

# **Q3 – Continuous revenue growth in more challenging markets**

Peter Löscher, President and CEO  
Joe Kaeser, CFO

Q3 FY 2012, Analyst Call  
July 26, 2012

# Safe Harbour Statement

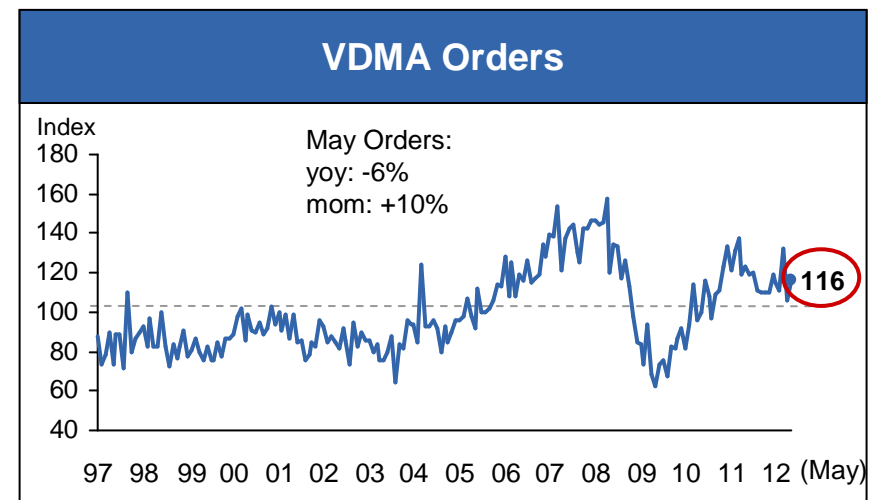
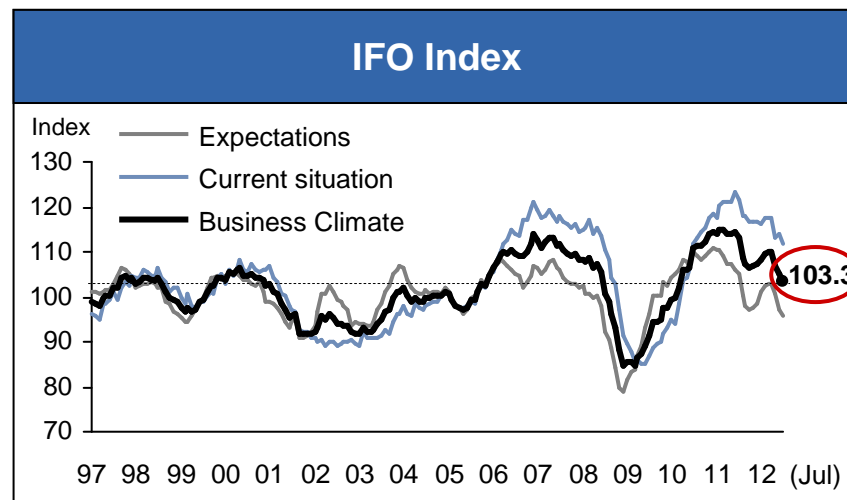
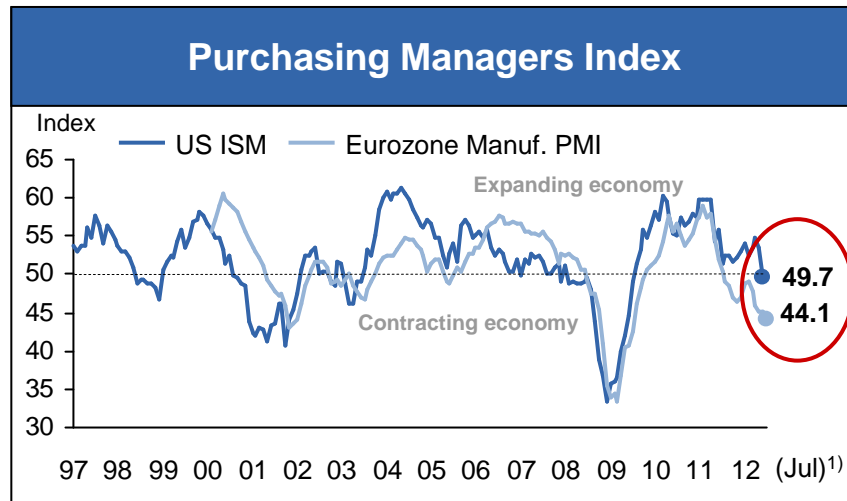
This document includes supplemental financial measures that are or may be non-GAAP financial measures. New orders and order backlog; adjusted or organic growth rates of revenue and new orders; book-to-bill ratio; Total Sectors profit; return on equity (after tax), or ROE (after tax); return on capital employed (adjusted), or ROCE (adjusted); Free cash flow, or FCF; cash conversion rate, or CCR; adjusted EBITDA; adjusted EBIT; adjusted EBITDA margins, earnings effects from purchase price allocation, or PPA effects; net debt and adjusted industrial net debt are or may be such non-GAAP financial measures. These supplemental financial measures should not be viewed in isolation as alternatives to measures of Siemens' financial condition, results of operations or cash flows as presented in accordance with IFRS in its Consolidated Financial Statements. Other companies that report or describe similarly titled financial measures may calculate them differently. Definitions of these supplemental financial measures, a discussion of the most directly comparable IFRS financial measures, information regarding the usefulness of Siemens' supplemental financial measures, the limitations associated with these measures and reconciliations to the most comparable IFRS financial measures are available on Siemens' Investor Relations website at [www.siemens.com/nonGAAP](http://www.siemens.com/nonGAAP). For additional information, see supplemental financial measures and the related discussion in Siemens' most recent annual report on Form 20-F, which can be found on our Investor Relations website or via the EDGAR system on the website of the United States Securities and Exchange Commission.

This document contains statements related to our future business and financial performance and future events or developments involving Siemens that may constitute forward-looking statements. These statements may be identified by words such as "expects," "looks forward to," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "will," "project" or words of similar meaning. We may also make forward-looking statements in other reports, in presentations, in material delivered to stockholders and in press releases. In addition, our representatives may from time to time make oral forward-looking statements. Such statements are based on the current expectations and certain assumptions of Siemens' management, and are, therefore, subject to certain risks and uncertainties. A variety of factors, many of which are beyond Siemens' control, affect Siemens' operations, performance, business strategy and results and could cause the actual results, performance or achievements of Siemens to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements or anticipated on the basis of historical trends. These factors include in particular, but are not limited to, the matters described in Item 3: Risk factors of our most recent annual report on Form 20-F filed with the SEC, in the chapter "Risks" of our most recent annual report prepared in accordance with the German Commercial Code, and in the chapter "Report on risks and opportunities" of our most recent interim report.

Further information about risks and uncertainties affecting Siemens is included throughout our most recent annual, and interim reports as well as our most recent earnings release, which are available on the Siemens website, [www.siemens.com](http://www.siemens.com), and throughout our most recent annual report on Form 20-F and in our other filings with the SEC, which are available on the Siemens website, [www.siemens.com](http://www.siemens.com), and on the SEC's website, [www.sec.gov](http://www.sec.gov). Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results, performance or achievements of Siemens may vary materially from those described in the relevant forward-looking statement as being expected, anticipated, intended, planned, believed, sought, estimated or projected. Siemens neither intends, nor assumes any obligation, to update or revise these forward-looking statements in light of developments which differ from those anticipated.

Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

# Macro indicators point at “A rocky road ahead”



1) US ISM as of June; preliminary July reading for Eurozone Manuf. PMI

## Q3 FY 2012 – Key takeaways

- **Orders substantially below prior year: Lower volume from large orders in Energy and tough comps (ICx-order)**
- **Moderate organic revenue growth** driven by strength in **Energy** and **Healthcare**
- **Strong earnings** performance in **Fossil** and **DX** more than offset by **higher Opex** and lower contribution from **short cycle businesses**
- **Free cash flow** impacted by **high operating working capital** consumption
- **Osram: Listing via spin-off**

## Q3 FY 2012: Softer underlying Sector profit on continued revenue growth

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Siemens (continuing operations), in €m	Q3 FY 11	Q3 FY 12	Change
<b>New orders</b>	22,937	<b>17,770</b>	<b>-27%<sup>1)</sup></b>
<b>Revenue</b>	17,844	<b>19,542</b>	<b>3%<sup>1)</sup></b>
<b>Book-to-bill</b>	1.29x	<b>0.91x</b>	
<b>Profit Total Sectors</b>	1,144 <sup>2)</sup>	<b>1,817</b>	<b>59%</b>
<b>Income (from continuing operations)</b>	763 <sup>2)</sup>	<b>1,229</b>	<b>61%</b>
<b>Basic earnings per share, in €</b>	0.83 <sup>3)</sup>	<b>1.37</b>	
<b>Free cash flow</b>	992	<b>883</b>	<b>-11%</b>

1) Change is adjusted for portfolio and currency translation effects

2) Including negative pretax impact of €682m related to Areva due to arbitration decision and negative impact of €381m for re-evaluating Particle Therapy

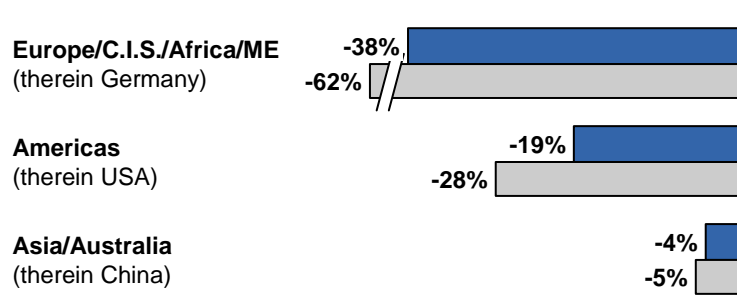
3) Including a negative impact of €0.54 related to the Areva arbitration decision

# Strong U.S. presence drives revenue growth, while orders show global weakness, in particular across Europe

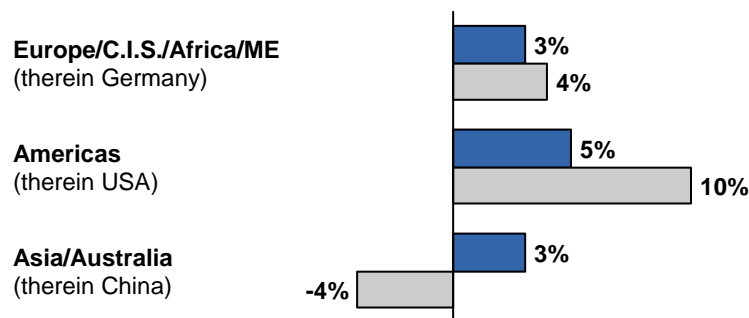


## Regional business split

### Q3 FY12 Order growth y-o-y<sup>1)</sup>



### Q3 FY12 Revenue growth y-o-y<sup>1)</sup>



## Main developments in Q3

- **Lack of large orders** in Energy (US, Europe) and **Transportation & Logistics** (ICx: €3.7bn in Q3 FY 11)
  - **Short cycle businesses** in Industry face **global slowdown**
  - **Ongoing weakness** in **Eurozone** countries
  - **Emerging markets** held up well (stable y-o-y; **38% of order entry**)
- 
- Broad based **regional growth** driven by **Energy** and **Healthcare**
  - **Stable share** of **emerging markets** at **32%**
  - **Continued weakness** of **rail business** in **China** while particularly **strong wind business** in the **US**

1) Change is adjusted for currency translation and portfolio effects

## Weaker profitability mainly caused by unfavorable business mix and continued Opex increase

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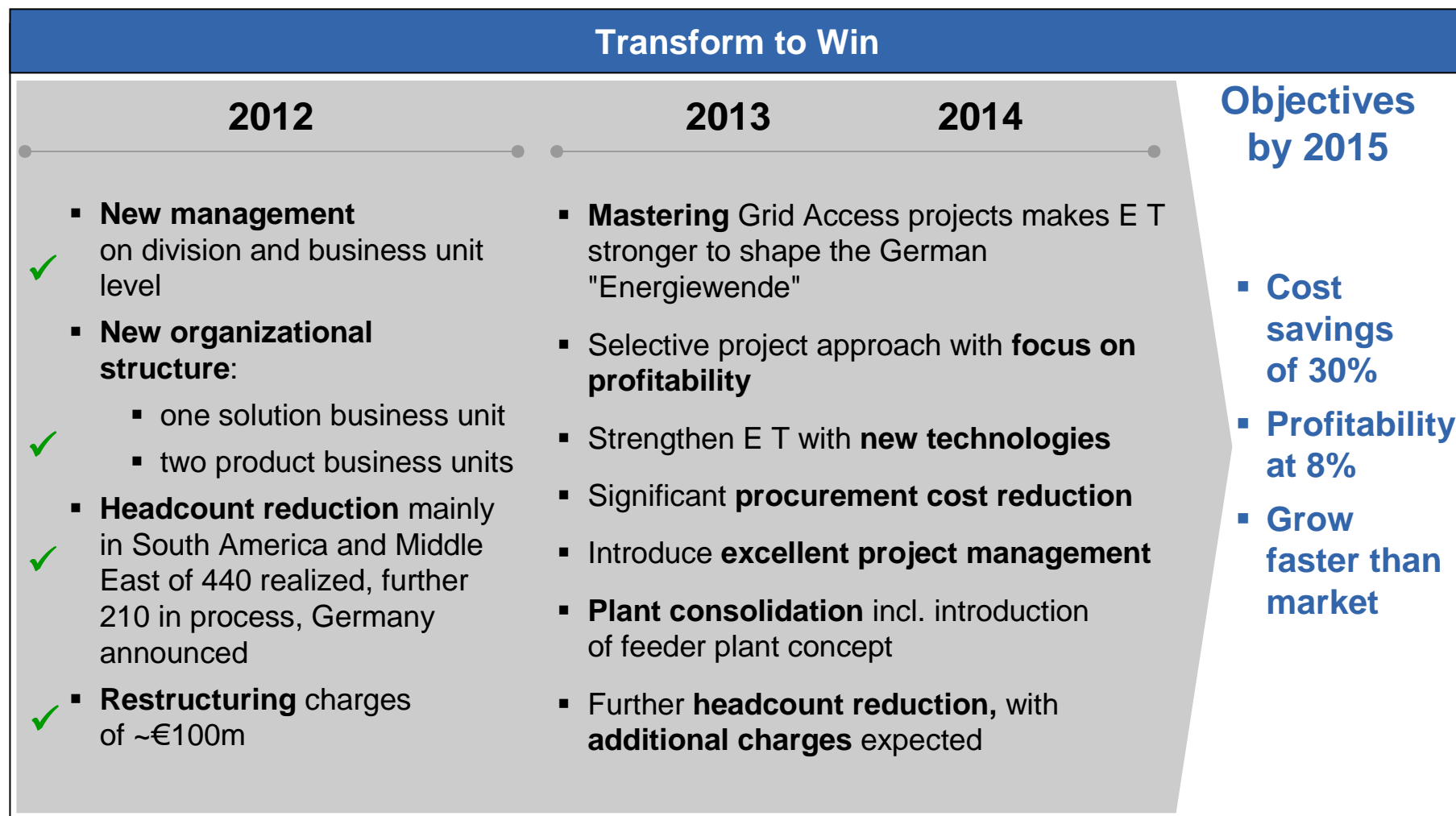
Q3 FY 12	Orders y-o-y <sup>1)</sup>	Revenue y-o-y <sup>1)</sup>	Profit margin
<b>Siemens</b>	<b>-27%</b>	<b>3%</b>	
<b>Energy</b>	<b>-33%</b>	<b>8%</b>	<b>9.7%</b>
Fossil Power	-26%	-2%	17.6%
Renewable Energy	-68%	35%	2.5%
Oil & Gas	-19%	7%	7.9%
Power Transmission	-22%	8%	3.2%
<b>Healthcare</b>	<b>2%</b>	<b>8%</b>	<b>11.8%</b>
Diagnostics	4%	6%	9.2%
<b>Industry</b>	<b>-4%</b>	<b>-2%</b>	<b>10.2%</b>
Industry Automation	-5%	0%	11.7%
Drive Technologies	-11%	-1%	8.6%
<b>Infrastruct. &amp; Cities</b>	<b>-48%</b>	<b>1%</b>	<b>5.0%</b>
Transportation & Logistics	-75%	-1%	4.2%
Power Grid Solutions & Products	1%	4%	5.1%
Building Technologies	-4%	0%	4.5%
1) Change is adjusted for currency translation and portfolio effects			

### Development of Divisions

- **Fossil** – Consistent good execution; strong service and product business
- **Renewables** – Wind with strong backlog execution, profit impacted by one-off charges while structural challenges in Solar remain
- **Transmission** – „Transform to win“ under way
- **Healthcare** – Execution of Agenda 2013 shows positive results
- **IA / DT** – Short cycle businesses impacted by challenging markets
- **Transportation & Logistics** – Lower margins from large long-term contracts

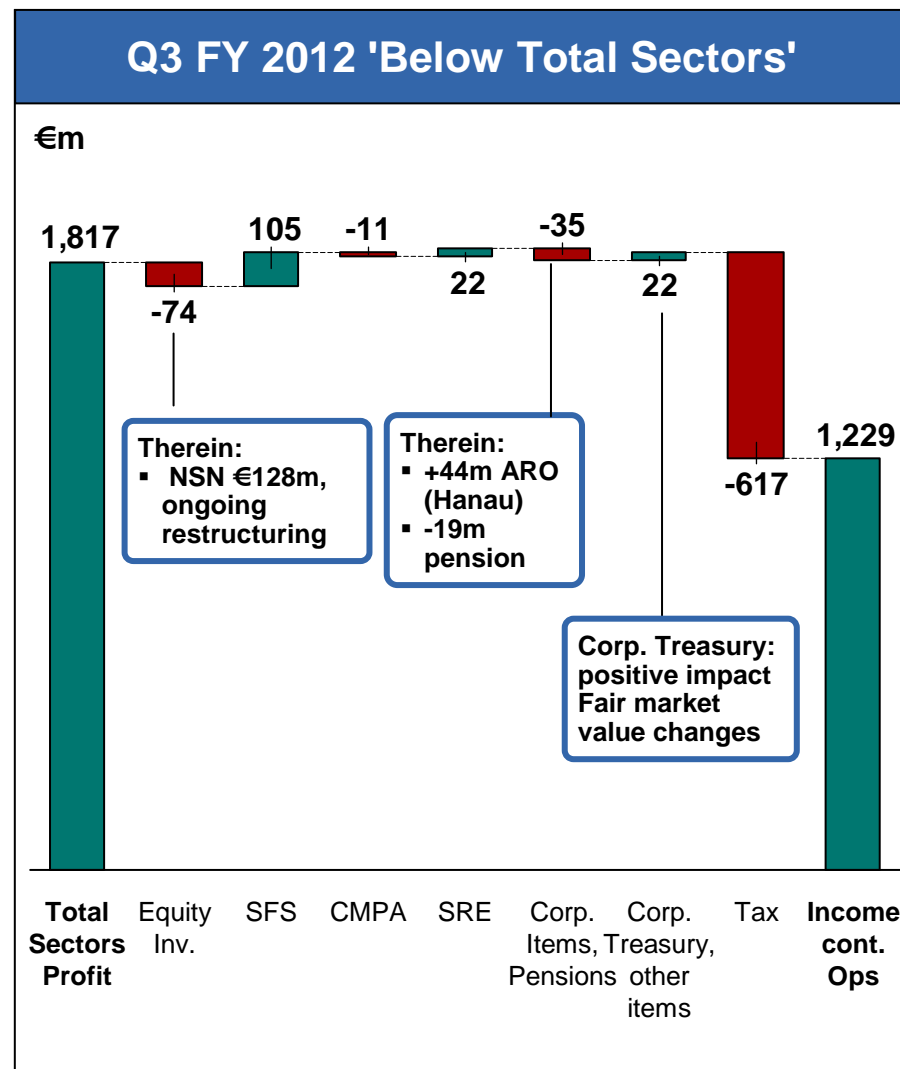
# 'Transform to Win' - program addresses the recovery in Transmission

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## 'Below Total Sectors' supported by a number of positive one-offs in Q3 FY 12

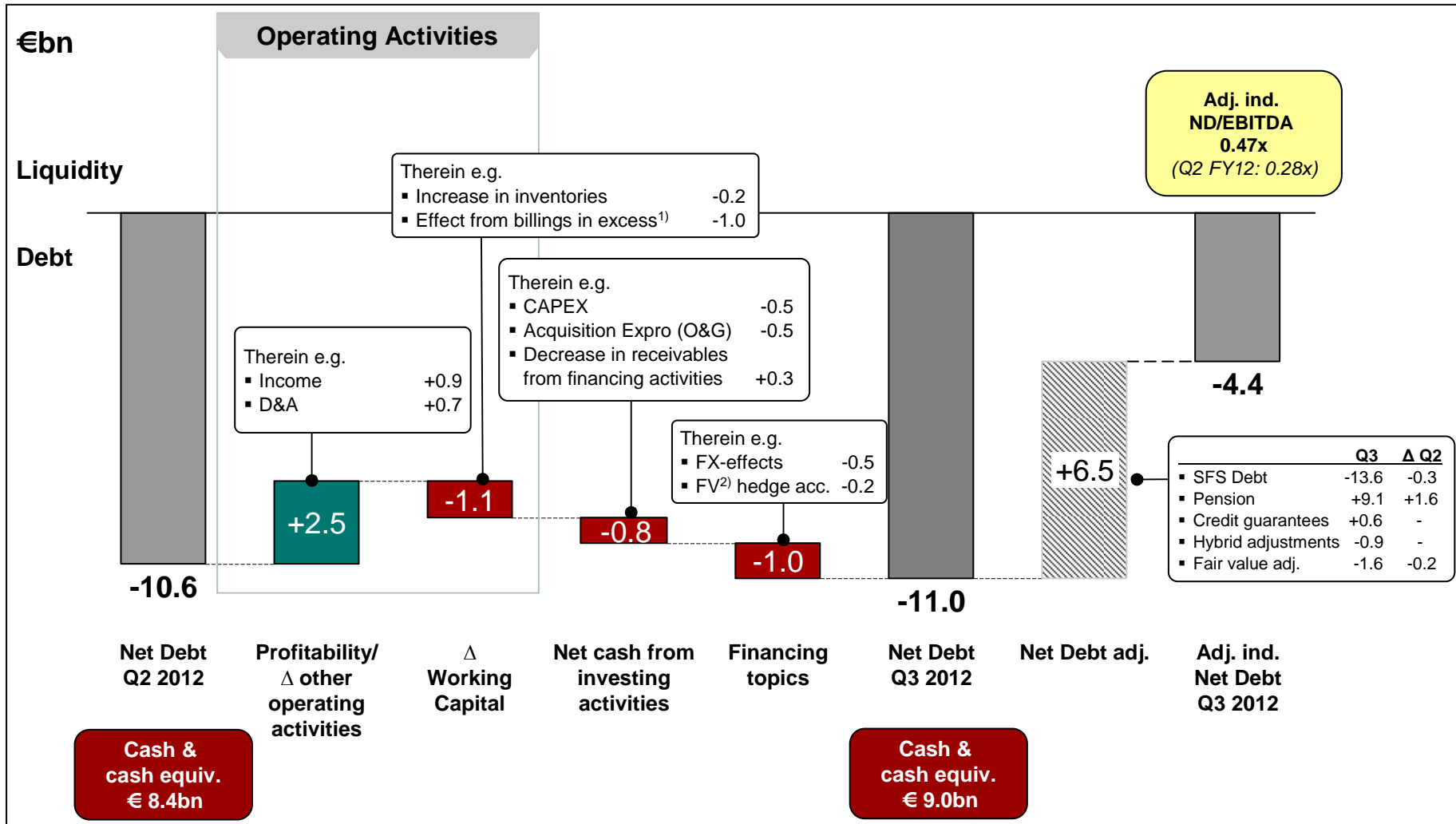


## What to expect for Q4 FY 2012

- **Equity Investments** remain volatile:
  - NSN some more charges expected on the back of stronger operational execution
- **SFS & CMPA:** in line with Q3
- **SRE:** dependent on disposal gains; upside
- **Corp Items & Pensions:**
  - Expected run rate ~€200 in FQ4
  - ARO (Hanau) and Pension dependent on interest rate development
- **Corp. Treasury, other items incl. interest:**
  - Highly volatile due to FX et al
  - Planned run rate ~€50m

# Working capital consumption drives net debt increase and leaves room for more improvements

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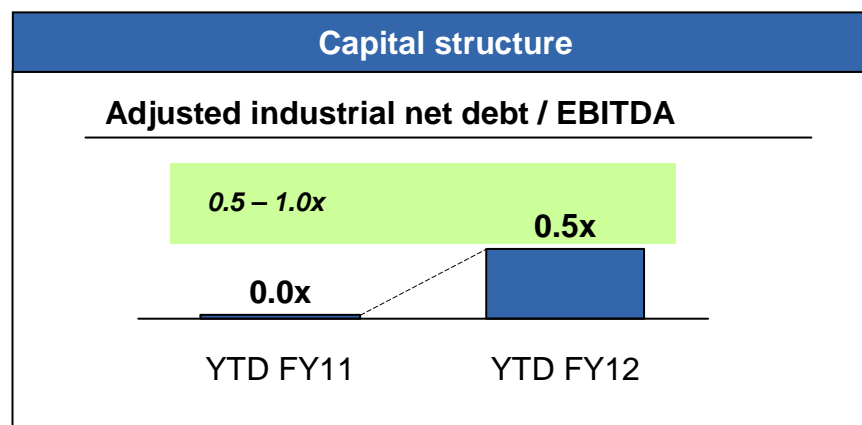
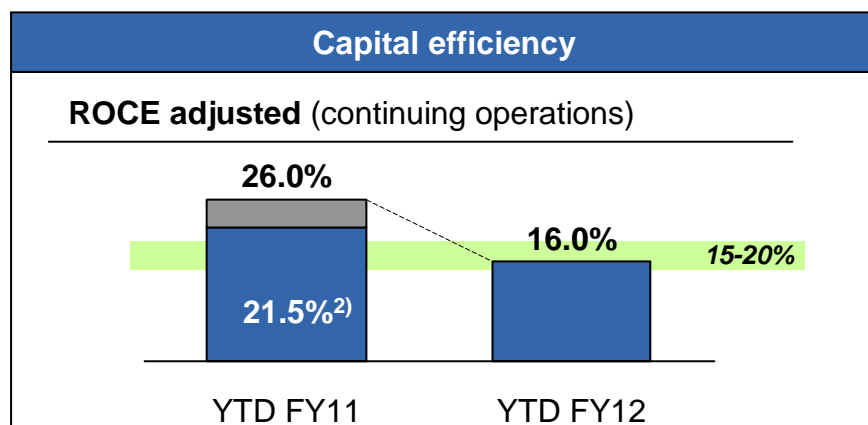
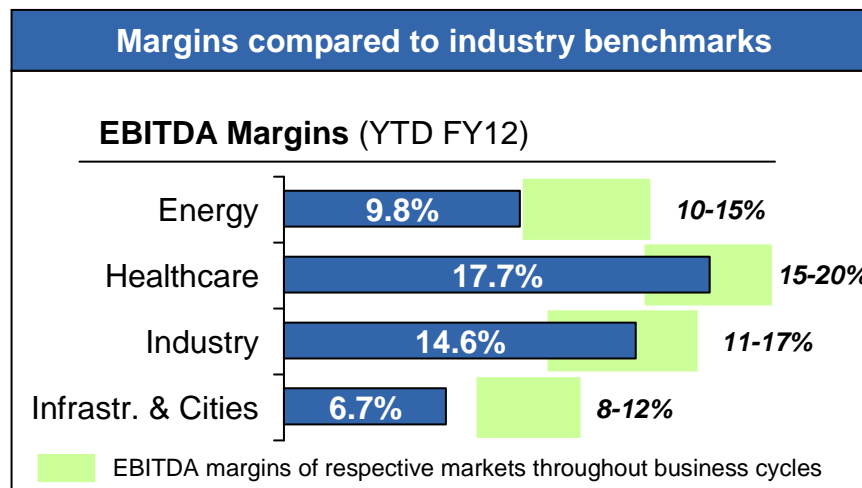
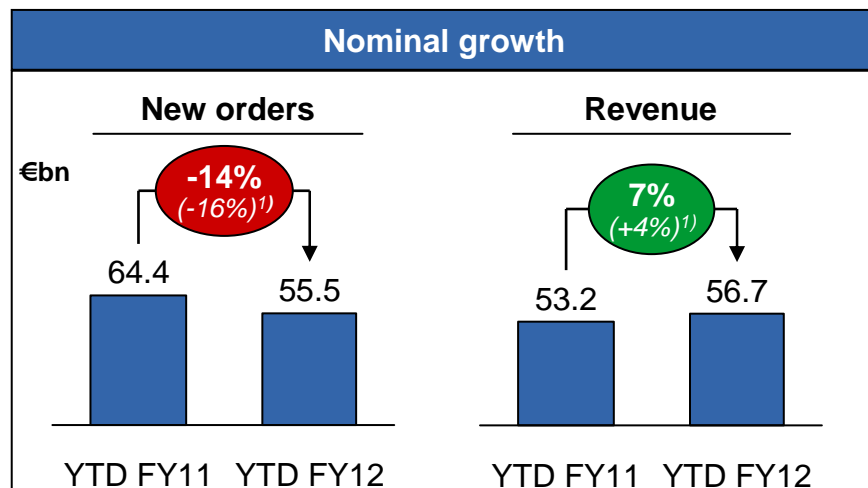


1) Included in Cash Flow Statement "Change in other assets and liabilities" 2) Fair Value

# One Siemens goals remain in place Necessary improvements will drive value creation

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One Siemens - Financial Operating model



1) Change is adjusted for currency translation and portfolio effects

2) ROCE adjusted excluding combined impact from sale of stake in Areva and arbitration decision

## Outlook FY 2012

- For fiscal 2012 we expect **moderate organic revenue growth** compared to fiscal 2011, and a **book-to-bill around one**.
- Given our results for the first nine months, including substantially lower earnings than expected in our industrial short-cycle businesses, it has become **clearly more ambitious to reach the range** of our mid-year outlook of **€5.2 to €5.4 billion in income from continuing operations**.



This outlook excludes significant portfolio effects and impacts related to legal and regulatory matters in the fourth quarter.

## Financial calendar

### July

**July 26, 2012**

Q3 earnings release and analyst call

### August

**August 1, 2012**

US Roadshow (Chicago)

### September

**September 4 – 6, 2012**

US Roadshow (Denver)

**September 24, 2012**

Goldman Sachs & Berenberg German Corporate Conference (Munich)

**Siemens investor relations contact data**

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Mariel von Drathen +49-89-636-33780

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Munich Office +49-89-636-32474

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Internet: <http://www.siemens.com/investorrelations>

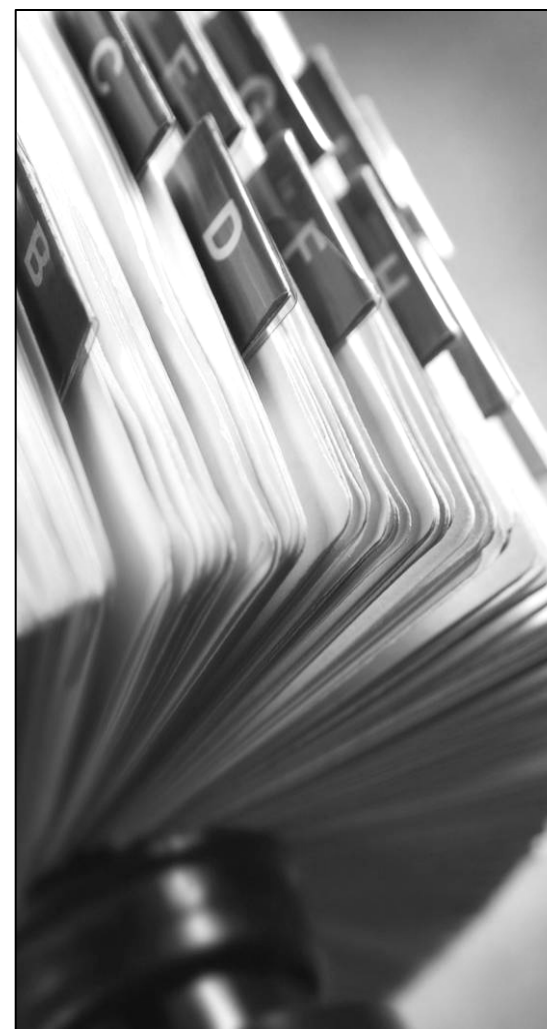
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Email: [investorrelations@siemens.com](mailto:investorrelations@siemens.com)

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Fax: +49-89-636-32830

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# Reconciliation and Definitions for Non-GAAP Measures (I)



To supplement Siemens' Consolidated Financial Statements presented in accordance with International Financial Reporting Standards, or IFRS, Siemens presents the following supplemental financial measures:

- New orders and order backlog;
- Adjusted or organic growth rates of revenue and new orders;
- Book-to-bill ratio;
- Total Sectors profit;
- Return on equity (after tax), or ROE (after tax);
- Return on capital employed (adjusted), or ROCE (adjusted);
- Free cash flow, or FCF and cash conversion rate, or CCR;
- Adjusted EBITDA, adjusted EBIT and adjusted EBITDA margins;
- Earnings effect from purchase price allocation, or PPA effects;
- Net debt; and
- Adjusted industrial net debt.

These supplemental financial measures are or may be "non-GAAP financial measures," as defined in the rules of the U.S. Securities and Exchange Commission, or SEC. They may exclude or include amounts that are included or excluded, as applicable, in the calculation of the most directly comparable financial measures calculated in accordance with IFRS, and their usefulness is therefore subject to limitations, which are described below under "Limitations on the usefulness of Siemens' supplemental financial measures." Accordingly, they should not be viewed in isolation or as alternatives to the most directly comparable financial measures calculated in accordance with IFRS, as identified in the following discussion, and they should be considered in conjunction with Siemens' Consolidated Financial Statements presented in accordance with IFRS and the Notes thereto. Siemens' most recent annual Consolidated Financial Statements at any given time (the "Annual Financial Statements") can be found in the most recent Annual Report on Form 20-F filed with the SEC (the "Annual Report"), which can also be accessed at [www.siemens.com/annual-report](http://www.siemens.com/annual-report). Siemens' most recent Condensed Interim Consolidated Financial Statements at any given time (the "Interim Financial Statements") can be found in the most recent Interim Report on Form 6-K furnished to the SEC (the "Interim Report"), which can also be accessed at [www.siemens.com/quarterly-reports](http://www.siemens.com/quarterly-reports). Alternatively, the reports can be found at [www.siemens.com/investors](http://www.siemens.com/investors) under the heading "Financials."

In addition, in considering these supplemental financial measures, investors should bear in mind that other companies that report or describe similarly titled financial measures may calculate them differently. Accordingly, investors should exercise appropriate caution in comparing these supplemental financial measures to similarly titled financial measures reported by other companies.

## **I. Definitions, most directly comparable IFRS financial measures and usefulness of Siemens' supplemental financial measures**

Siemens' supplemental financial measures are designed to measure growth, capital efficiency, cash and profit generation and optimization of Siemens' capital structure and therefore may be used to formulate targets for Siemens. The following discussion provides definitions of these supplemental financial measures, the most directly comparable IFRS financial measures and information regarding the usefulness of these supplemental financial measures.

### **New orders and order backlog**

Under its policy for the recognition of new orders, Siemens generally recognizes a new order when we enter into a contract that we consider legally effective and compulsory based on a number of different criteria. In general, if a contract is considered legally effective and compulsory, Siemens recognizes the total contract value. The contract value is the agreed price or fee for that portion of the contract for which the delivery of goods and/or the provision of services has been irrevocably agreed. Future revenues from service, maintenance and outsourcing contracts are recognized as new orders in the amount of the total contract value only if there is adequate assurance that the contract will remain in effect for its entire duration (e.g., due to high exit barriers for the customer). New orders are generally recognized immediately when the relevant contract becomes legally effective and compulsory. The only exceptions are orders with short overall contract terms. In this case, a separate reporting of new orders would provide no significant additional information regarding our performance. For orders of this type, the recognition of new orders thus occurs when the underlying revenue is recognized.

# Reconciliation and Definitions for Non-GAAP Measures (II)



## **New orders and order backlog - continued**

Order backlog represents an indicator for the future revenues of our Company resulting from already recognized new orders. Order backlog is calculated by adding the new orders of the current fiscal year to the balance of the order backlog from the prior fiscal year and by subtracting the revenue recognized in the current fiscal year. If an order from the current fiscal year is cancelled or its amount is modified, Siemens adjusts its new order total for the current quarter accordingly, but does not retroactively adjust previously published new order totals. However, if an order from a previous fiscal year is cancelled, generally new orders of the current quarter and, accordingly, the current fiscal year are not adjusted, instead, the existing order backlog is revised. Aside from cancellations, the order backlog is also subject to changes in the consolidation group and to currency translation effects. There is no standard system for compiling and calculating new orders and order backlog information that applies across companies. Accordingly Siemens' new orders and order backlog may not be comparable with new orders and order backlog as reported by other companies. Siemens subjects its new orders and its order backlog to internal documentation and review requirements. Siemens may change its policies for recognizing new orders and order backlog in the future without previous notice.

## **Adjusted or organic growth rates of revenue and new orders**

Siemens presents, on a worldwide basis and for Sectors and Divisions, the percentage change from period to period in revenue and new orders as adjusted for currency translation effects and portfolio effects. The adjusted percentage changes are called adjusted or organic growth rates. The IFRS financial measure most directly comparable to the adjusted or organic growth rate of revenue is the unadjusted growth rate calculated based on the actual revenue figures presented in the Consolidated Financial Statements. There is no comparable IFRS financial measure for the adjusted or organic growth rate of new orders.

Siemens presents its Consolidated Financial Statements in euros; however, a significant proportion of the operations of its Sectors and Divisions takes place in a functional currency other than the euro and is therefore subject to foreign currency translation effects. Converting figures from these currencies into euros affects the comparability of Siemens' results and financial position when the exchange rates for these currencies fluctuate. Some businesses are significantly affected due to the large proportion of international operations, particularly in the U.S. In addition, the effect of acquisitions and dispositions on Siemens' consolidated revenues affects the comparability of the Consolidated Financial Statements between different periods.

The adjusted or organic growth rates of revenue and new orders, as the case may be, are calculated by subtracting currency translation effects and portfolio effects from the relevant actual growth rates. The currency translation effect is calculated as (1) (a) revenues or new orders, as the case may be, for the current period, based on the currency exchange rate of the current period minus (b) revenues or new orders for the current period, based on the currency exchange rate of the previous period, divided by (2) revenues or new orders for the previous period, based on the currency exchange rate of the previous period. The portfolio effect is calculated, in the case of acquisitions, as the percentage change in revenues or new orders, as the case may be, attributable to the acquired business and, in the case of dispositions, as the percentage change in revenues or new orders on the assumption that the disposed business had not been part of Siemens in the previous period. Portfolio effects are always considered in the calculation of adjusted or organic growth rates for a period of twelve months. Siemens is making portfolio adjustments for certain carve-in and carve-out transactions, as well as for other minor transactions and reclassifications in the segments. For further information regarding major acquisitions and dispositions, see Notes to Consolidated Financial Statements in the Annual Report or in the Interim Reports. Siemens believes that the presentation of an adjusted or organic growth rate of revenue and new orders provides useful information to investors because a meaningful analysis of trends in revenue and new orders from one period to the next requires comparable data and therefore an understanding of the developments in the operational business net of the impact of currency translation and portfolio effects. Siemens' management considers adjusted or organic rates of growth in its management of Siemens' business. For this reason, Siemens believes that investors' ability to assess Siemens' overall performance may be improved by disclosure of this information.

## **Book-to-bill ratio**

The book-to-bill ratio measures the relationship between orders received and the billed amounts of products shipped and services rendered. A book-to-bill ratio of above 1 indicates that more orders were received than billed, indicating stronger demand, whereas a book-to-bill ratio of below 1 points to weaker demand. The book-to-bill ratio is not required or defined by IFRS.



# Reconciliation and Definitions for Non-GAAP Measures (III)



## **Total Sectors Profit**

Siemens uses Total Sectors profit to measure the sum of profit of the four Sectors Energy, Healthcare, Industry and Infrastructure & Cities. Profit of the Sectors is earnings before financing interest, certain pension costs and income taxes. Certain other items not considered indicative of performance by management may be excluded. Profit or loss for each reportable segment is the measure reviewed by the chief operating decision maker in accordance with IFRS 8, Operating segments. The IFRS financial measure most directly comparable to Total Sectors profit is Income from continuing operations before income taxes.

Siemens believes that investors' ability to assess Siemens' overall performance may be improved by disclosure of Total Sectors profit as a measure of the operational performance of the four Sectors representing the core industrial activities of Siemens.

## **ROE (after tax)**

In line with common practice in the financial services industry, Financial Services (SFS) uses ROE (after tax) as one of its key profitability measures. We define ROE (after tax) as SFS Profit after tax (annualized for purposes of interim reporting), divided by SFS average allocated equity. SFS Profit as reported in the Segment information is defined as Income before income taxes (IBIT). For purposes of calculating ROE (after tax), however, the relevant income taxes are calculated on a simplified basis, by applying an assumed flat tax rate of 30% to SFS Profit, excluding Income (loss) from investments accounted for using the equity method, net which is generally net of tax already, and tax-free income components and other components which have already been taxed, or are generally tax free, or which serve as an adjustment for material taxable Income (loss) from investments accounted for using the equity method, net. The allocated equity for SFS is mainly determined and influenced by the size and quality of its portfolio of commercial finance assets (primarily leases and loans) and equity investments. This allocation is designed to cover the risks of the underlying business and is in line with common credit risk management standards. The actual risk of the SFS portfolio is evaluated and controlled on a regular basis. The allocated equity is calculated quarterly.

ROE (after tax) is reported only for the SFS segment. It is used by management as a supplement to Siemens' Consolidated Financial Statements in evaluating the business performance of SFS. Therefore Siemens believes that the presentation of ROE (after tax) provides useful information to investors.

## **ROCE (adjusted)**

ROCE (adjusted) is Siemens' measure of capital efficiency and sustainable value creation. Siemens presents ROCE (adjusted) at the Siemens group level and uses this financial performance ratio in order to assess its income generation from the point of view of its shareholders and creditors, who provide Siemens with equity and debt. Siemens believes that the presentation of ROCE (adjusted) and the various supplemental financial measures involved in its calculation provides useful information to investors because ROCE (adjusted) can be used to determine whether capital invested in the Company yields competitive returns. In addition, achievement of predetermined targets relating to ROCE (adjusted) is one of the factors Siemens takes into account in determining the amount of performance-based compensation received by its management.

### *ROCE (adjusted) at the Siemens group level on a continuing operations basis*

Income from continuing operations before interest after tax (annualized for purposes of interim reporting), the numerator in the ROCE (adjusted) (continuing operations) calculation, is defined as Income from continuing operations, excluding Other interest income (expense), net (but not Other interest income (expense) of SFS) (both as reported in the Consolidated Financial Statements or in the Notes to Consolidated Financial Statements in the Annual Report or Interim Report), and excluding interest cost on Pension plans and similar commitments and taxes on these interest adjustments. SFS Other income (expense) is included in Other interest income (expense), net. Adding back SFS Other income (expense) in the numerator corresponds to the adjustment for SFS Debt in the denominator. For fiscal 2012 and 2011, interest cost on Pension plans and similar commitments is calculated using the weighted average discount rate of our pension benefit plans for the fiscal years ended September 30, 2011 (4.5%) and September 30, 2010 (4.2%) (both as reported in the Notes to Consolidated Financial Statements in the Annual Report 2011) applied to Pension plans and similar commitments as reported in the Consolidated Statements of Financial Position as of September 30, 2011 and 2010, respectively.

Average capital employed (continuing operations), or CE (continuing operations), the denominator in the ROCE (adjusted) calculation, is defined as the average of Total equity plus Long-term debt, plus Short-term debt and current maturities of long-term debt, less Cash and cash equivalents, plus Pension plans and similar commitments, less SFS Debt, less Fair value hedge accounting adjustment and less Assets classified as held for disposal (presented as discontinued operations), net of Liabilities associated with assets held for disposal (presented as discontinued operations). For further information on fair value hedges, see Adjusted industrial net debt within this document and Notes to Consolidated Financial Statements in the Annual Report. Each of the components of capital employed appears on the face of the Consolidated Statements of Financial Position, in the Notes to Consolidated Financial Statements, or in the relevant tables of Item 5: Operating and financial review and prospects in the Annual Report or in the Interim group management report of the Interim Reports.

# Reconciliation and Definitions for Non-GAAP Measures (IV)



## **ROCE (adjusted) – continued**

*ROCE (adjusted) at the Siemens group level on a continuing and discontinued operations basis*

Siemens also presents group ROCE (adjusted) on a continuing and discontinued operations basis. For this purpose, the numerator is Income before interest after tax (annualized for purposes of interim reporting) and the denominator is CE (continuing operations) plus Assets classified as held for disposal presented as discontinued operations, net of Liabilities associated with assets held for disposal presented as discontinued operations.

## **FCF and CCR**

Siemens defines FCF as Net cash provided by (used in) operating activities less Additions to intangible assets and property, plant and equipment. The IFRS financial measure most directly comparable to FCF is Net cash provided by (used in) operating activities.

Siemens believes that the presentation of FCF provides useful information to investors because it is a measure of cash generated by our operations after deducting cash outflows for Additions to intangible assets and property, plant and equipment. Therefore, the measure gives an indication of the long-term cash generating ability of our business. In addition, because FCF is not impacted by portfolio activities, it is less volatile than the total of Net cash provided by (used in) operating activities and Net cash provided by (used in) investing activities. For this reason, FCF is reported on a regular basis to Siemens' management, who uses it to assess and manage cash generation among the various reportable segments of Siemens and for the worldwide Siemens group. Achievement of predetermined targets relating to FCF generation is one of the factors Siemens takes into account in determining the amount of performance-based compensation received by its management, both at the level of the worldwide Siemens group and at the level of individual reportable segments. CCR, is defined as FCF divided by Net income. Siemens believes that the presentation of the CCR provides useful information to investors because it is an operational performance measure that shows how much of its income Siemens converts into FCF. CCR is reported on a regular basis to Siemens' management.

## **Adjusted EBITDA, adjusted EBIT and adjusted EBITDA margins**

*Adjusted EBITDA and adjusted EBIT at the Siemens group level*

Siemens reports adjusted EBITDA and adjusted EBIT on a continuing operations basis. Siemens defines adjusted EBITDA as adjusted EBIT before amortization (which in turn is defined as Amortization and impairments of intangible assets other than goodwill) and Depreciation and impairments of property, plant and equipment and goodwill. Siemens defines adjusted EBIT as Income from continuing operations before income taxes excluding Other financial income (expense), net, Interest expense, Interest income, as well as Income (loss) from investments accounted for using the equity method, net. Each of the components of adjusted EBIT appears on the face of the Consolidated Financial Statements, and each of the additional components of adjusted EBITDA appears in the Consolidated Financial Statements in the Annual Report or Interim Reports, or is presented in the table Reconciliation to adjusted EBITDA (continuing operations) within Item 5: Operating and financial review and prospects of the Annual Report, within the Interim group management report in the Interim Reports or within this document for the current quarter.

We disclose adjusted EBITDA and adjusted EBIT as supplemental non-GAAP financial performance measures, as we believe they are useful metrics by which to compare the performance of our business from period to period. We understand that measures similar to adjusted EBITDA and adjusted EBIT are broadly used by analysts, rating agencies and investors in assessing our performance. Accordingly, Siemens believes that the presentation of adjusted EBITDA and adjusted EBIT provides useful information to investors. The IFRS financial measure most directly comparable to adjusted EBITDA and adjusted EBIT is Net income.

Adjusted EBITDA is included in the ratio of adjusted industrial net debt to adjusted EBITDA, a measure of our capital structure. For further information regarding the ratio of adjusted industrial net debt to adjusted EBITDA, see Item 5: Operating and financial review and prospects—Supplemental financial measures —Adjusted industrial net debt of the Annual Report.

*Adjusted EBITDA and adjusted EBIT at the Sector level*

Siemens also presents adjusted EBITDA and adjusted EBIT at the Sector level on a continuing basis. Siemens defines adjusted EBITDA at the Sector level as adjusted EBIT before amortization (which in turn is defined as Amortization and impairments of intangible assets other than goodwill) and Depreciation and impairments of property, plant and equipment and goodwill at the Sector level. Siemens defines adjusted EBIT at the Sector level as Profit as presented in the Segment information excluding Financial income (expense), net as well as Income (loss) from investments accounted for using the equity method, net. Each of the components of adjusted EBITDA and adjusted EBIT at the level of each Sector, respectively, is presented in the table — Reconciliation to adjusted EBITDA (continuing operations) within Item 5: Operating and financial review and prospects of the Annual Report, within Interim group management report in the Interim Reports or within this document for the current quarter. The IFRS financial measure most directly comparable to adjusted EBITDA and adjusted EBIT at the Sector level is Profit of the relevant Sector as presented in the Notes to Consolidated Financial Statements in the Annual Report or Interim Reports. Accordingly, we believe that reporting adjusted EBITDA and adjusted EBIT on a segment level enhances the ability of investors to compare performance across segments.

# Reconciliation and Definitions for Non-GAAP Measures (V)



## **Adjusted EBITDA, adjusted EBIT and adjusted EBITDA margins on a continuing operations basis – continued**

### *Adjusted EBITDA margins at the Sector level*

Siemens defines adjusted EBITDA margins at the Sector level as the ratio of adjusted EBITDA to revenue (as presented in the Notes to Consolidated Financial Statements). Siemens intends to maintain and further improve the profitability of its businesses and to achieve margins on the level of the best competitors in our industries – throughout the complete business cycle. Accordingly, within One Siemens, our framework for sustainable value creation, we defined adjusted EBITDA margin ranges for the respective industries of our four Sectors.

Siemens believes that the presentation of adjusted EBITDA margins as a part of One Siemens provides useful information on how successfully Siemens operated in its markets and enhances the ability of investors to compare profitability across segments.

### **PPA effects**

The purchase price paid for an acquired business is allocated to the assets, liabilities and contingent liabilities acquired based on their fair values. The fair value step-ups result in an earnings effect over time, e.g. additional amortization of fair value step-ups of intangible assets, which is defined as PPA effects.

Siemens believes that the presentation of PPA effects provides useful information to investors as it allows investors to consider earnings impacts related to business combination accounting in the performance analysis.

### **Net debt**

Siemens defines net debt as total debt less total liquidity. Total debt is defined as Short-term debt and current maturities of long-term debt plus Long-term debt. Total liquidity is defined as Cash and cash equivalents plus current Available-for-sale financial assets. Each of these components appears in the Consolidated Statements of Financial Position. The IFRS financial measure most directly comparable to net debt is the total of Short-term debt and current maturities of long-term debt and Long-term debt as reported in the Notes to Consolidated Financial Statements.

Siemens believes that the presentation of net debt provides useful information to investors because its management reviews net debt as part of its management of Siemens' overall liquidity, financial flexibility, capital structure and leverage. In particular, net debt is an important component of adjusted industrial net debt. Furthermore, certain debt rating agencies, creditors and credit analysts monitor Siemens' Net debt as part of their assessments of Siemens' business.

### **Adjusted industrial net debt**

Within One Siemens, we manage adjusted industrial net debt as one component of our capital. Siemens defines adjusted industrial net debt as net debt less SFS Debt; less 50% of the nominal amount of our hybrid bond, plus Pension plans and similar commitments (as presented in the Consolidated Financial Statements), plus credit guarantees; and less fair value hedge accounting adjustments. The adjustment for our hybrid bond considers the calculation of this financial ratio applied by rating agencies to classify 50% of our hybrid bond as equity and 50% as debt. This assignment follows the characteristics of our hybrid bond such as a long maturity date and subordination to all senior and debt obligations. Debt is generally reported with a value representing approximately the amount to be repaid. However for debt designated in a hedging relationship (fair value hedges), this amount is adjusted by changes in market value mainly due to changes in interest rates. Accordingly, we deduct these changes in market value in order to end up with an amount of debt that approximately will be repaid, which we believe is a more meaningful figure for the calculation. For further information on fair value hedges, see Notes to Consolidated Financial Statements in the Annual Report. Further information concerning adjusted industrial net debt can be found in Item 5: Operating and financial review and prospects – Liquidity and capital resources – Capital structure in the Annual Report or in Liquidity, capital resources and requirements within the Interim group management report in the Interim Reports.

A key consideration in managing our capital structure is the maintenance of ready access to the capital markets through various debt products and the preservation of our ability to repay and service our debt obligations over time. Siemens has therefore set a capital structure target that is measured by adjusted industrial net debt divided by adjusted EBITDA from continuing operations (annualized for purposes of interim reporting). We believe that adopting a metric comparing our earnings-based performance relative to our indebtedness ("leverage") assists us in managing our business to achieve these goals. We have selected adjusted EBITDA from continuing operations as the performance element of the metric because we believe our earnings-based performance is a key determinant of the willingness of lenders to provide us with debt on favorable conditions and our ability to meet our debt obligations in future periods.

Siemens believes that using the ratio of adjusted industrial net debt to adjusted EBITDA from continuing operations as a measure of its capital structure provides useful information to investors because management uses it to manage our debt-equity ratio in order to promote access to debt financing instruments in the capital markets and our ability to meet scheduled debt service obligations.

# Reconciliation and Definitions for Non-GAAP Measures (VI)



## II. Limitations on the usefulness of Siemens' supplemental financial measures

**The supplemental financial measures reported by Siemens may be subject to limitations as analytical tools. In particular:**

- With respect to new orders and order backlog: In particular, new order reporting for the current period may include adjustments to new orders added in previous quarters of the current fiscal year and prior fiscal years (except for cancellations). Order backlog is based on firm commitments which may be cancelled in future periods.
- With respect to adjusted or organic growth rates of revenue and new orders: These measures are not adjusted for other effects, such as increases or decreases in prices or quantity/volume.
- With respect to book-to-bill ratio: The use of this measure is inherently limited by the fact that it is a ratio and thus does not provide information as to the absolute number of orders received by Siemens or the absolute amount of products and services shipped and billed by it.
- With respect to Total Sectors profit: Profit of Equity Investments, SFS, Centrally managed portfolio activities, Siemens Real Estate, Corporate items and pensions as well as of Eliminations, Corporate Treasury and other reconciling items can have a material impact on Siemens' Income from continuing operations in any given period. In addition, Total Sectors profit does not eliminate profit earned by one Sector on intragroup transactions with another Sector.
- With respect to ROE (after tax): Profit of SFS (IBIT) as defined and as reported in the Notes to Consolidated Financial Statements may exclude certain items not considered indicative of performance by management. The relevant income taxes used to derive SFS Profit after tax (used in the numerator) are calculated by applying an assumed flat tax rate to IBIT. As a portion of the IBIT is tax free, certain IBIT components are deducted before applying the flat tax rate. For feasibility purposes, the tax free portion of IBIT is determined based on a simplified methodology, i.e., not all of the tax free IBIT components are treated as such. Accordingly, the effective amount of income taxes payable differs from the amount calculated by means of this simplified procedure. In addition, the use of ROE (after tax) is inherently limited by the fact that it is a ratio and thus does not provide information as to the absolute amount of SFS' income.
- With respect to ROCE (adjusted): The use of this measure is inherently limited by the fact that it is a ratio and thus does not provide information as to the absolute amount of Siemens' income.
- With respect to FCF and CCR: FCF is not a measure of cash generated by operations that is available exclusively for discretionary expenditures. This is, because in addition to capital expenditures needed to maintain or grow its business, Siemens requires cash for a wide variety of non-discretionary expenditures, such as interest and principal payments on outstanding debt, dividend payments or other operating expenses. In addition, the use of CCR is inherently limited by the fact that it is a ratio and thus does not provide information about the amount of Siemens' Free cash flow or cash generated by operations.
- With respect to adjusted EBITDA, adjusted EBIT and adjusted EBITDA margins: As adjusted EBITDA excludes non-cash items such as depreciation, amortization and impairments, it does not reflect the expense associated with, and accordingly the full economic effect of the loss in value of Siemens' assets over time. Similarly, neither adjusted EBITDA, adjusted EBIT nor adjusted EBITDA margins reflects the impact of Financial income (expense), net, Income (loss) from investments accounted for using the equity method, net and Income taxes.
- With respect to PPA effects: The fact that these effects are stated separately does not mean that they do not impact profit of the relevant segment in the Consolidated Financial Statements.
- With respect to net debt and the ratio of adjusted industrial net debt to adjusted EBITDA: Siemens typically uses a considerable portion of its cash, cash equivalents and available-for-sale financial assets at any given time for purposes other than debt reduction. Therefore, the fact that these items are excluded from net debt does not mean that they are used exclusively for debt repayment. The use of the ratio adjusted industrial net debt to adjusted EBITDA is inherently limited by the fact that it is a ratio.

## III. Quantitative reconciliations of Siemens' supplemental financial measures

Information regarding the quantitative reconciliation of each supplemental financial measure to the most directly comparable IFRS financial measures is available on Siemens' Investor Relations website at [www.siemens.com/nonGAAP](http://www.siemens.com/nonGAAP). Siemens encourages investors to review these reconciliations carefully