

Siemens Q3 FY09

IR FLASHLIGHT

*The Analyst Call will take place in Munich,
on July 30, at 10.30 a.m. CEST, and will be webcast on
www.siemens.com/investorrelations*

*The Press Call will take place in Munich,
on July 30, at 9.00 a.m. CEST, and will be webcast on
www.siemens.com/press*

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This document contains forward-looking statements and information – that is, statements related to future, not past, events. 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. 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. For Siemens, particular uncertainties arise, among others, from: changes in general economic and business conditions (including margin developments in major business areas and recessionary trends); the possibility that customers may delay the conversion of booked orders into revenue or that prices will decline as a result of continued adverse market conditions to a greater extent than currently anticipated by Siemens’ management; developments in the financial markets, including fluctuations in interest and exchange rates, commodity and equity prices, debt prices (credit spreads) and financial assets generally; continued volatility and a further deterioration of the capital markets; a worsening in the conditions of the credit business and, in particular, additional uncertainties arising out of the subprime, financial market and liquidity crises; future financial performance of major industries that Siemens serves, including, without limitation, the Sectors Industry, Energy and Healthcare; the challenges of integrating major acquisitions and implementing joint ventures and other significant portfolio measures; the introduction of competing products or technologies by other companies; a lack of acceptance of new products or services by customers targeted by Siemens; changes in business strategy; the outcome of pending investigations and legal proceedings, including corruption investigations to which Siemens is currently subject and actions resulting from the findings of these investigations; the potential impact of such investigations and proceedings on Siemens’ ongoing business including its relationships with governments and other customers; the potential impact of such matters on Siemens’ financial statements; as well as various other factors. More detailed information about certain of the risk factors affecting Siemens is contained throughout this report and in Siemens’ other filings with the SEC, which are available on the Siemens website, www.siemens.com, and on the SEC’s website, www.sec.gov. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Siemens does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.

New orders; adjusted or organic growth rates of revenue and new orders; the book-to-bill ratio; return on equity, or ROE; return on capital employed, or ROCE; free cash flow; cash conversion rate, or CCR; EBITDA (adjusted); EBIT (adjusted); net debt and adjusted industrial net debt are or may be 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. A definition of these supplemental financial measures, a reconciliation to the most directly comparable IFRS financial measures and information regarding the usefulness and limitations of these supplemental financial measures can be found on Siemens’ Investor Relations website at www.siemens.com/nonGAAP.

Financial highlights of Q3 FY09

- **Strong backlog of €84.3bn softens impact of recession; solid Energy b-t-b at 1.06x**
- **Orders down 27%¹⁾ from very high prior year levels**
- **Revenues -4% impacted by difficult business environment at Industry**
- **Total sector profit of €1.7bn leading to a healthy margin of 9.6%**
 - **Excellent margin at Energy of 13.4%**
 - **Healthcare strong underlying margin²⁾ of 15.7%**, whereas the reported margin of 9.4% included a €128m charge for particle therapy contracts
 - **Ongoing margin pressure at short-cycle Industry businesses**
- **EPS cont. ops. at €1.35 up 29% sequentially q-o-q**
- **Strong free cash flow Total Sectors of €1.7bn; cash conversion at 1.0**

1) All figures y-o-y on a comparable basis excluding currency translation and portfolio effects

2) Underlying excl. PPA and OTC

Key Items relating to Q3 09 (I)

Industry	Energy
<ul style="list-style-type: none"> ▪ Industry Automation <ul style="list-style-type: none"> – <u>Margin</u>: 5.4% PPA¹⁾ €(34)m related to UGS acquisition in 2007 – Underlying margin: 7.6% excl. PPA – <i>Q3 08: PPA €(36)m, OTC €(5)m, disposal gain €113m</i> <i>Wireless Modules, underlying margin 17.9% excl. PPA, OTC, disposal gain</i> ▪ Drive Technologies <ul style="list-style-type: none"> – <u>Margin</u>: 10.1% PPA €(9)m related to Flender acquisition in 2005 – Underlying margin: 10.6% excl. PPA – <i>Q3 08: PPA €(10)m, underlying margin 17.2% excl. PPA</i> ▪ Building Technologies <ul style="list-style-type: none"> – <u>Margin</u>: 6.0% ▪ Osram <ul style="list-style-type: none"> – <u>Margin</u>: 0.9% – Osram's efforts to improve its cost structure and product mix will continue; expects associated charges in Q4 09 ▪ IS <ul style="list-style-type: none"> – <u>Margin</u>: 5.8% ▪ Mobility <ul style="list-style-type: none"> – <u>Margin</u>: 6.2% 	<ul style="list-style-type: none"> ▪ Fossil Power Generation <ul style="list-style-type: none"> – <u>Margin</u>: 14.5% ▪ Renewable Energy <ul style="list-style-type: none"> – <u>Margin</u>: 13.1% – New orders included a contract to supply 175 wind turbines for the “London Array” – Lower revenue expected near term before it can begin converting long-cycle orders to current business ▪ Oil & Gas <ul style="list-style-type: none"> – <u>Margin</u>: 12.0% ▪ Power Transmission <ul style="list-style-type: none"> – <u>Margin</u>: 11.9% ▪ Power Distribution <ul style="list-style-type: none"> – <u>Margin</u>: 12.6%

1) PPA = purchase price allocation; OTC = one-time costs

Key Items relating to Q3 09 (II)

Healthcare

- **Imaging & IT**
 - Margin: 16.4%
- **Workflow and Solutions**
 - Margin: -32.1%
 - Incl. further charges €(128)m related to significant technical development challenges and delays associated with particle therapy contracts, margin: 6.3% excl. charges
- **Diagnostics**
 - Margin: 11.7%
 - PPA €(45)m and OTC €(7)m
 - Underlying margin 17.6%, excl. PPA, OTC
 - Q3 08: PPA €(29)m, OTC €(29)m, underlying margin 16.9%, excl. PPA, OTC

Equity Investments, Cross-Sector Businesses

- **Equity Investments**
 - Equity Investments profit: €157m
 - €309m gain on the sale of Siemens' stake in FSC to Fujitsu Limited
 - Losses related to NSN €(72)m and Enterprise Networks Holding B.V. (EN) €(121)m; EN incurred an operating loss and took restructuring charges
 - Profit from Equity Investments is expected to be volatile in coming quarters
 - Q3 08: *Equity Investments profit*: €18m
- **Cross-Sector Businesses**
 - **Siemens IT Solutions and Services**
 - Margin: 1.7%
 - **SFS**
 - ROE: 29.3%
 - Total assets: €11.4bn

Key Items relating to Q3 09 (III)

Other Operations, Corporate activities

- **Other Operations:**
 - Loss €(94)m increased primarily due to the electronic assembly systems business; Q3 08: €(39)m
 - Along with associated severance charges, loss at EA widened to €(59)m; Q3 08: €(19)m
- **SRE**
 - Incl. gain of €221m from the sale of residential real estate holdings
 - SRE intends to continue real estate disposals in coming quarters depending on market conditions
- **Corporate Items & Pensions expenses: €(436)m**

Corporate items €(331)m include:

 - Charge of €54m related to a global settlement agreement with the World Bank Group
 - Expenses of €33m for severance related to the global SG&A program and expenses related to a major asset retirement obligation
 - Lower expenses amounting to €8m for outside advisors engaged in connection with legal and regulatory matters
 - Q3 08: *Corporate Items €(288)m, including:*
 - €(106)m investigations related to legal & regulatory matters

Pensions: €(105)m

 - Increased primarily due to higher benefit costs related to Siemens' principal pension plans
 - Q3 08: €25m

CT, Eliminations and Cash Flow

- **Corporate Treasury, Elim., other reconciling items: €18m**
 - Current period benefited from our euro interest rate hedging activities not qualifying for hedge accounting
 - Q3 08: €3m
- **Free Cash Flow**
 - Cash outflows related to previously disclosed charges stemming from project reviews and structural initiatives in FY 08 as well as outlays for the global SG&A program totaled approx. €260m

Q3 09 Key Figures – New orders

New orders						
€m	Q3 2008	Q2 2009	Q3 2009	Y-o-Y Q3 08 - Q3 09	Y-o-Y adj.* Q3 08 - Q3 09	Q-o-Q Q2 09 - Q3 09
Industry Sector	11,408	8,801	6,597	-42%	-42%	-25%
Industry Automation	2,214	1,618	1,540	-30%	-29%	-5%
Drive Technologies	2,307	1,627	1,358	-41%	-42%	-17%
Building Technologies	1,512	1,379	1,360	-10%	-14%	-1%
Osram	1,109	971	911	-18%	-18%	-6%
Industry Solutions	2,040	1,737	1,170	-43%	-44%	-33%
Mobility	2,952	2,208	880	-70%	-70%	-60%
Energy Sector	8,077	8,206	6,849	-15%	-14%	-17%
Fossil Power Generation	2,083	3,475	2,447	17%	14%	-30%
Renewable Energy	2,122	1,587	1,802	-15%	-9%	14%
Oil & Gas	1,550	920	807	-48%	-47%	-12%
Power Transmission	1,588	1,594	1,215	-23%	-22%	-24%
Power Distribution	906	757	739	-18%	-17%	-2%
Healthcare Sector	2,801	2,951	2,772	-1%	-6%	-6%
Imaging & IT	1,699	1,661	1,589	-6%	-11%	-4%
Workflow & Solutions	348	489	345	-1%	-3%	-29%
Diagnostics	831	867	891	7%	2%	3%
Total Sectors	22,286	19,958	16,218	-27%	-28%	-19%
Equity Investments						
Cross Sector Businesses						
Siemens IT Solutions and Services	1,209	1,081	1,091	-10%	-6%	1%
SFS	195	191	189			
Reconciliations						
Other Operations	706	175	159			
SRE	415	437	429			
Corp. Items & Pensions	31	14	44			
Elimn., CT & Other recon.	-1,165	-992	-970			
Siemens	23,677	20,864	17,160	-28%	-27%	-18%

*adjusted for currency translation and portfolio effects

Q3 09 Key Figures – Revenue

Revenue						
€m	Q3 2008	Q2 2009	Q3 2009	Y-o-Y Q3 08 - Q3 09	Y-o-Y adj.* Q3 08 - Q3 09	Q-o-Q Q2 09 - Q3 09
Industry Sector	9,321	8,645	8,129	-13%	-14%	-6%
Industry Automation	2,202	1,685	1,574	-29%	-27%	-7%
Drive Technologies	2,164	1,954	1,699	-21%	-22%	-13%
Building Technologies	1,442	1,443	1,406	-2%	-7%	-3%
Osram	1,109	971	911	-18%	-18%	-6%
Industry Solutions	1,728	1,759	1,562	-10%	-12%	-11%
Mobility	1,403	1,542	1,590	13%	12%	3%
Energy Sector	5,829	6,364	6,436	10%	9%	1%
Fossil Power Generation	2,096	2,377	2,397	14%	11%	1%
Renewable Energy	631	800	761	21%	18%	-5%
Oil & Gas	1,030	1,040	1,098	7%	11%	6%
Power Transmission	1,401	1,503	1,532	9%	9%	2%
Power Distribution	776	846	770	-1%	-1%	-9%
Healthcare Sector	2,677	2,984	2,865	7%	2%	-4%
Imaging & IT	1,569	1,774	1,688	8%	2%	-5%
Workflow & Solutions	359	412	333	-7%	-11%	-19%
Diagnostics	826	867	887	7%	2%	2%
Total Sectors	17,827	17,993	17,430	-2%	-4%	-3%
Equity Investments						
Cross Sector Businesses						
Siemens IT Solutions and Services	1,255	1,136	1,102	-12%	-8%	-3%
SFS	197	191	188	-5%	-6%	-2%
Reconciliations						
Other Operations	682	211	191			
SRE	415	437	429			
Corp. Items & Pensions	33	18	44			
Elimn., CT & Other recon.	-1,227	-1,031	-1,036			
Siemens	19,182	18,955	18,348	-4%	-4%	-3%

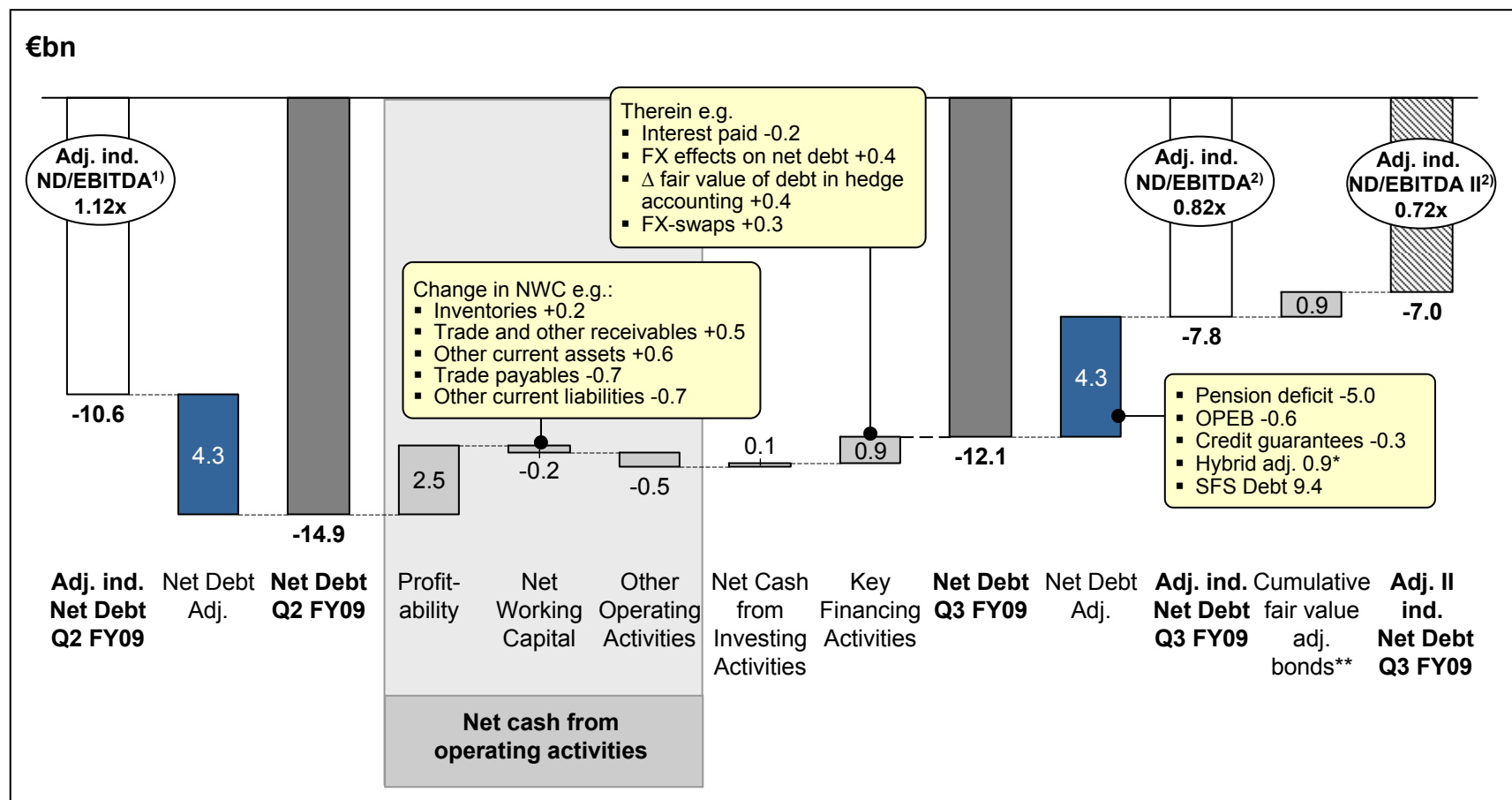
*adjusted for currency translation and portfolio effects

Q3 09 Key Figures – Profit and margin

Profit and margin							
€m	Q3 2008	Q2 2009	Q3 2009	Margin Q3 2008	Margin Q2 2009	Margin Q3 2009	Target range
Industry Sector	1,162	671	534	12.5%	7.8%	6.6%	9-13%
Industry Automation	467	97	85	21.2%	5.8%	5.4%	12-17%
Drive Technologies	363	244	171	16.8%	12.5%	10.1%	11-16%
Building Technologies	95	97	84	6.6%	6.7%	6.0%	7-10%
Osram	111	8	8	10.0%	0.8%	0.9%	10-12%
Industry Solutions	98	118	90	5.7%	6.7%	5.8%	5-7%
Mobility	39	106	98	2.8%	6.9%	6.2%	5-7%
Energy Sector	615	818	863	10.6%	12.9%	13.4%	11-15%
Fossil Power Generation	212	312	347	10.1%	13.1%	14.5%	11-15%
Renewable Energy	72	105	100	11.4%	13.1%	13.1%	12-16%
Oil & Gas	95	121	132	9.2%	11.6%	12.0%	10-14%
Power Transmission	147	168	183	10.5%	11.2%	11.9%	10-14%
Power Distribution	88	106	97	11.3%	12.5%	12.6%	11-15%
Healthcare Sector	326	355	270	12.2%	11.9%	9.4%	14-17%
Imaging & IT	199	265	277	12.7%	14.9%	16.4%	14-17%
Workflow & Solutions	33	30	-107	9.2%	7.3%	-32.1%	11-14%
Diagnostics	82	54	104	9.9%	6.2%	11.7%	16-19%
Total Sectors	2,103	1,844	1,667	11.8%	10.2%	9.6%	
Equity Investments	18	-113	157				
Cross Sector Businesses							
Siemens IT Solutions and Services	64	25	19	5.1%	2.2%	1.7%	5-7%
SFS	59	117	87	27.0%	39.8%	29.3%	20-23%*
Reconciliations							
Other Operations	-39	-105	-94				
SRE	103	37	244				
Corporate Items and Pensions	-263	-442	-436				
Elimn., CT & Other recon.	3	-28	18				
Siemens Pre-Tax Profit	2,048	1,335	1,662				
Taxes	-573	-380	-438				
Income from Cont. Operations	1,475	955	1,224				
Income from discontinued operations	-56	58	93				
Net Income (All-In)	1,419	1,013	1,317				
Minority interest	45	51	57				
Basic EPS from Cont. Operations	1.61	1.05	1.35				
Basic EPS from Net income (all-in)	1.55	1.11	1.45				

*RoE

Q3 09 Net Debt Bridge: Net debt improved over the last quarter



1) EBITDA annualised: H1 FY09 x 2
2) EBITDA annualised: (YTD Q3 FY09 / 3) x 4

* approx. 50% nominal amount hybrid bond
** hedge accounting

Pension underfunding decreased by €0.3bn to -€5.0bn in Q3 09

- Underfunding decreased primarily due to a positive return on plan assets in Q3, both in equities and fixed income investments
- The DBO rose with accrued service and interest costs as well as a decrease in the discount rate assumption

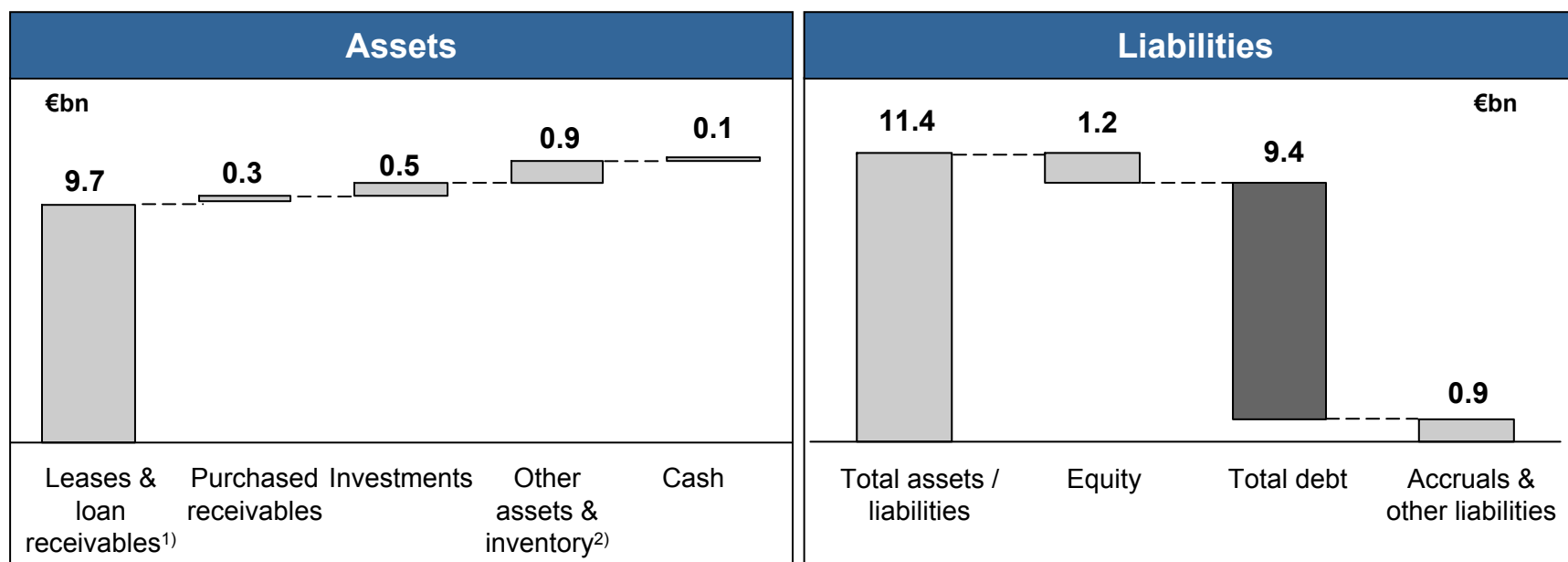
According to 20F, in €bn	FY 08	Q2 FY 09	Q3 FY 09
Defined benefit obligation (DBO) of Principal Pension Benefits	22.7	23.7	24.4
Discount rate	6.2%	5.8%	5.7%
Fair Value of plan assets	20.2	18.4	19.4
Funded status	(2.5)	(5.3)	(5.0)
Additional contribution	0.0	0.0	0.0
Regular funding	0.6	0.1	0.1
DBO of Principal Other Post-Employment Benefits¹⁾	0.65	0.65	0.65
Actual return on plan assets	(2.2)	(1.2)	0.0
Asset allocation of pension assets			
▪ Equities	29%	23%	27%
▪ Fixed income	61%	63%	61%
▪ Real estate	9%	10%	9%
▪ Cash	1%	4%	3%

1) Mainly unfunded

SFS Key Figures Q3 09

Key Financial Data SFS

▪ Assets:	€ 11.4 bn
▪ Profit before Tax:	€ 87 m
▪ Return on Equity:	29.3%
▪ Net Cash from Operations:	€ 164m



1) Operating and finance leases, originated and purchased loans and asset-based lending loans

2) Other assets & inventory includes: Securities, fair values (positive) derivatives / FX, tax receivables, fixed assets, intangible assets, land and building, prepaid expenses, and inventories.

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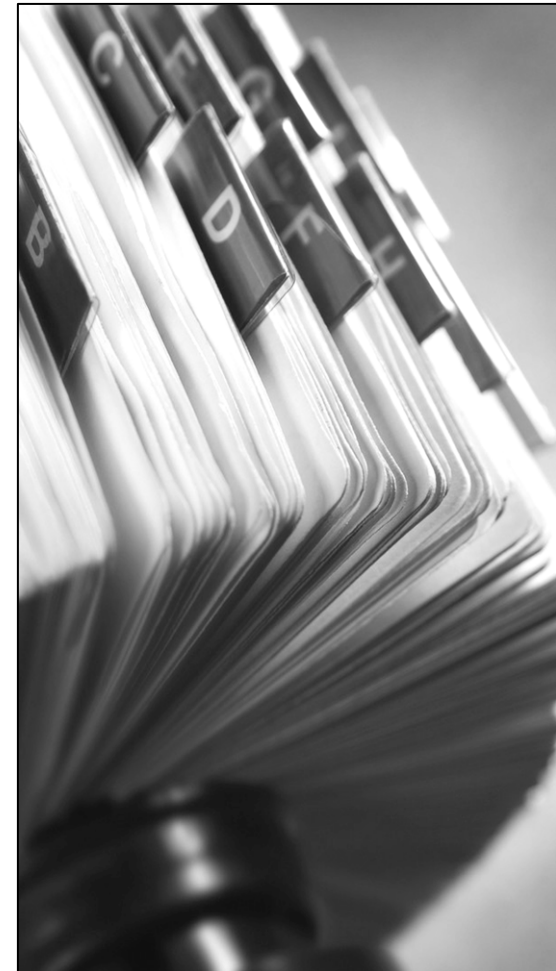
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Reconciliation and Definitions for Non-GAAP Measures (I)



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;
- Adjusted or organic growth rates of Revenue and new orders;
- Book-to-bill ratio;
- Return on equity, or ROE;
- Return on capital employed, or ROCE;
- Free cash flow and cash conversion rate, or CCR;
- EBITDA (adjusted) and EBIT (adjusted);
- 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 (SEC). They 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 Associated with Siemens' Supplemental Financial Measures." Accordingly, they should not be viewed in isolation 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 Consolidated Financial Statements at any given time (the "Annual Financial Statements") can be found in the most recent Annual Report of Siemens (the "Annual Report"), which can be accessed at www.siemens.com/annual-report. Siemens' most recent interim Consolidated Financial Statements (the "Interim Financial Statements") at any given time can be found at www.siemens.com/investors under the heading "Publications" – "Financial Publications" – "Financial Statements" or in the most recent Quarterly Report of Siemens (the "Quarterly Reports"), which can be accessed at www.siemens.com/quarterly-reports.

In addition, in considering these supplemental financial measures, investors should bear in mind that other companies that report 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.

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 generation and optimization of Siemens' capital structure and therefore are 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

Under its policy for the recognition of new orders, Siemens generally recognizes a new order when it enters into a contract that it considers "effective and binding" based on its review of a number of criteria. In general, if a contract is considered effective and binding, Siemens recognizes the total contract value as an order. The value of a contract is defined as the agreed price or fee of the irrevocable portion of the contract. New orders is not required or defined by IFRS.

Reconciliation and Definitions for Non-GAAP Measures (II)



Adjusted or organic growth rates of Revenue and new orders

In its financial reports, Siemens presents, on a worldwide basis and for each Sector and Cross-Sector Business, the percentage change from period to period in Revenue and new orders as adjusted for currency translation effects and portfolio effects, i.e., the effects of acquisitions and dispositions. The adjusted percentage changes are called adjusted or organic rates of growth. The IFRS financial measure most directly comparable to adjusted or organic growth rate of Revenue is the unadjusted growth rate calculated based on the actual Revenue figures presented in the Consolidated Income Statement. There is no comparable IFRS financial measure for the adjusted or organic growth rate of new orders because, as discussed above, new orders is itself not an IFRS financial measure. 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 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 amount of products and services shipped and billed. 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.

Return on equity, or ROE

In line with common practice in the financial services industry, Siemens Financial Services (SFS) uses return on equity, or ROE, as one of its key profitability measures. Siemens defines ROE as annualized Income before income taxes of SFS divided by the average allocated equity for SFS. The allocated equity for SFS is determined and influenced by the size and quality of its portfolio of commercial finance assets (primarily leases) 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 in banking. The actual risk portfolio of the SFS portfolio is evaluated and controlled monthly and is reflected in the quarterly (commercial finance) and annual (equity investments) adjustments of allocated equity.

Return on equity is reported only for the SFS segment. Siemens believes that the presentation of ROE and average allocated equity provides useful information to investors because management uses ROE as a supplement to Siemens' Consolidated Financial Statements in evaluating the business performance of SFS, and therefore the measure assists investors in assessing Siemens' overall performance.

Return on Capital Employed, or ROCE

Return on capital employed, or ROCE, is Siemens' measure of capital efficiency. Siemens 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. The different methods of calculation are detailed below. Siemens believes that the presentation of ROCE and the various non GAAP financial measures involved in its calculation provides useful information to investors because ROCE can be used to determine whether capital invested in the Company and the Sectors yields competitive returns. In addition, achievement of predetermined targets relating to ROCE is one of the factors Siemens takes into account in determining the amount of performance-based or variable compensation received by its management.

ROCE at the Siemens group level

Siemens defines group ROCE as Net income (before interest) divided by average capital employed, or CE.

Net income (before interest), the numerator in the ROCE calculation, is defined as Net income excluding Other interest income (expense), net and taxes thereon. Taxes on Other interest (expense), net are calculated in a simplified form by applying the current tax rate, which can be derived from the Consolidated Statements of Income, to Other interest income (expense), net.

Capital employed, or CE, the denominator in the ROCE calculation, is defined as Total equity plus Long-term debt plus Short-term debt and current maturities of long-term debt minus Cash and cash equivalents. Each of the components of capital employed appears on the face of the Consolidated Balance Sheet.

Reconciliation and Definitions for Non-GAAP Measures (III)



ROCE at the Siemens group level, on a continuing operations basis

Siemens also presents group ROCE on a continuing operations basis. For this purpose, the numerator is Income from continuing operations and the denominator is CE, less Assets classified as held for disposal presented as discontinued operations net of Liabilities associated with assets held for disposal presented as discontinued operations.

ROCE at the Sector level

For the Sectors, ROCE is defined as Profit divided by average Assets. Profit for each Sector is defined as earnings before financing interest, certain pension costs and income taxes; certain items not considered performance-indicative by management may be excluded. Assets for each Sector are defined as Total assets less intragroup financing receivables and investments, less income tax assets, less non-interest-bearing liabilities/provisions other than tax liabilities.

Free cash flow and cash conversion rate

Siemens defines free cash flow 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 free cash flow is Net cash provided by (used in) operating activities.

Siemens believes that the presentation of free cash flow provides useful information to investors because it is a cash measure that is not impacted by cash flows related to portfolio activities and thus 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, free cash flow 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 free cash flow generation is one of the factors Siemens takes into account in determining the amount of performance-based or variable compensation received by its management, both at the level of the worldwide Siemens group and at the level of individual reportable segments.

Cash conversion rate, or CCR, is defined as free cash flow 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 to free cash flow. CCR is reported on a regular basis to Siemens' management.

EBITDA (adjusted) and EBIT (adjusted)

Siemens defines EBITDA (adjusted) as EBIT (adjusted) before amortization (which in turn is defined as Amortization and impairments of intangible assets other than goodwill) and Depreciation and impairment of property, plant and equipment and goodwill. Siemens defines EBIT (adjusted) as Income from continuing operations before income taxes less Financial income (expense), net and Income (loss) from investments accounted for using the equity method, net. Each of the components of EBIT (adjusted) appears on the face of the Consolidated Financial Statements, and each of the additional components of EBITDA (adjusted) appears in the Consolidated Financial Statements or the MD&A thereto, which may be found in the relevant annual or quarterly report filed with the SEC. The IFRS financial measure most directly comparable to EBIT (adjusted) and EBITDA (adjusted) is Income from continuing operations before income taxes.

Siemens believes that the presentation of EBITDA (adjusted) and EBIT (adjusted) as a cash earnings measure provides useful information to investors. Therefore EBITDA (adjusted) and EBIT (adjusted) are also broadly used by analysts, rating agencies and investors to assess the performance of a company.

Net debt

Siemens defines net debt as total debt less total liquidity. Total debt is defined as Short-term debt plus 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 Balance Sheet. The IFRS financial measure most directly comparable to net debt is total debt as reported in the Notes to the Annual Financial Statements.

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

Reconciliation and Definitions for Non-GAAP Measures (IV)



Adjusted industrial net debt

Siemens defines adjusted industrial net debt as net debt less (1) SFS debt excluding SFS internally purchased receivables; less (2) 50% of the nominal amount of our hybrid bond; plus (3) the funded status of pension benefits; plus (4) the funded status of other post-employment benefits; and plus (5) credit guarantees. Further information concerning adjusted industrial net debt can be found in the Annual Report under the heading "Management's discussion and analysis – Liquidity and capital resources – Capital structure." Siemens believes that the presentation of our capital structure measure as the ratio of "adjusted industrial net debt" to "EBITDA (adjusted)" provides useful information to investors because management uses it to manage its debt-equity ratio with the goal of ensuring both unrestricted access to debt financing instruments in the capital markets and its ability to meet scheduled debt service obligations.

Limitations Associated with Siemens' Supplemental Financial Measures

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

- 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 return on equity, or ROE: This measure is not adjusted for special items, such as the disposition of equity investments (allocated to SFS) or impairments, and therefore it has been volatile over prior year periods. In addition, 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 return on capital employed, or ROCE: 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 free cash flow and cash conversion rate: Free cash flow 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 cash conversion rate 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.
- With respect to EBITDA (adjusted) and EBIT (adjusted): EBITDA (adjusted) excludes non-cash items such as depreciation, amortization and impairment, 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 EBITDA (adjusted) nor EBIT (adjusted) reflect the impact of financial income and taxes, which are significant cash expenses that may reduce the amount of cash available for distribution to shareholders or reinvestment in the business.
- With respect to net debt: 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.
- With respect to the ratio adjusted industrial net debt to EBITDA (adjusted): The use of this measure is inherently limited by the fact that it is a ratio.

Compensation for Limitations Associated with Siemens' Supplemental Financial Measure

Siemens provides a quantitative reconciliation of each supplemental financial measure to the most directly comparable IFRS financial measure on the Investor Relations website at www.siemens.com/nongAAP, in the Notes to Consolidated Financial Statements or in the Annual Reports and Quarterly Reports under the heading "Management's discussion and analysis," and Siemens encourages investors to review those reconciliations carefully.