markets. Above-average growth is anticipated in the Middle East, China, India and the U.S. A majority of the European countries are anticipated to continue their recovery, led by Germany, Spain and some of the Northern European countries. On the other hand, growth might be impacted in countries with significant exposure to weak commodity markets and in countries with geopolitical uncertainties.

For fiscal 2017, we expect markets served by the **Mobility** Division to continue to grow moderately. We anticipate that rail operators in Germany will continue to make significant investments. In the Middle East and Africa, we expect tenders of further large turnkey and rolling stock projects. In China, we expect investments in high-speed trains, urban transport and rail infrastructure to continue to drive growth. In India, market growth should continue from planned projects for commuter and high-speed passenger lines, freight rail, and related infrastructure as part of the transportation infrastructure build-out. Overall, local rail transport is expected to gain importance as urbanization is progressing. In emerging countries, rising incomes are expected to result in greater demand for public transport solutions.

Conditions for the markets addressed by the **Digital Factory** Division are expected to improve modestly in fiscal 2017. Global manufacturing production is forecasted to grow slightly in fiscal 2017, though global political and economic uncertainties are expected to continue to restrain investment decisions of key customers. Market growth is expected to benefit from ongoing rising demand from consumer-oriented manufacturing industries, especially in industrialized countries. Also, price stabilization in some raw material markets is anticipated to end the economic downturn in a number of emerging countries. Overall, we see potential for the machine-building industry to return to slight growth during the course of fiscal 2017, and the trend towards digitalization is expected to continue to drive growth in the industry software market.

In fiscal 2017, market volume for the markets served by the **Process Industries and Drives** Division is expected to come in slightly below the level of fiscal 2016. While this decline is forecast to be driven by an ongoing fall in investments in the oil and gas and the mining markets, we expect this downturn to gradually come to an end during fiscal 2017.

For fiscal 2017, we expect markets for **Healthineers** to stay on a moderate growth path. Healthineers' markets continue to benefit from long-term trends such as growing and aging populations and from broader access to healthcare, but are restricted by public spending constraints and by consolidation of healthcare providers. On a geographic basis, we expect slight to moderate growth in the U.S., held back by continued pressure to increase utilization of existing equipment and to reduce reimbursement rates. For Europe, we expect slight growth, with equipment replacement and business with large customers such as hospital chains gaining further importance. For China, we expect healthcare spending to rise, due to an aging population, urbanization, growing chronic disease incidence and expanded access to health insurance, partly held back by governmental restrictions such as centralized tendering and reimbursement budget control. For Brazil, the recession is expected to continue to impact healthcare investments.

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

A.8.1.3 SIEMENS GROUP

We are basing our outlook for fiscal 2017 for the Siemens Group and its segments on the above-mentioned expectations and assumptions regarding the overall economic situation and specific market conditions for the next fiscal year. Furthermore, this outlook is based on the current business portfolio of Siemens, excluding potential burdens associated with pending portfolio matters in fiscal 2017. An acquisition of Mentor Graphics to expand our digital industrial leadership and a merger of our wind power business, including service with Gamesa would among other things result in additional revenue, purchase price allocation effects, integration costs as well as assets and liabilities. The merger with Gamesa would also result in increases in non-controlling interests. In addition, we are further strengthening Healthineers in Siemens for the future and are therefore planning to publicly list our healthcare business. We will announce more precise details regarding the date and scope of the placement when plans for the public listing are further advanced. The listing will also depend, among other things, on the stock market environment.

We are exposed to currency translation effects, particularly involving the US$, the British £ and currencies of emerging markets, particularly the Chinese yuan. During fiscal 2016, the average exchange rate conversion for our large volume of US$-denominated revenue was US$1.11 per €. While we expect volatility in global currency markets to continue in fiscal 2017, we have improved our natural hedge on a global basis through geographic distribution of our production facilities during the past. Nevertheless, Siemens is still a net exporter from the Euro zone to the rest of the world, so a weak Euro is principally favorable for our business and a strong Euro is principally unfavorable. In addition to the natural hedging strategy just mentioned, we also hedge currency risk in our export business using derivative financial instruments. We expect these steps to help us limit effects on income related to currency in fiscal 2017.

Revenue growth

We continue to anticipate headwinds for macroeconomic growth and investment sentiment in our markets in fiscal 2017 due to the complex geopolitical environment. Therefore, we expect modest growth in revenue, net of effects from currency translation and portfolio transactions.

In fiscal 2016, most of our industrial businesses contributed to organic revenue growth, and we expect a similar development in fiscal 2017. The principle exception is the Power and Gas Division, which contributed double-digit growth in fiscal 2016.

We expect revenue growth to benefit from conversion of our order backlog (defined as the sum of order backlogs of our industrial businesses) which totaled €113 billion as of September 30, 2016. From this backlog, we expect to convert approximately €39 billion of past orders into current revenue in fiscal 2017. Within this amount, we expect for fiscal 2017 approximately €12 billion in revenue conversion from the €44 billion backlog of the Power and Gas Division, approximately €7 billion in revenue conversion from the €12 billion backlog of the Energy Management Division, approximately €7 billion in revenue conversion from the €26 billion backlog of the Mobility Division, approximately €4 billion in revenue conversion from the €15 billion backlog of the Wind Power and Renewables Division, approximately €3 billion in revenue conversion from the €5 billion backlog of the Process Industries and Drives Division, approximately €2 billion in revenue conversion from the €3 billion backlog of the Building Technologies Division, approximately €2 billion in revenue conversion from the €2 billion backlog of the Digital Factory Division and approximately €2 billion in revenue conversion from the €5 billion backlog of Healthineers.

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

Profitability

We expect higher net income year-over-year, and basic EPS from net income in the range of €6.80 to €7.20 as compared to €6.74 in fiscal 2016 which included €0.23 from discontinued operations.

Our forecast for net income and corresponding basic EPS is based on a number of assumptions: We assume stabilization in the market environment for our high-margin short-cycle businesses in fiscal 2017. As part of our One Siemens framework, we target a total cost productivity improvement of 3% to 5% in fiscal 2017. Also, we assume continued solid project execution. Furthermore, we anticipate no material currency-related effects on income. Along with these assumptions, we anticipate pricing pressure on our offerings of around 2% to 3% in fiscal 2017 along the lines of fiscal 2016, with the Power and Gas Division and the Wind Power and Renewables Division being affected the most. Furthermore, we expect wage inflation of around 3% to 4%. Also, we plan to increase R&D and selling expenses aimed at strengthening our capacities for innovation and organic growth. Our forecast for net income and corresponding basic EPS further excludes charges related to legal and regulatory matters.

For fiscal 2017, we expect all but one of our industrial businesses to be in their ranges for profit margin as defined in our financial performance system (see → A.2 FINANCIAL PERFORMANCE SYSTEM). The exception is Process Industries and Drives, which initiated measures during fiscal 2016 to reduce the size of its manufacturing capacity and align its global footprint to changed market demand. We expect these measures to become effective largely after fiscal 2017. Overall, we expect a profit margin for our Industrial Business of 10.5% to 11.5%, compared to 10.8% in fiscal 2016, in part due to our ongoing initiative to improve profitability of low-margin businesses. We expect SFS, which is reported outside Industrial Business, to achieve a return on equity (ROE) within its margin range in fiscal 2017 and to keep its profit near the prior-year level excluding the positive effect of €92 million, which resulted from an at-equity investment.

Within our Reconciliation to Consolidated Financial Statements, we expect results related to CMPA to continue to be highly volatile from quarter to quarter during fiscal 2017. Expenses for Corporate items are expected to be approximately €0.6 billion, with costs in the second half-year higher than in the first half and to include expenses related to our newly founded next47 startup unit. While we anticipate that SRE will continue with real estate disposals depending on market conditions, we expect gains from disposals to be lower in fiscal 2017 than in fiscal 2016. Centrally carried pension expenses are expected to total approximately €0.5 billion in fiscal 2017. Amortization of intangible assets acquired in business combinations was €674 million in fiscal 2016 and we expect a similar level in fiscal 2017, based on our current business portfolio. Eliminations, Corporate Treasury and other reconciling items are also anticipated to be on the prior-year level despite higher interest expense related primarily to bonds issued in fiscal 2016.

We do not expect material influence on financial results from discontinued operations in fiscal 2017. For comparison, income from discontinued operations in fiscal 2016 was €0.2 billion. We anticipate our tax rate for fiscal 2017 to be in the range of 26% to 30%.

Capital efficiency

Within our One Siemens financial framework, we aim in general to achieve a ROCE in the range of 15% to 20%. We expect ROCE for fiscal 2017 to come close to or reach the lower end of our target range, compared to 14.3% for fiscal 2016. Burdens from pending portfolio matters, which are excluded from our outlook, could materially reduce our expectation for ROCE for fiscal 2017.

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 2017.

A.8.1.4 OVERALL ASSESSMENT

We continue to anticipate headwinds for macroeconomic growth and investment sentiment in our markets due to the complex geopolitical environment. Therefore, we expect modest growth in revenue, net of effects from currency translation and portfolio transactions. We further anticipate that orders will exceed revenue for a book-to-bill ratio above 1. For our Industrial Business, we expect a profit margin of 10.5% to 11.5%. We expect basic EPS from net income in the range of €6.80 to €7.20, compared to €6.74 in fiscal 2016 which included €0.23 from discontinued operations.

This outlook assumes stabilization in the market environment for our high-margin short-cycle businesses. It further excludes charges related to legal and regulatory matters as well as potential burdens associated with pending portfolio matters.

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, SFS, regions and Corporate Units to implement risk management programs that are tailored to their specific industries and responsibilities, while being consistent with the overall policy.

A.8.2.2 ENTERPRISE RISK MANAGEMENT PROCESS

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

Risk management at Siemens builds on a comprehensive, interactive and management-oriented Enterprise Risk Management (ERM) approach that is integrated into the organization and that addresses both risks and opportunities. Our ERM approach is based on the worldwide accepted Enterprise Risk Management – Integrated Framework (2004) developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The framework connects the ERM process with our financial reporting process and our internal control system. It considers a company's strategy, the efficiency and effectiveness of its business operations, the reliability of its financial reporting as well as compliance with relevant laws and regulations to be equally important.

The ERM process aims for early identification and evaluation of, and response regarding, risks and opportunities that could materially affect the achievement of our strategic, operational, financial and compliance objectives. The time horizon covered by ERM is typically three years. Our ERM is based on a net risk approach, addressing risks and opportunities remaining after the execution of existing control measures. If risks have already been considered in plans, budgets, forecasts or the financial statements (e.g. as a provision or risk contingency), they are supposed to be incorporated with their financial impact in the entity's business objectives. As a consequence, only additional risks arising from the same subject (e.g. deviations from business objectives, different impact perspectives) should be considered for the ERM. In order to provide a comprehensive view on our business activities, risks and opportunities are identified in a structured way combining elements of both top-down and bottom-up approaches. Risks and opportunities are generally reported on a quarterly basis. This regular reporting process is complemented by an ad-hoc reporting process that aims to escalate critical issues in a timely manner. Relevant risks and opportunities are prioritized in terms of impact and likelihood, considering different perspectives, including business objectives, reputation and regulatory matters. The bottom-up identification and prioritization process is supplemented by workshops with the respective managements of the Industrial Business, SFS, regions and Corporate Units. This top-down element ensures that potential new risks and opportunities are discussed at management level and are included in the subsequent reporting process, if found to be relevant. Reported risks and opportunities are analyzed regarding potential cumulative effects and are aggregated within and for each of the organizations mentioned above.

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

A.8.2.3 RISK MANAGEMENT ORGANIZATION AND RESPONSIBILITIES

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

A.8.3 Risks

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

A.8.3.1 STRATEGIC RISKS

Competitive environment: The worldwide markets for our products and solutions are highly competitive in terms of pricing, product and service quality, product development and introduction time, customer service, financing terms and shifts in market demands. We face strong existing competitors and also competitors from emerging markets, which may have a better cost structure. Some industries in which we operate are undergoing consolidation, which may result in stronger competition and a change in our relative market position. Furthermore, we notice that suppliers (and to some extent even customers), especially from emerging countries (e.g. China), could develop into serious competitors for Siemens. 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 factory footprint, exporting from low-cost countries to price-sensitive markets, and optimizing our product portfolio. We continuously monitor and analyze competitive and market information in order to be able to anticipate unfavorable changes in the competitive environment rather than reacting to such changes.

Economic, political and geopolitical conditions (macroeconomic environment): We see a high level of uncertainty regarding the global economic outlook. Significant downside risks stem e.g. from consequences of the Brexit vote in June of 2016, from political uncertainty in the wake of the U.S. presidential election and from an increasing trend towards populism. The U.K. exit process could heighten business and consumer uncertainty, reduce investment in the U.K., pose risks to financial markets and may increase the uncertainties about the future of the EU in the course of the U.K. exit negotiations. A further and massive loss of economic confidence and a prolonged period of reluctance in investment decisions and awarding of new orders would hit our businesses. We continuously monitor the exit process and established, for example, a task force team coordinating our local and global mitigation measures. Further, a substantial business risk stems from a significant weakening of Chinese economic growth and the potential for corrections or even a collapse in the country's real estate market, banking sector or stock market. The downturn could get worse, if Chinese authorities fail to reform the state-owned enterprises in the industry and banking sector and to further liberalize and open the economy. Both global and regional investment climates could collapse due to political upheavals, further independence debates within countries in the European Union, or sustained success for protectionist, anti-EU and anti-business parties and policy. A rapid tightening of monetary policy by the U.S. Federal Reserve could cause a depreciation spiral among emerging market currencies. This could lead to a renewed emerging market crisis because debt levels of emerging market enterprises have risen, making them dependent on favorable global financial conditions to service debts denominated in foreign currencies. A terrorist mega-attack, or a series of such attacks in major economies, could depress economic activity globally and undermine consumer and business confidence. Further risks stem from political tensions (e.g. Syria, Turkey, Ukraine) and a loss of confidence in the automotive sector.

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

Disruptive Technologies (incl. Digitalization): The markets in which our businesses operate experience rapid and significant changes due to the introduction of innovative and disruptive technologies. In the fields of digitalization (e.g. internet of things, web of systems, Industrie 4.0), there are risks of new competitors, substitutions of existing products/solutions/services, new business models (e.g. in terms of pricing) and finally the risk that our competitors may have faster time-to-market strategies and introduce their digital products and solutions faster than Siemens. Our operating results depend to a significant extent on our ability to anticipate and adapt to changes in our markets and to reduce the costs of producing our products. Introducing new products and technologies requires a significant commitment to research and development, which in return requires expenditure of considerable financial resources that may not always result in success. Our results of operations may suffer if we invest in technologies that do not operate or may not be integrated as expected, or that are not accepted in the marketplace as anticipated, or if our products or systems are not introduced to the market in a timely manner, particularly compared to our competitors, or 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.

Continuous low Oil/Commodity Prices: The longer than expected low oil price could reduce demand for Oil & Gas products. Additionally, countries depending on high oil and commodity prices (e.g. Russia, Venezuela, Middle East) might reduce public spending. Both would result in a decline in order intake and revenue for our businesses that serve oil and gas markets, as well as underutilization of resources. We attempt to mitigate these risks by close monitoring of the market situation, especially in the oil and gas business. We consistently strive to adjust our capacity, improve our cost structure, and increase our competitiveness in this market.

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

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

A.8.3.2 OPERATIONAL RISKS

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

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

Operational optimization alignments and cost reduction initiatives: We are in a continuous process of operational optimization alignments and constantly engage in cost-reduction initiatives, including ongoing capacity adjustment measures and structural initiatives. Consolidation of business activities and manufacturing facilities, and the streamlining of product portfolios, are also 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. Furthermore, a delay in critical R&D projects could lead to negative impacts in running projects. We constantly control and monitor the progress of these projects and initiatives using standardized controlling and milestone tracking approaches.

Cost overruns or additional payment obligations related to the management of our long-term, fixed-price or turnkey projects: A number of our industrial businesses conduct activities, especially large projects, under long-term contracts that are awarded on a competitive bidding basis. Such contracts typically arise in Power and Gas, Wind Power and Renewables, Mobility, and parts of Energy Management and Process Industries and Drives. Some of these contracts are inherently risky because we may assume substantially all of the risks associated with completing a project and meeting post-completion warranty obligations. For example, we may face the risk that we must satisfy technical requirements of a project even though we have not gained experience with those requirements before we win the project. The profit margins realized on fixed-priced contracts may vary from original estimates as a result of changes in costs and productivity over the contract's term. We sometimes bear the risk of unanticipated project modifications, shortage of key personnel, quality problems, financial difficulties of our customers and/or significant partners, cost overruns or contractual penalties caused by unexpected technological problems, unforeseen developments at the project sites, unforeseen changes or difficulties in the regulatory or political environment, performance problems with our suppliers, subcontractors and consortium partners or other logistical difficulties. Some of our multi-year contracts also contain demanding installation and maintenance requirements in addition to other performance criteria relating to timing, unit cost and compliance with government regulations requirements, which, if not satisfied, could subject us to substantial contractual penalties, damages, non-payment and contract termination. There can be no assurance that contracts and projects, in particular those with long-term duration and fixed-price calculation, can be completed profitably. To tackle those risks we implemented a global project management organization to systematically improve the know-how of the 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.

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

Interruption of the supply chain: The financial performance of our Industrial Business depends on reliable and effective supply chain management for components, sub-assemblies and materials. Capacity constraints and supply shortages resulting from ineffective supply chain management may lead to delays and additional cost. We rely on third parties to supply us with parts, components and services. Using third parties to manufacture, assemble and test our products reduces our control over manufacturing yields, quality assurance, product delivery schedules and costs. Although we work closely with our suppliers to avoid supply-related problems, there can be no assurance that we will not encounter supply problems in the future. 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, particularly if we are unable to identify alternative sources of supply or means of transportation in a timely manner or at all. Besides other measures, we mitigate fluctuation in the global raw material markets with various hedging instruments.

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 in U.S. dollar and as exports from Europe. In addition, we are exposed to currency effects involving the currencies of emerging markets, in particular the Chinese yuan. A strengthening of the euro (particularly against the U.S. dollar) may change our competitive position, as many of our competitors may benefit from having a substantial portion of their costs based in weaker currencies, enabling them to offer their products at lower prices. As a result, a strong euro in relation to the U.S. dollar and other currencies could have an adverse impact on our results of operations. We are also exposed to fluctuations in interest rates. Negative developments in the financial markets and changes in the central bank policies may negatively impact our results. Certain currency risks as well as interest rate risks are hedged using derivative financial instruments. 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: Political and economic developments in the EU as well as the ongoing euro zone sovereign debt crisis continue to influence global capital markets. Our treasury and financing activities could face adverse deposit and/or financing conditions from negative developments related to financial markets, such as (1) limited availability of funds (particularly U.S. dollar funds) and hedging instruments; (2) an updated evaluation of our solvency, particularly from rating agencies; (3) negative interest rates; and (4) impacts arising from more restrictive regulation of the financial sector, central bank policy, or financial instruments. Widening credit spreads due to uncertainty and risk aversion in the financial markets might lead to adverse changes of fair market values of our financial assets, in particular our derivative financial instruments. Negative developments could also further increase the costs for buying protection against credit risks due to a potential increase in counterparty risks. Siemens reduces funding risks through diversification into different funding instruments, currencies, markets and investor groups. Liquidity risks are mitigated by depositing cash into different categories of instruments and with a range of counterparties of investment grade credit quality; the associated counterparty risks are centrally and closely monitored (including risks resulting from derivatives).

Credit Risks: We provide our customers with various forms of direct and indirect financing of orders and projects. SFS in particular bears credit risks due to its financing activities. In part, we take a security interest in the assets we finance, or we receive additional collateral. Our business, financial condition and results of operations may be adversely affected if the credit quality of our customers deteriorates or if they default on their payment obligation to us, if the value of the assets in which we have taken a security interest or additional collateral declines, or if the projects in which we invest are unsuccessful. Positive market values from derivatives and deposits with banks induce credit risk against these banks. We monitor these market value developments very closely. A default by a major trading partner may have negative impact on our financial position and the results of financial operations.

Risks from pension obligations: The funded status of our pension plans may be affected by change in actuarial assumptions, including the discount rate, as well as movements in financial markets or a change in the mix of assets in our investment portfolio. A significant increase in the underfunding may have a negative effect on our capital structure and rating, and thus may tighten refinancing options and increase costs. In order to comply with local pension regulations in selected foreign countries, we may face a risk of increasing cash outflows to reduce an underfunding of our pension plans in these countries.

Examinations 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 law in any of these jurisdictions could result in higher tax expense and payments. Furthermore, legislative changes could impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities. In addition, the uncertain tax environment in some regions could limit our ability to enforce our rights. As a globally operating organization, we conduct business in countries subject to complex tax rules, which may be interpreted in different ways. Future interpretations or developments of tax regimes may affect our business, financial condition and results of operations. We are regularly examined by tax authorities in various jurisdictions and we continuously identify and assess resulting risks.

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

A.8.3.4 COMPLIANCE RISKS

Regulatory risks and potential sanctions: As a globally operating organization, we conduct business with customers in countries which are subject to export control regulations, embargoes, economic sanctions or other forms of trade restrictions (hereafter referred to as "sanctions") imposed by the U.S., the European Union or other countries or organizations. New or expanded sanctions in countries in which we do business may result in a curtailment of our existing business in such countries or indirectly in other countries. We are also aware of initiatives by institutional investors, such as pension funds or insurance companies, to adopt or consider adopting policies prohibiting investment in and transactions with, or requiring divestment of interests in entities doing business with, countries identified as state sponsors of terrorism by the U.S. Department of State. It is possible that such initiatives may result in us being unable to gain or retain investors, customers or suppliers. In addition, the termination of our activities in sanctioned countries may expose us to customer claims and other actions. Our reputation could also suffer due to our activities with counterparties in or affiliated with these countries. Due to the political agreement based on the Joint Comprehensive Plan of Action (JCPOA) regarding the Iranian nuclear program, Siemens has revised its group-wide policies to allow new business activities with customers or end customers in Iran that are not designated on the EU or U.S. sanctions lists, provided that these activities do not breach the EU sanctions regulations or the U.S. Secondary Sanctions (if applicable).

Emerging market operations involve 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. Asian markets in particular are important for our long-term growth strategy, and our sizeable activities in China operate under a legal system that is still developing and is subject to change. Our long-term growth strategy could be limited by governments preferentially supporting local competitors. With our dedicated regional organizations we tackle these risks by constantly monitoring the latest trends and defining our response strategies which include an ongoing evaluation of our localization approach.

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

A considerable part of our business activities involve governments and companies with public shareholders. We also participate in a number of projects funded by government agencies and intergovernmental and supranational organizations, such as multilateral development banks. Ongoing or potential future investigations into allegations of corruption, of antitrust violations or of other violations of law could also impair relationships with such business partners or could result in the exclusion of public contracts. Such investigations may also adversely affect existing private business relationships and our ability to pursue potentially important strategic projects and transactions, such as strategic alliances, joint ventures or other business cooperation, 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 which conducts among others compliance risk mitigation processes such as Compliance Risk Assessments, and which has been reviewed by external compliance experts.

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 processes. We exercise our duty within the supply chain, as our customers request transparency in the supply chain and as the obligation to do so already forms an element of customer contracts. If we are unable to achieve sufficient confidence throughout our supply chain, or if any risks associated with these kinds of regulations, laws and policies were to materialize, our reputation could also be adversely affected. We continuously monitor the political and regulatory landscape in all our key markets to anticipate potential problem areas, so that we are able to quickly adjust our business activities accordingly upon any change in conditions.

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 environment, health & safety incidents as well as potential non-compliance with environment, health & safety regulations affecting Siemens and our contractors or sub-suppliers, resulting in e.g. serious injuries, penalties, loss of reputation and internal or external investigations.

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

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

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

Some of these legal disputes and proceedings could result in adverse decisions for Siemens that may have material effects on our financial position, the results of operations and/or 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 legal proceedings related losses. Finally, there can be no assurance that Siemens will be able to maintain adequate insurance coverage on commercially reasonable terms in the future.

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

A.8.3.5 ASSESSMENT OF THE OVERALL RISK SITUATION

The most significant challenges have been mentioned first in each of the four categories Strategic, Operations, Financial and Compliance. The risks caused by highly competitive environment continue to be the most significant as in the prior year.

Even though the assessments of individual risk exposures have changed during fiscal 2016 due to developments in the external environment, effects of our own mitigation measures and the revision of our plans, the overall risk situation for Siemens did not change significantly as compared to the prior year.

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

A.8.4 Opportunities

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

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

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

Continuously developing and implementing initiatives to reduce costs, boost sales efforts, adjust capacities, improve our processes, realize synergies: In an increasingly competitive market environment, a competitive cost structure complements the competitive advantage of being innovative. We believe that further improvements in our cost position can strengthen our global competitive position and secure our market presence against emerging and incumbent competitors. For example, we expect to create sustainable value from productivity measures in connection with our "Vision 2020" concept. Moreover, establishing a stringent claim management process can help us realize opportunities by enforcing our claims on our contract partners even more strongly.

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

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

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

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

Assessment of the overall opportunities situation: The most significant opportunity for Siemens is "Success from innovation along electrification, automation and digitalization" compared to "Mergers, acquisitions, equity investments, partnerships and divestments" as disclosed in our prior year reporting. Even though our assessment of individual opportunities has changed during fiscal year 2016 due to developments in the external environment, our endeavors to profit from them and the revision of our plans, the overall opportunity situation did not change significantly compared to the prior year.

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

The following discussion describes information required pursuant to Section 289 (5) and Section 315 (2) no. 5 of the German Commercial Code (Handelsgesetzbuch) and explanatory report.

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

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

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

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

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

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

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

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

A.9 Siemens AG

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

Siemens AG is the parent company of the Siemens Group. Results for Siemens AG are significantly influenced by directly or indirectly owned subsidiaries and investments. The business development of Siemens AG is fundamentally subject to the same risks and opportunities as the Siemens Group. Due to the interrelations between Siemens AG and its subsidiaries and the relative size of Siemens AG within the Group, the outlook of the Group also largely reflects our expectations for Siemens AG. Therefore, the foregoing explanations for the Siemens Group apply also for Siemens AG. We expect that income from investments will significantly influence the profit of Siemens AG.

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

As of September 30, 2016, the number of employees was 94,363.

A.9.1 Results of operations

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

(in millions of €)	Fiscal year 2016	2015	% Change
Revenue	**25,763**	26,454	(3)%
Cost of Sales	**(19,818)**	(20,161)	2%
Gross profit	**5,945**	6,293	(6)%
as percentage of revenue	***23%***	*24%*	
Research and development expenses	**(2,454)**	(2,417)	(2)%
Selling and general administrative expenses	**(3,558)**	(3,810)	7%
Other operating income (expenses), net	**134**	(270)	n/a
Financial income, net *thereof Income from investments 3,732 (prior year 8,142)*	***3,092***	*6,122*	*(49)%*
Result from ordinary activities	**3,158**	5,918	(47)%
Income taxes	**(160)**	(300)	47%
Net income	**2,999**	5,618	(47)%
Profit carried forward	**256**	179	43%
Allocation to other retained earnings	**(195)**	(2,714)	93%
Unappropriated net income	**3,060**	3,084	(1)%

Revenue decreased moderately as declines of €1.3 billion in Energy Management and €0.2 billion in Power and Gas more than offset a sharp increase of €0.9 billion in Wind Power and Renewables. On a geographical basis, 73% of revenue was generated in the Europe, C.I.S., Africa, Middle East region, 18% in the Asia, Australia region and 9% in the Americas region. Exports from Germany accounted for 64% of overall revenue. In fiscal 2016, orders for Siemens AG amounted to €28.9 billion. Within Siemens AG, the development of revenue, primarily in connection with large orders, depends strongly on the completion of contracts.

Gross profit was lower year-over-year due mainly to declines of €0.5 billion in Power and Gas and €0.1 billion in Energy Management.

Research and development (R&D) expenses as a percentage of revenue (R&D intensity) increased by one percentage point year-over year, to 10%. On an average basis, we employed 10,100 people in R&D in fiscal 2016. For additional information see → A.1.1.3 RESEARCH AND DEVELOPMENT.

Other operating income (expenses), net came in higher year-over-year due to a decrease of €0.5 billion in other operating expenses, only partly offset by a decline of €0.1 billion in other operating income. The increase is explained mainly by factors in the prior year. For comparison, fiscal 2015 included, within other operating expenses, additions to post-closing provisions in connection with the disposal of businesses.

The decrease in **Financial income, net** was primarily attributable to lower income from investments, net which decreased by €4.4 billion. Other financial income (expenses), net increased by €1.3 billion compared to the prior year.

Income from investments, net declined due to a decrease of €2.1 billion in income from profit transfers – in particular from Siemens Beteiligungen Inland GmbH, which came in €2.0 billion lower – and an increase of €0.1 billion from losses from the disposal of investments. These factors were only partly offset by an increase of €0.5 billion from profit distribution – in particular from Siemens Beteiligungsverwaltung GmbH & Co. OHG amounting to €0.9 billion – and a decline of €0.2 billion from impairments on investments. For comparison, fiscal 2015 included a gain of €2.8 billion on the disposal of Siemens' stake in BSH.

The improvement in other financial income (expenses), net resulted mainly from a €0.8 billion reduction in expenses from accretion of pension provisions – due to a regulatory change which increased the weighted average discount rate – and from a €0.7 billion decrease in the realized loss related to interest and foreign currency derivatives. These positive factors were only partly offset by €0.3 billion lower gains on the realization of monetary balance sheet items denominated in foreign currencies and provisions for risks in derivatives, which were €0.2 billion higher. For comparison, fiscal 2015 included impairments of loan receivables of Unify Holdings B.V. and Unify Germany Holdings B.V. amounting to €0.2 billion.

The decline in **Income taxes** resulted from lower income tax expenses due to the absence of burdens of tax audits from the prior year as well as tax refunds that arose from positive appeal decisions for prior years in fiscal 2016. That was partly offset by changes in deferred taxes due primarily to an adjusted discount rate applied for the provision for Pensions and similar commitments.

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, 2016	Sep 30, 2015	% Change
Assets			
Non-current assets			
Intangible and tangible assets	2,472	2,439	1%
Financial assets	44,611	43,688	2%
	47,083	46,127	2%
Current assets			
Receivables and other assets	16,717	19,492	(14)%
Cash and cash equivalents, securities	3,642	3,816	(5)%
	20,359	23,308	(13)%
Prepaid expenses	81	83	(3)%
Deferred tax assets	2,256	2,333	(3)%
Active difference resulting from offsetting	35	29	23%
Total assets	69,814	71,880	(3)%
Liabilities and equity			
Equity	19,368	19,247	1%
Special reserve with an equity portion	700	708	(1)%
Provisions			
Pensions and similar commitments	11,250	11,553	(3)%
Other provisions	8,360	7,511	11%
	19,610	19,064	3%
Liabilities			
Liabilities to banks	14	62	(78)%
Advance payments received	619	887	(30)%
Trade payables, liabilities to affiliated companies and other liabilities	29,118	31,545	(8)%
	29,752	32,494	(8)%
Deferred income	385	367	5%
Total liabilities and equity	69,814	71,880	(3)%

Financial assets went up due to a €0.5 billion increase in loans and an increase of €0.3 billion in shares in affiliated companies.

The decrease in **Receivables and other assets** was due primarily to lower receivables from affiliated companies as a result of intra-group financing activities.

Cash and cash equivalents and marketable securities are significantly affected by the liquidity management of Siemens AG. The liquidity management is based on the finance strategy of the Siemens Group. 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 €3.0 billion and issuance of treasury stock of €0.4 billion in conjunction with our share-based compensation program. These factors were partly offset by dividends paid in fiscal 2016 (for fiscal 2015) of €2.8 billion. In addition, equity was reduced due to share buybacks during the year amounting to €0.4 billion. The equity ratios at September 30, 2016 and 2015 were 28% and 27%, respectively.

The decrease in **Pension and similar commitments** resulted mainly from a €0.8 billion reduction related to the above-mentioned adjustments of the discount rate and from lower interest and service costs, which declined €0.3 billion, partly offset by a decrease of €0.4 billion in transfers of pension obligations.

Other provisions increased due primarily to higher provisions for losses from derivative financial transactions, increased tax provisions and higher provisions for personnel costs, each of which increased by €0.3 billion.

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

A.9.3 Corporate Governance statement

The Corporate Governance statement pursuant to Section 289a 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 SECTION 289A OF THE GERMAN COMMERCIAL CODE.

A.10 Compensation Report

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

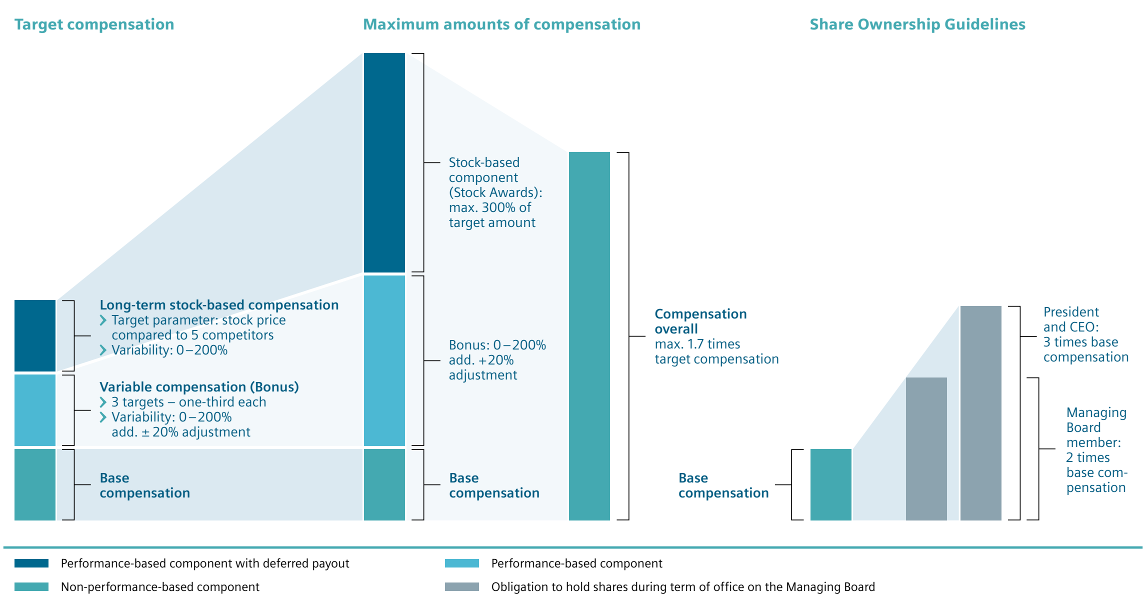
A.10.1 Remuneration of Managing Board members

A.10.1.1 REMUNERATION SYSTEM

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

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

Remuneration system for Managing Board members



In fiscal 2016, 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, 2015, the base compensation of President and CEO Joe Kaeser has amounted to €2,034,000 per year. The base compensation of the CFO and of those members of the Managing Board who are responsible for Divisions (including Healthineers) has been €1,042,800 per year. For the other member of the Managing Board, it has been €988,800 per year.

Fringe benefits

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

Performance-based components

Variable compensation (Bonus)

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

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

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

Long-term stock-based compensation

Long-term stock-based compensation consists of a grant of forfeitable stock commitments (Stock Awards) at the beginning of the fiscal year. Beneficiaries receive one free share of Siemens stock per Stock Award after an approximately four-year restriction period and subject to target achievement. If the employment agreement begins during the fiscal year, an equivalent number of Siemens Phantom Stock Awards will be granted instead of Stock Awards. In lieu of a transfer of shares, only a cash equivalent is given at the end of the restriction period for Siemens Phantom Stock Awards. Beyond that, the same provisions agreed upon for Siemens Stock Awards apply. In the event of extraordinary unforeseen developments that impact the share price, the Supervisory Board may decide to reduce the number of promised Stock Awards retroactively, or it may decide that in lieu of a transfer of Siemens stock only a cash settlement in a defined and limited amount will be paid, or it may decide to postpone transfers of Siemens stock for payable Stock Awards until the developments have ceased to impact the share price.

In the event of 100% target achievement, the annual target amount for the monetary value of the Stock Awards commitment is €2,120,000 for the President and CEO (effective October 1, 2015). For the CFO and for those members of the Managing Board who are responsible for Divisions (including Healthineers) it is €1,080,000. For the other member of the Managing Board, it is €1,040,000. 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 position.

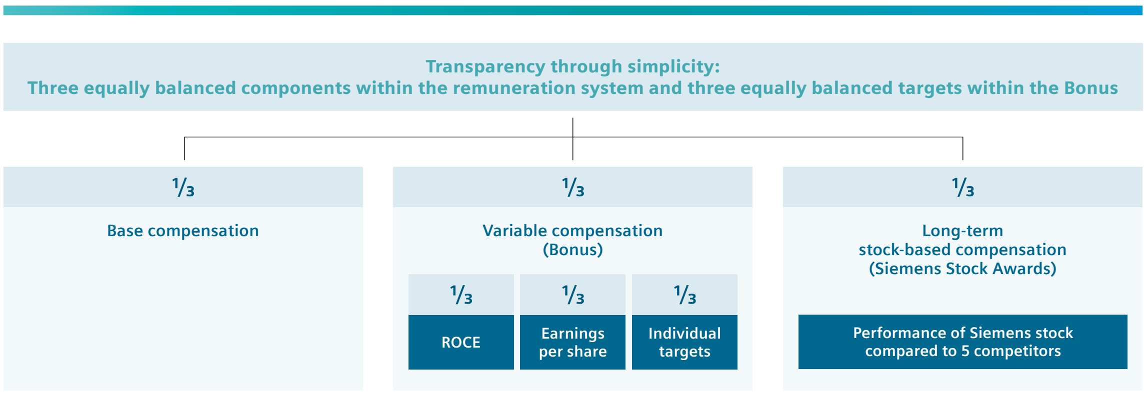
Long-term stock-based compensation is linked to the performance of Siemens stock compared to its competitors. The Supervisory Board will decide on a target system (target value for 100% and target line) for the performance of Siemens stock relative to the stock of – at present – five competitors (ABB, General Electric, Rockwell, Schneider Electric and Toshiba). If significant changes occur among these 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.

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 achievement of between

0% and 200% (cap). If target attainment is above 100%, an additional cash payment corresponding to the outperformance will be made. If target attainment is less than 100%, a number of stock commitments equivalent to the shortfall from the target will expire without replacement.

The value of the Siemens stock to be transferred for Stock Awards after the end of the restriction period is subject to a ceiling of 300% of the respective target amount. If this maximum amount of compensation is exceeded, the corresponding entitlement to stock commitments will be forfeited without replacement.

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



Maximum amount for compensation overall

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

Share Ownership Guidelines

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

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

Pension benefit commitments

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

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

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

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

Commitments in connection with the termination of Managing Board membership

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

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

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

Stock commitments that were made as long-term stock-based compensation and for which the restriction period is still in effect will be forfeited without replacement if the employment agreement 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 agreement is terminated by mutual agreement at the Company's request, or because of retirement, disability or death or in connection with a spinoff, the transfer of an operation, or a change of activity within the corporate group. In these cases, the Stock Awards will remain in effect upon termination of the employment agreement and will be honored on expiration of the restriction period.

A.10.1.2 REMUNERATION OF MANAGING BOARD MEMBERS FOR FISCAL 2016

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 all members of the Managing Board, in each case on the basis of continuing and discontinued operations. The target values for the EPS component were defined on a multi-year basis. In defining the target for variable compensation, the Supervisory Board also defined individual targets so as to take fuller account of the individual performance of each Managing Board member. As a rule, up to five individual targets were defined for this purpose. These targets take account of business-related targets such as market coverage and business performance as well as targets such as customer and employee satisfaction, innovation and sustainability. An internal review of the appropriateness of Managing Board compensation for fiscal 2016 has confirmed that the remuneration of the Managing Board resulting from target achievement for fiscal 2016 is to be considered appropriate. In light of this review and following a review of the achievement of the targets defined at the beginning of the fiscal year, the Supervisory Board has decided to define the amounts of variable compensation, stock commitments and pension benefit contributions as follows:

Variable compensation (Bonus)

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

Target parameter	100% of target	Actual FY 2016 figure	Target achievement
Return on capital employed, ROCE[1]	12.76%	14.31%	151.67%
Earnings per share, basic EPS[1] (ø 2014 – 2016)	€6.76	€7.32	137.33%

1 Continuing and discontinued operations.

The achievement of individual targets was also taken into account when determining overall target achievement. In its overall assessment, the Supervisory Board decided not to make any discretionary adjustments to the Bonus payout amounts. In fiscal 2016, Bonus-related target achievement by Managing Board members was between 126.34% and 136.33%.

Long-term stock-based compensation

Since beneficiaries are not entitled to receive dividends, the number of stock commitments granted was based on the closing price of Siemens stock in Xetra trading on the date of award less the present value of dividends expected during the restriction period. The share price used to determine the number of stock commitments was €75.60 (2015: €72.30).

Total compensation

On the basis of the Supervisory Board's decisions described above, Managing Board compensation for fiscal 2016 totaled €28.90 million, an increase of 5.4% (2015: €27.42 million). Of this total amount, €20.19 million (2015: €19.56 million) was attributable to cash compensation and €8.71 million (2015: €7.86 million) to stock-based compensation.

The compensation presented on the following pages was granted to the members of the Managing Board for fiscal 2016 (individual disclosure). Due to rounding, the figures presented in the table may not add up precisely to the totals provided.

Managing Board members serving as of September 30, 2016

(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: 4 years)
	Total [5]	
	Service Cost	
	Total (Code) [6]	
Total compensation of all Managing Board members for fiscal 2016, in accordance with the applicable reporting standards, amounted to €28.90 million (2015: €27.42 million). The payout amount presented below is to be used instead of the target value according to the Code for one-year variable compensation. Service costs for pension benefits are not included.		
Performance-based components	without long-term incentive effect, non-stock-based	One-year variable compensation (Bonus) – Payout amount
Total compensation		

Managing Board members serving as of September 30, 2016

(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: 4 years)
	Total [5]	
	Service Cost	
	Total (Code) [6]	
Total compensation of all Managing Board members for fiscal 2016, in accordance with the applicable reporting standards, amounted to €28.90 million (2015: €27.42 million). The payout amount presented below is to be used instead of the target value according to the Code for one-year variable compensation. Service costs for pension benefits are not included.		
Performance-based components	without long-term incentive effect, non-stock-based	One-year variable compensation (Bonus) – Payout amount
Total compensation		

1 Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of company cars in the amount of €159,687 (2015: €158,131), contributions toward the cost of insurance in the amount of €139,795 (2015: €134,170), the reimbursement of expenses for legal advice and tax advice, accommodation and moving expenses, including any taxes due in his regard, currency adjustment payments and costs relating to preventive medical examinations in the amount of €765,327 (2015: €330,620).

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 2016 – that is, 300% of the applicable target amount.

3 The expenses recognized for stock-based compensation for members of the Managing Board in accordance with the IFRS in fiscal 2016 and fiscal 2015 amounted to €8,294,921 and €8,109,155, respectively. The following amounts pertained to the members of the Managing Board in fiscal 2016: Joe Kaeser €2,378,584 (2015: €2,003,783), Dr. Roland Busch €1,283,779 (2015: €1,129,224), Lisa Davis €698,432 (2015: €284,928), Klaus Helmrich €1,284,349 (2015: €1,076,237), Janina Kugel €704,026 (2015: €140,185), Prof. Dr. Siegfried Russwurm €1,302,593 (2015: €1,239,596), and Dr. Ralf P. Thomas €872,394 (2015: €516,915). The corresponding expense, determined in the same way, for former Managing Board members was as follows: Brigitte Ederer – €42,052 (2015: €105,227), Barbara Kux – €42,052 (2015: €105,227), Peter Löscher – €103,403 (2015: €230,387), Prof. Dr. Hermann Requardt – €5,624 (2015: €1,107,522), Peter Y. Solmssen – €35,857 (2015: €141,258), and Dr. Michael Süß – €248 (2015: €28,666). In fiscal 2016, the development of the OSRAM share price lead to a respective adjustment of the OSRAM cash compensation and thus to earnings in the amount of €301,027. Especially for former Managing Board members those earnings are evident, since they were set off against the usual liabilities arising from other share based payments and with respect to former Managing Board members, no essential amount of accruals has been built up for the remaining tranches.

Joe Kaeser				Dr. Roland Busch				Lisa Davis[7]				Klaus Helmrich			
President and CEO				Managing Board member				Managing Board member				Managing Board member			
2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)
1,878	**2,034**	2,034	2,034	1,010	**1,043**	1,043	1,043	1,010	**1,043**	1,043	1,043	1,010	**1,043**	1,043	1,043
102	**102**	102	102	53	**55**	55	55	227	**683**	683	683	42	**48**	48	48
1,980	**2,136**	2,136	2,136	1,063	**1,098**	1,098	1,098	1,238	**1,726**	1,726	1,726	1,052	**1,091**	1,091	1,091
1,878	**2,034**	0	4,882	1,010	**1,043**	0	2,503	1,010	**1,043**	0	2,503	1,010	**1,043**	0	2,503
1,871	**2,158**	0	6,360	998	**1,099**	0	3,240	998	**1,099**	0	3,240	998	**1,099**	0	3,240
5,729	**6,328**	2,136	10,520	3,071	**3,240**	1,098	5,382	3,246	**3,868**	1,726	5,382	3,061	**3,233**	1,091	5,382
1,096	**1,101**	1,101	1,101	604	**603**	603	603	611	**576**	576	576	604	**602**	602	602
6,825	**7,428**	3,236	11,620	3,675	**3,843**	1,700	5,984	3,857	**4,443**	2,301	5,957	3,664	**3,835**	1,693	5,984
2,683	**2,773**			1,444	**1,387**			1,477	**1,387**			1,376	**1,370**		
6,535	**7,066**			3,505	**3,584**			3,713	**4,212**			3,427	**3,560**		

Janina Kugel				Prof. Dr. Siegfried Russwurm				Dr. Ralf P. Thomas			
Managing Board member				Managing Board member				CFO			
2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)	2015	2016	2016 (min)	2016 (max)
626	**989**	989	989	1,010	**1,043**	1,043	1,043	1,010	**1,043**	1,043	1,043
25	**39**	39	39	78	**78**	78	78	67	**61**	61	61
651	**1,027**	1,027	1,027	1,088	**1,121**	1,121	1,121	1,078	**1,104**	1,104	1,104
626	**989**	0	2,373	1,010	**1,043**	0	2,503	1,010	**1,043**	0	2,503
665	**1,059**	0	3,120	998	**1,099**	0	3,240	998	**1,099**	0	3,240
1,942	**3,075**	1,027	5,130	3,097	**3,263**	1,121	5,382	3,086	**3,246**	1,104	5,382
103	**530**	530	530	603	**602**	602	602	604	**603**	603	603
2,045	**3,604**	1,557	5,660	3,700	**3,865**	1,723	5,983	3,690	**3,849**	1,707	5,984
832	**1,282**			1,376	**1,317**			1,410	**1,370**		
2,148	**3,368**			3,463	**3,538**			3,486	**3,573**		

4 For Stock Awards granted in fiscal 2016, target attainment depends solely on the performance of Siemens stock compared to defined competitors. The monetary values relating to 100% target achievement were €8,560,190 (2015: €8,190,219). The amounts for individual Managing Board members were as follows: Joe Kaeser €2,120,051 (2015: €1,950,003), Dr. Roland Busch €1,080,022 (2015: €1,040,036), Lisa Davis €1,080,022 (2015: €1,040,036), Klaus Helmrich €1,080,022 (2015: €1,040,036), Janina Kugel €1,040,029 (2015: €693,357), Prof. Dr. Siegfried Russwurm €1,080,022 (2015: €1,040,036), Dr. Ralf P. Thomas €1,080,022 (2015: €1,040,036) and for former Managing Board member Prof. Dr. Hermann Requardt €0 (2015: €346,679).

5 Total maximum compensation for fiscal 2016 represents the contractual maximum amount for overall compensation, excluding fringe benefits and pension benefit commitments. At 1.7 times target compensation (base compensation, target amount for the Bonus and the target amount for long-term stock-based compensation), the maximum amount is less than the total of the individual contractual caps for performance-based components.

6 Total compensation reflects the current fair value of stock-based compensation components on the award date. On the basis of the current monetary values of stock-based compensation components, total compensation amounted to €28,747,477 (2015: €27,756,633).

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

Allocations

The following table shows allocations for fiscal 2016 for fixed compensation, fringe benefits, one-year variable compensation and multi-year variable compensation – by reference year – as well as the expense of pension benefits. In deviation from the multi-year variable compensation granted for fiscal 2016 and shown above, this table includes the actual figure for multi-year variable compensation granted in previous years and allocated in fiscal 2016. Due to rounding, the figures presented in the table may not add up precisely to the totals provided.

Managing Board members serving as of September 30, 2016

(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: 2011 – 2015) [3]
		Bonus Awards (waiting period: 2011 – 2015) [4]
		Share Matching Plan (vesting period: 2013 – 2015)
		Share Matching Plan (vesting period: 2012 – 2014)
	Other [5]	
	Total	
	Service Cost	
	Total (Code)	

Managing Board members serving as of September 30, 2016

(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: 2011 – 2015) [3]
		Bonus Awards (waiting period: 2011 – 2015) [4]
		Share Matching Plan (vesting period: 2013 – 2015)
		Share Matching Plan (vesting period: 2012 – 2014)
	Other [5]	
	Total	
	Service Cost	
	Total (Code)	

1 Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of company cars in the amount of €159,687 (2015: €158,131), contributions toward the cost of insurance in the amount of €139,795 (2015: €134,170), the reimbursement of expenses for legal advice and tax advice, accommodation and moving expenses, including any taxes due in this regard, currency adjustment payments and costs relating to preventive medical examinations in the amount of €765,327 (2015: €330,620).

2 The payout amount of one-year variable compensation (Bonus) presented above therefore represents the amount awarded for fiscal 2016, which will be paid out in January 2017.

3 Starting with the Siemens Stock Awards tranche of 2011, the restriction period was extended from three to four years. Shares from the Siemens Stock Awards 2011 were thus only transferred in November 2015. Therefore, no allocation for Siemens Stock Awards was made in fiscal 2015. For one half of these Stock Awards target attainment depended on the EPS for the past three fiscal years and

	Joe Kaeser President and CEO		Dr. Roland Busch Managing Board member		Lisa Davis Managing Board member		Klaus Helmrich Managing Board member	
	2016	2015	2016	2015	2016	2015	2016	2015
	2,034	1,878	1,043	1,010	1,043	1,010	1,043	1,010
	102	102	55	53	683	227	48	42
	2,136	1,980	1,098	1,063	1,726	1,238	1,091	1,052
	2,773	2,683	1,387	1,444	1,387	1,477	1,370	1,376
	2,310	0	1,259	0	0	0	1,301	0
	903	0	555	0	0	0	598	0
	1,407	0	703	0	0	0	703	0
	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
	97	0	53	0	0	0	55	0
	7,316	4,664	3,797	2,507	3,113	2,715	3,816	2,429
	1,101	1,096	603	604	576	611	602	604
	8,416	5,760	4,399	3,111	3,688	3,326	4,418	3,032

	Janina Kugel Managing Board member		Prof. Dr. Siegfried Russwurm Managing Board member		Dr. Ralf P. Thomas CFO	
	2016	2015	2016	2015	2016	2015
	989	626	1,043	1,010	1,043	1,010
	39	25	78	78	61	67
	1,027	651	1,121	1,088	1,104	1,078
	1,282	832	1,317	1,376	1,370	1,410
	0	0	2,310	0	465	177
	0	0	903	0	397	0
	0	0	1,407	0	0	0
	0	0	0	0	67	0
	0	0	0	0	0	177
	0	0	97	0	20	0
	2,309	1,482	4,845	2,465	2,958	2,665
	530	103	602	603	603	604
	2,839	1,586	5,447	3,068	3,561	3,269

amounted to 114%. For the other half, target attainment was linked to the performance of Siemens stock compared to defined competitors during the four-year vesting period. It amounted to 0%. Siemens Stock Awards 2011 that had already been granted were thus forfeited without replacement in accordance with the plan rules.

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

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

Pension benefit commitments

For fiscal 2016, the members of the Managing Board were granted contributions under the BSAV totaling €4.6 million (2015: €4.8 million), based on a resolution of the Supervisory Board dated November 9, 2016. Of this amount, €0.1 million (2015: €0.1 million) related to the funding of pension commitments earned prior to transfer to the BSAV.

The contributions under the BSAV are added to the personal pension accounts each January, following the close of the fiscal year. Until a beneficiary's date of retirement, his or her pension account is credited with an annual interest payment (guaranteed interest) on January 1 of each year. The interest rate is currently 1.25%.

The following table shows individualized details of the contributions (allocations) under the BSAV for fiscal 2016 as well as the defined benefit obligations for pension commitments.

(Amounts in €)	Total contributions[2] for		Defined benefit obligation[3] for all pension commitments excluding deferred compensation[4]	
	2016	2015	2016	2015
Managing Board members serving as of September 30, 2016				
Joe Kaeser	**1,139,040**	1,051,680	**10,391,542**	8,056,163
Dr. Roland Busch	**583,968**	565,824	**4,342,427**	3,243,101
Lisa Davis	**583,968**	565,824	**3,817,196**	3,126,396
Klaus Helmrich	**583,968**	565,824	**4,607,800**	3,522,681
Janina Kugel	**553,728**	350,560	**1,084,971**	438,713
Prof. Dr. Siegfried Russwurm	**583,968**	565,824	**6,083,534**	4,824,749
Dr. Ralf P. Thomas	**583,968**	565,824	**4,297,199**	3,225,678
Total[1]	**4,612,608**	4,231,360	**34,624,669**	26,437,481

1 Compared to the amount presented in the 2015 Compensation Report, the total figure for 2015 does not include the contribution of €565,824 for former Managing Board member Prof. Dr. Hermann Requardt or this defined benefit obligation of €6,977,620.

2 The expenses (service cost) recognized in accordance with the IFRS in fiscal 2016 for Managing Board members' entitlements under the BSAV in fiscal 2016 amounted to €4,615,543 (2015: €4,804,639).

3 The defined benefit obligations reflect one-time special contributions to the BSAV for new appointments from outside the Company and for special contributions in connection with departures from the Managing Board, amounting to €0 (2015: €279,552).

4 Deferred compensation totals €3,829,397 (2015: €4,947,717), including €3,428,243 for Joe Kaeser (2015: €3,207,002), €343,953 for Klaus Helmrich (2015: €305,023) and €57,201 for Dr. Ralf P. Thomas (2015: €49,794) as well as €0 (2015: €1,385,898) for former Managing Board member Prof. Dr. Hermann Requardt.

In fiscal 2016, 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 €52.3 million (2015: €30.5 million). This figure includes the lump-sum payments of the pension benefit balance of the former Managing Board members Prof. Dr. Hermann Requardt and Peter Y. Solmssen. In the case of Mr. Solmssen, the special contribution to the pension benefit balance allocated in January 2009 in the amount of €10.518 million takes effect. This special contribution was promised at appointment to compensate him for short-term and long-term pecuniary disadvantages with his former employer. The figure also includes the agreed-upon cash settlement for Stock Awards granted in the past to Prof. Dr. Hermann Requardt.

The defined benefit obligation (DBO) of all pension commitments to former members of the Managing Board and their surviving dependents as of September 30, 2016, amounted to €216,3 (2015: €228.3) million. This figure is included in → NOTE 16 in → B.6 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Other

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

A.10.1.3 ADDITIONAL INFORMATION ON STOCK-BASED COMPENSATION INSTRUMENTS IN FISCAL 2016

Stock commitments

The following table shows the changes in the balance of the stock commitments held by Managing Board members in fiscal 2016:

	Balance at beginning of fiscal 2016		Granted during fiscal year[1]	Vested and fulfilled during fiscal year	Forfeited during fiscal year[2]	Balance at end of fiscal 2016[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, 2016							
Joe Kaeser	**41,025**	**129,425**	28,043	25,273	8,666	**25,631**	**138,923**
Dr. Roland Busch	**27,122**	**72,383**	14,286	13,773	5,330	**19,425**	**75,263**
Lisa Davis	**576**	**38,975**	14,286	–	–	**576**	**53,261**
Klaus Helmrich	**27,233**	**73,254**	14,286	14,237	5,737	**19,536**	**75,263**
Janina Kugel	**–**	**15,655**	13,757	–	–	**–**	**29,412**
Prof. Dr. Siegfried Russwurm	**35,437**	**82,892**	14,286	25,273	8,666	**20,043**	**78,633**
Dr. Ralf P. Thomas	**5,030**	**51,124**	14,286	4,347	3,813	**5,030**	**57,250**
Total	**136,423**	**463,708**	113,230	82,903	32,212	**90,241**	**508,005**

1 The weighted average fair value as of the grant date for fiscal 2016 was €76.95 per granted share.

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

3 Amounts also include stock commitments (Stock Awards) granted in November 2015 for fiscal 2016. These amounts may further include stock commitments received as compensation by the Managing Board member before joining the Managing Board.

Shares from the Share Matching Plan

Fiscal 2011 was the last year in which Managing Board members were entitled to participate in the Siemens Share Matching Plan. Under the plan, they were entitled to invest up to 50% of the annual gross amount of their variable cash compensation, as determined for fiscal 2010, in Siemens shares. After the expiration of a vesting period of approximately three years, plan participants are entitled to receive one free matching share of Siemens stock for every three Siemens shares acquired and continuously held under the plan, provided the participants were employed without interruption at Siemens AG or a Siemens company until the end of the vesting period. At the beginning of fiscal 2016, the following members of the Managing Board had entitlements to matching shares, which they had acquired before joining the Managing Board: Dr. Ralf P. Thomas, 780 shares and Janina Kugel, three shares. In fiscal 2016, no entitlements to matching shares were acquired. In fiscal 2016, the following entitlements to matching shares were due: 780 shares, Dr. Ralf P. Thomas. During fiscal 2016, no entitlements to matching shares were forfeited. Entitlements to matching shares at the end of fiscal 2016 show the following balance: Janina Kugel, three shares with a fair value of €174.

Share Ownership Guidelines

The deadlines by which the individual Managing Board members must provide first-time proof of compliance with the Siemens Share Ownership Guidelines vary from member to member, depending on when he or she was appointed to the Managing Board. The following table shows the number of Siemens shares that were held by Managing Board members in office at September 30, 2016, as of the March 2016 deadline for proving compliance with the Share Ownership Guidelines as well as the number that are to be held permanently with a view to future deadlines.

	Obligations under Share Ownership Guidelines					
	Required			Proven		
(Amounts in number of units or €)	Percentage of base compensation[1]	Value[1]	Number of shares[2]	Percentage of base compensation[1]	Value[2]	Number of shares[3]
Managing Board members serving as of September 30, 2016, and required to show proof as of March 11, 2016						
Joe Kaeser	300%	4,656,938	51,732	604%	9,371,982	104,110
Dr. Roland Busch	200%	1,967,900	21,861	324%	3,190,849	35,446
Klaus Helmrich	200%	1,934,150	21,486	350%	3,388,083	37,637
Prof. Dr. Siegfried Russwurm	200%	1,967,900	21,861	747%	7,354,814	81,702
Total		**10,526,888**	**116,940**		**23,305,728**	**258,895**

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 €90.02 for the fourth quarter of 2015 (October – December).

3 As of March 11, 2016 (date of proof), including Bonus Awards.

A.10.2 Remuneration of Supervisory Board members

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

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

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

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

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

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

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

The compensation shown below was determined for each of the members of the Supervisory Board for fiscal 2016 (individualized disclosure).

(Amounts in €)	2016				2015			
	Base compen-sation	Additional compen-sation for committee work	Meeting attendance fee	Total	Base compen-sation	Additional compen-sation for committee work	Meeting attendance fee	Total
Supervisory Board members serving as of September 30, 2016								
Dr. Gerhard Cromme	280,000	280,000	45,000	605,000	280,000	280,000	48,000	608,000
Birgit Steinborn[1]	220,000	200,000	43,500	463,500	200,000	200,000	45,000	445,000
Werner Wenning	220,000	140,000	30,000	390,000	220,000	140,000	33,000	393,000
Olaf Bolduan[1]	133,333	–	9,000	142,333	140,000	–	9,000	149,000
Michael Diekmann	133,333	57,143	13,500	203,976	132,222	56,667	13,500	202,389
Dr. Hans Michael Gaul	140,000	160,000	27,000	327,000	140,000	160,000	27,000	327,000
Reinhard Hahn[1]	140,000	–	10,500	150,500	105,000	–	4,500	109,500
Bettina Haller[1]	140,000	80,000	25,500	245,500	140,000	80,000	24,000	244,000
Hans-Jürgen Hartung	140,000	–	10,500	150,500	140,000	–	9,000	149,000
Robert Kensbock[1]	140,000	180,000	30,000	350,000	140,000	180,000	30,000	350,000
Harald Kern[1]	140,000	80,000	22,500	242,500	140,000	80,000	21,000	241,000
Jürgen Kerner[1]	140,000	200,000	33,000	373,000	132,222	170,000	31,500	333,722
Dr. Nicola Leibinger-Kammüller	140,000	80,000	27,000	247,000	140,000	33,333	15,000	188,333
Gérard Mestrallet	126,667	–	7,500	134,167	140,000	–	9,000	149,000
Dr. Norbert Reithofer	133,333	38,095	15,000	186,429	93,333	14,815	4,500	112,648
Güler Sabancı	140,000	–	10,500	150,500	140,000	–	9,000	149,000
Dr. Nathalie von Siemens	140,000	–	10,500	150,500	105,000	–	4,500	109,500
Michael Sigmund	140,000	–	10,500	150,500	140,000	–	9,000	149,000
Jim Hagemann Snabe	140,000	120,000	31,500	291,500	132,222	113,333	28,500	274,056
Sibylle Wankel[1]	140,000	40,000	16,500	196,500	132,222	37,778	13,500	183,500
Total[2]	3,066,667	1,655,238	429,000	5,150,905	2,932,221	1,545,926	388,500	4,866,648

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

2 The total figure, compared to the amount presented in the 2015 Compensation Report, does not include the total compensation of €252,185 paid to former Supervisory Board members Gerd von Brandenstein, Prof. Dr. Peter Gruss and Berthold Huber.

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 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 2016 includes a deductible for the members of the Managing Board and the Supervisory Board that complies with the requirements of the German Stock Corporation Act and the Code.

A.11 Takeover-relevant information

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

A.11.1 Composition of common stock

As of September 30, 2016, the Company's common stock totaled €2.550 billion. The capital stock is divided into 850 million registered shares with no par value and a notional value of €3.00 per share. 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 from this rule applies with regard to treasury shares held by the Company, which do not entitle the Company to any rights. Under Section 136 of the German Stock Corporation Act the voting right of the affected shares is excluded by law.

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

The von Siemens-Vermögensverwaltung GmbH (vSV) has, on a sustained basis, powers of attorney allowing it to exercise the voting rights for 10,878,800 shares (as of September 30, 2016) 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, 2016, the total unissued authorized capital of Siemens AG therefore consisted of €618.6 million nominal that may be issued, with varying terms by issuance, in installments of up to 206.2 million registered shares of no par value.

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

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

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

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

In February 2012, Siemens issued bonds with warrant units with a volume of US$3 billion. Siemens exchanged the major part of the warrants issued in 2012 against new warrants in September 2015; for this purpose, Siemens issued new bonds with warrants. At exchange, the new warrants resulted in option rights entitling their holders to receive approximately 20.3 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 2,517,727 shares by September 30, 2016. The total consideration paid for these shares amounted to about €230 million (excluding incidental transaction charges). The buyback has the sole purposes of retirement, of issuing shares to employees, board members of affiliated companies and members of the Managing Board of Siemens AG, as well as 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, 2016, the Company held 41,721,682 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 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. Both agreements provide their respective 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).

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 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. In case of a change of control, the terms and conditions of each warrant 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.