

# **TAP: Building on Proven Strengths**

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Q4 09 and Annual Analyst Conference  
London, December 3, 2009

## Safe Harbour Statement

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 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](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 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 and backlog; 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; cash conversion rate, or CCR; EBITDA (adjusted); EBIT (adjusted); earnings effect from purchase price allocation (PPA effects) and integration costs; 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](http://www.siemens.com/nonGAAP).

## Stringent execution in tough markets

### Our principles...

Increase  
**TRANSPARENCY**

Enforce  
**ACCOUNTABILITY**

Drive  
**PERFORMANCE**

### Key takeaways

- FY 09 guidance achieved
- SG&A target delivered one year ahead of plan
- Structural changes intensified
- Orders and revenues rising sequentially capturing market shares
- Strong Total Sectors profit driven by Energy
- Bottom line heavily impacted by NSN impairment
- Excellent free cash flow on stringent asset management
- Progress in SCM on track
- 'Environmental care' portfolio growing

## Siemens showing a strong year-end

Siemens (Continuing operations), in €m	Q4 08	Q4 09	Change in %
<b>New orders <sup>1)</sup></b>	22,205	<b>18,747</b>	<b>(14)</b>
<b>Revenue <sup>1)</sup></b>	21,651	<b>19,714</b>	<b>(7)</b>
<b>Book-to-bill</b>	1.03x	<b>0.95x</b>	
<b>Profit Total Sectors</b>	1,533	<b>1,923</b>	<b>25</b>
<b>Net income <sup>2)</sup></b>	(2,420)	<b>(1,063)</b>	<b>56</b>
<b>Basic earnings per share <sup>2)</sup>, in €</b>	(2.85)	<b>(1.31)</b>	
<b>Free cash flow</b>	2,786	<b>3,158</b>	<b>13</b>

1) Change is adjusted for portfolio and currency translation effects

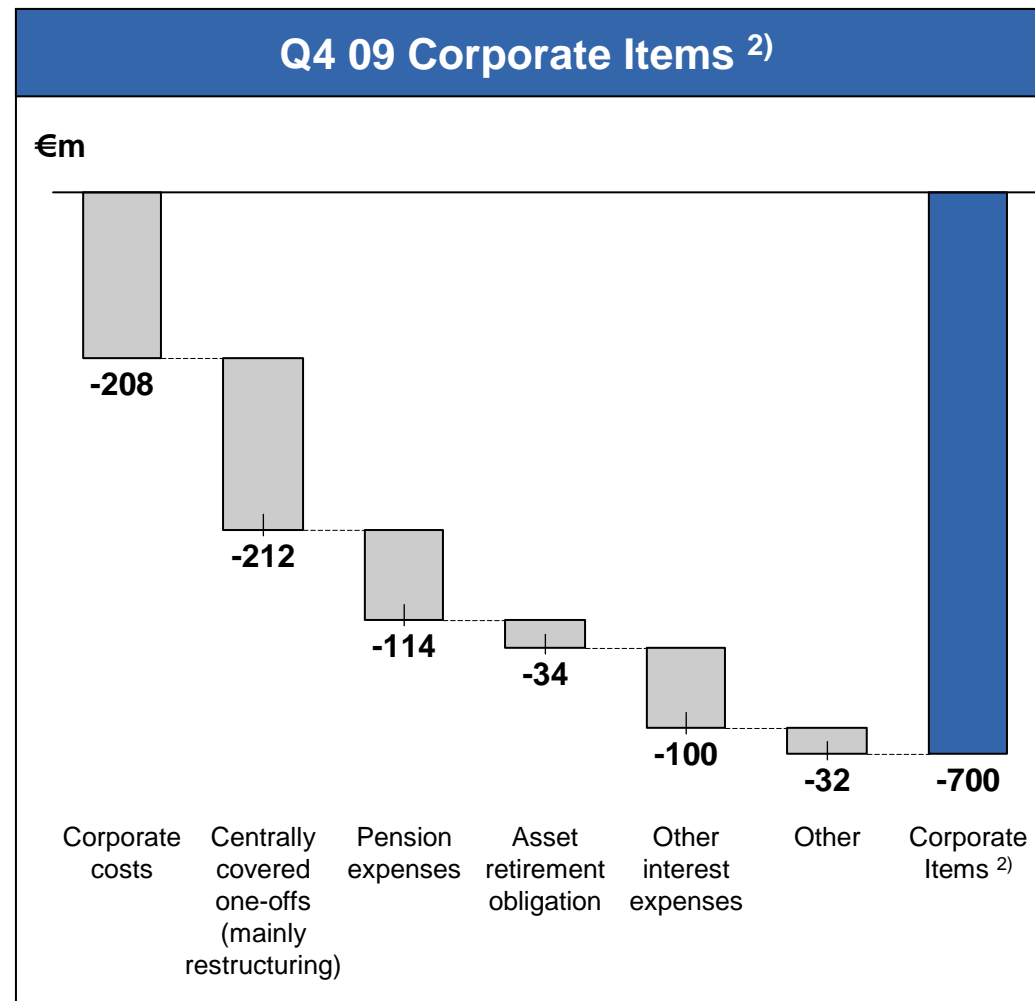
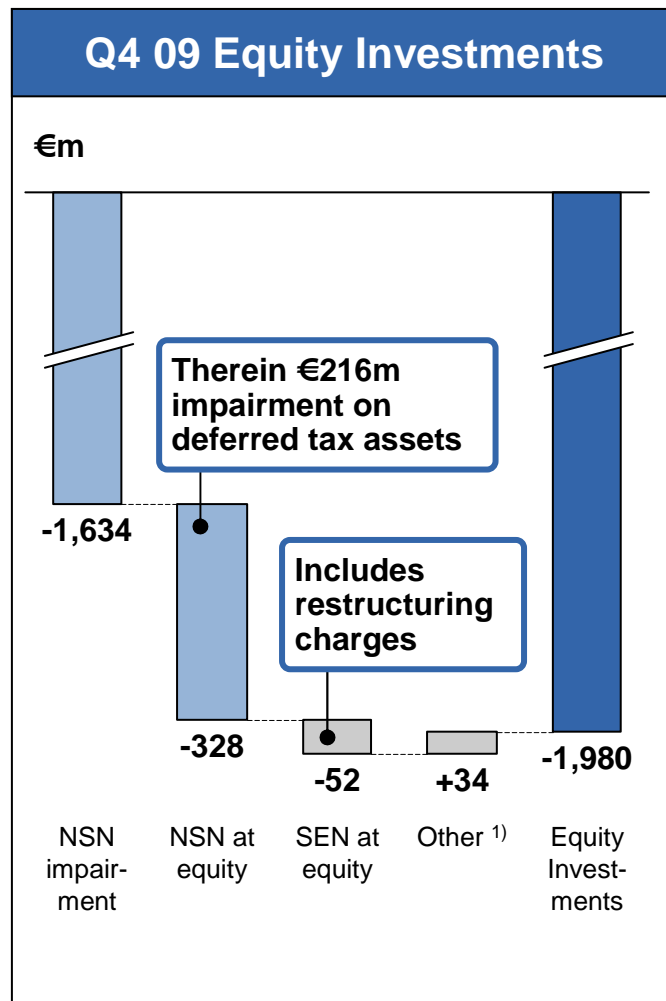
2) Including discontinued operations

## Total Sectors performance driven by Energy and Healthcare

Sectors, in €m	Q4 08	Q4 09	Change in %
<b>New orders <sup>1)</sup></b>			
Industry	10,165	8,110	(20)
Energy	7,246	6,487	(8)
Healthcare	3,382	3,331	(3)
<b>Revenue <sup>1)</sup></b>			
Industry	10,280	8,981	(13)
Energy	6,749	6,761	1
Healthcare	3,118	3,142	(1)
<b>Profit</b>			
Industry	841	562	(33)
Energy	466	878	88
Healthcare	226	483	114

1) Change is adjusted for portfolio and currency translation effects

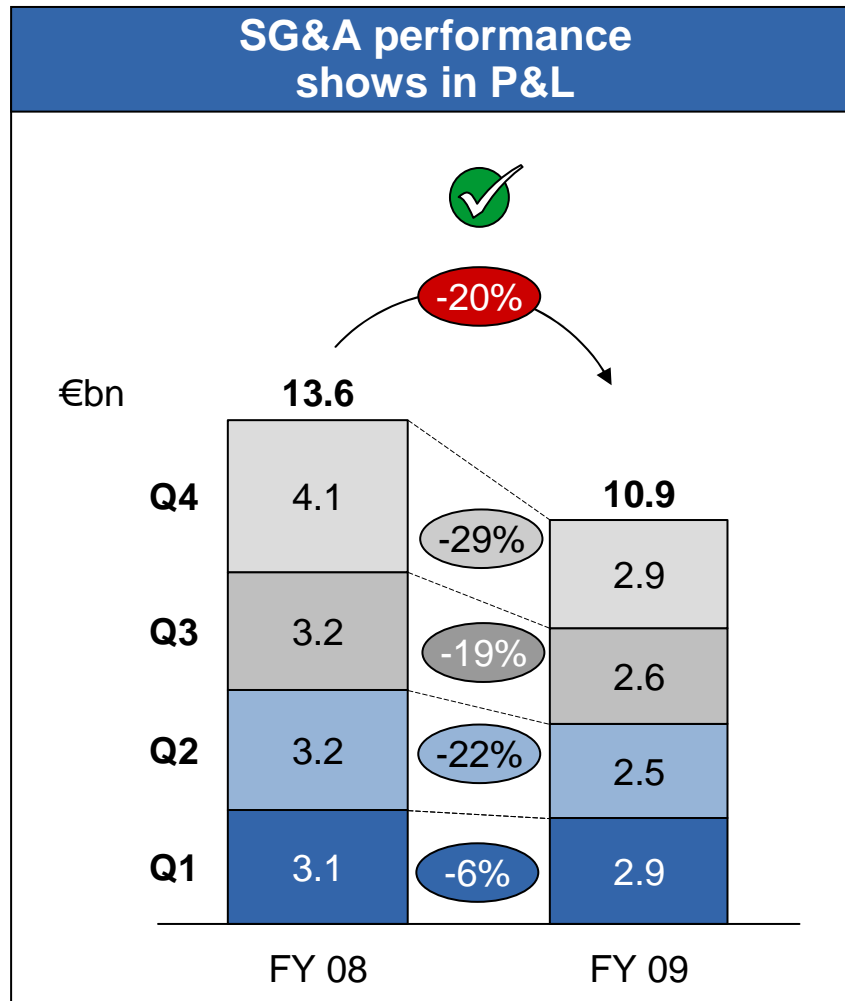
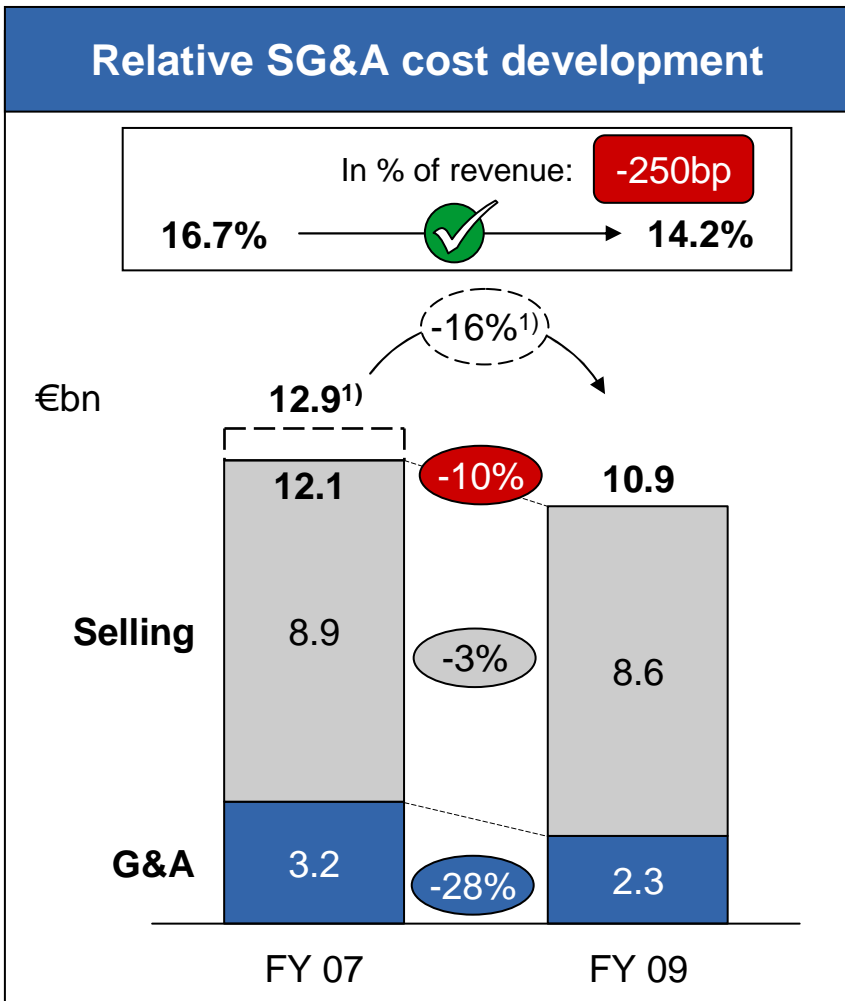
## Q4 result heavily impacted by "Below the Sector line"- items



1) BSH and other stakes reported under Equity Investments

2) Corporate Items, Pensions, Eliminations, Corporate Treasury & Other Recon. Items

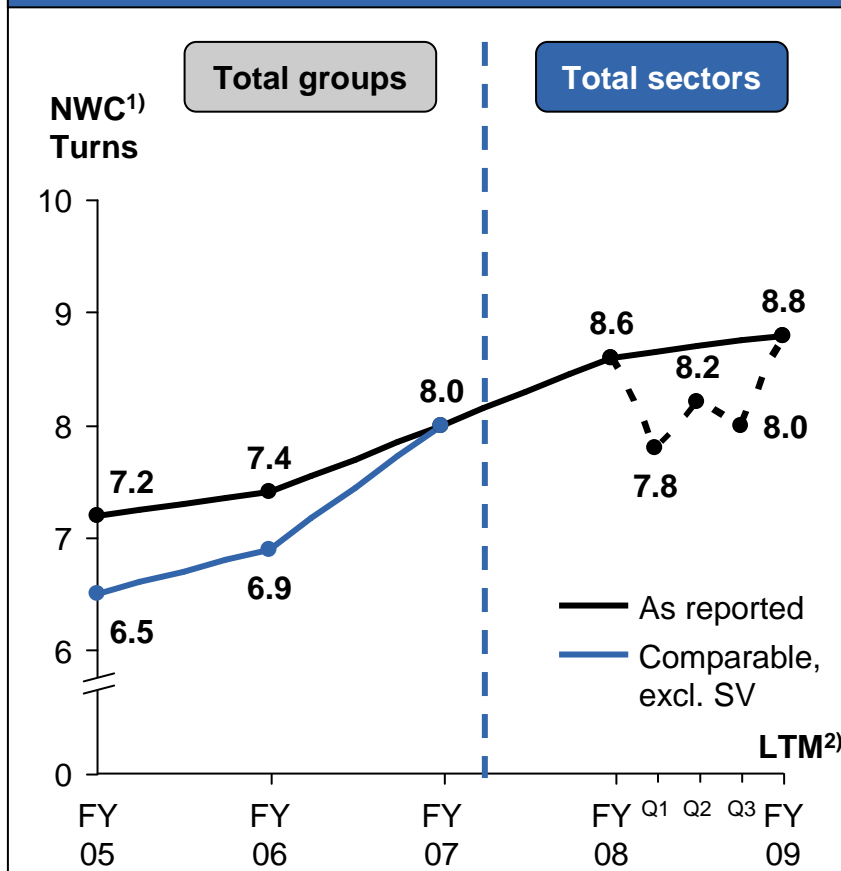
# SG&A program successfully completed one year ahead of schedule



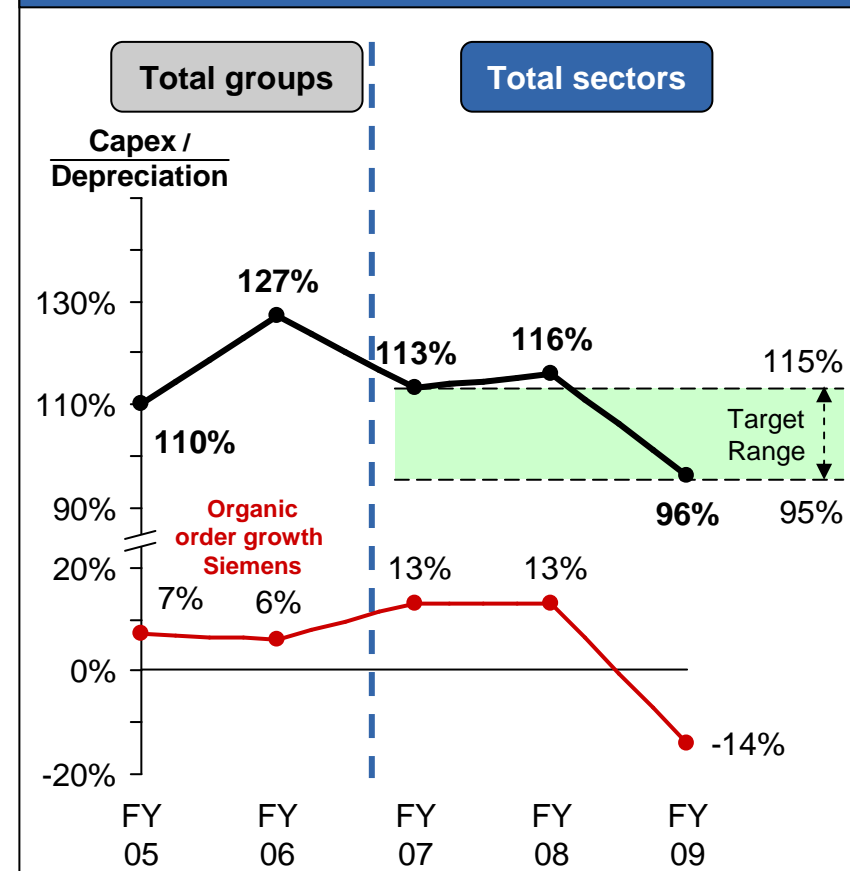
1) Baseline comparable incl. portfolio adj. at €12.9bn

## Continued focus on asset management secures strong cash flow

### Working capital turns back on track



### Capex spending tightly managed

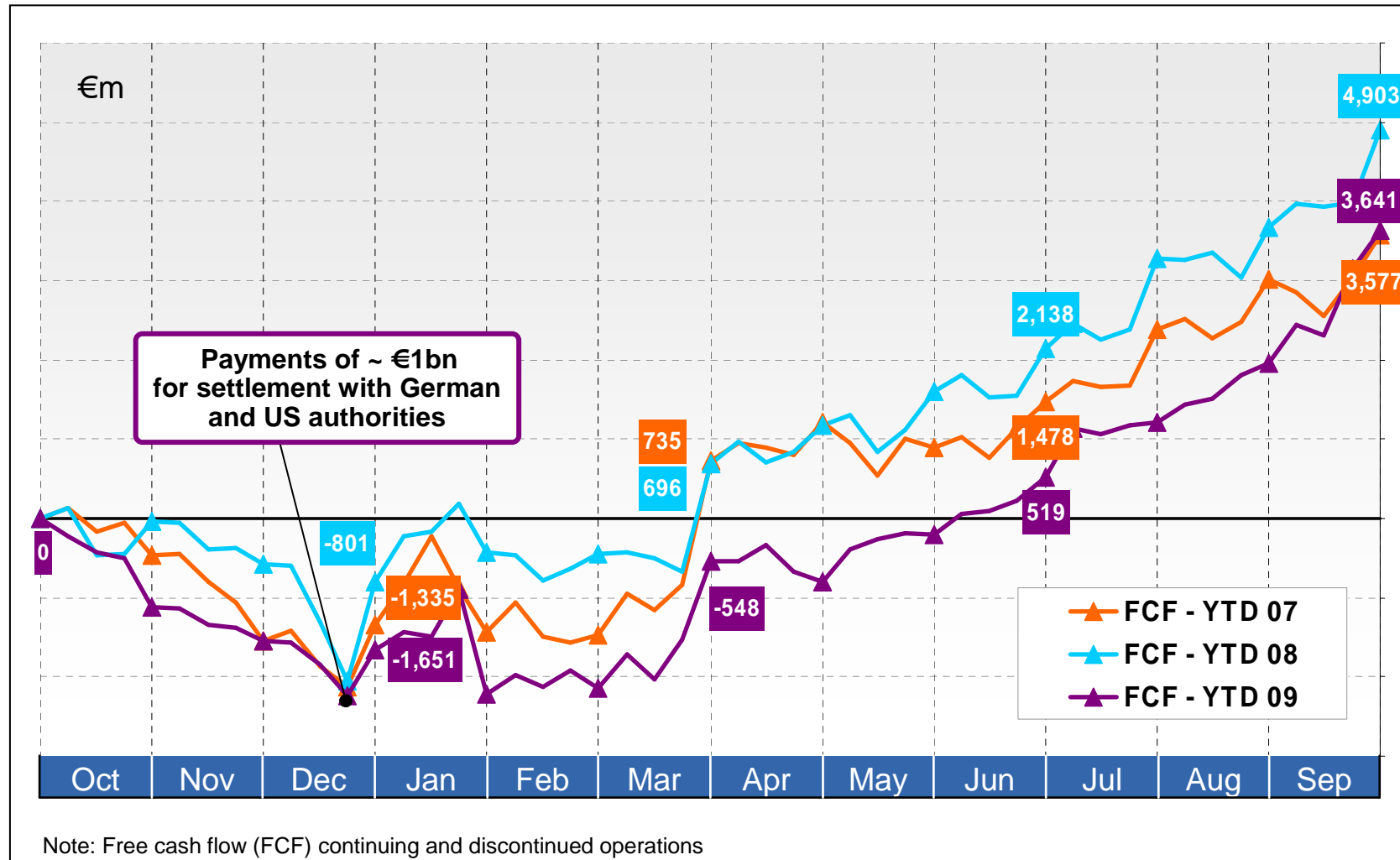


1) NWC = Net Working Capital of Operating Groups (beginning 2008: Total Sectors), including Inventory, Accounts Receivable, Accounts Payable, Prepayments and Billings in Excess

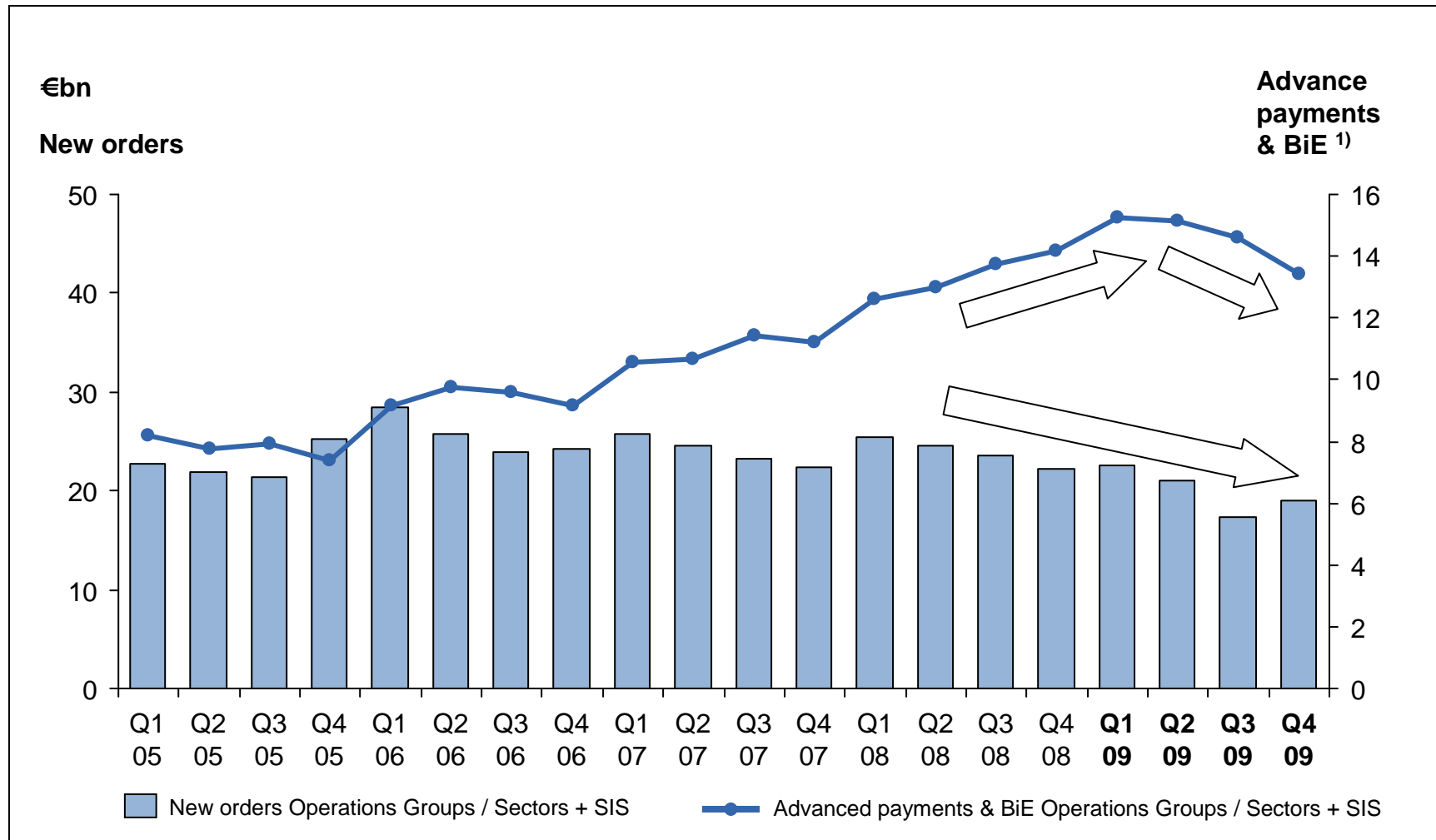
2) LTM = Last Twelve Months



## Strong seasonal year-end finish of Free cash flow

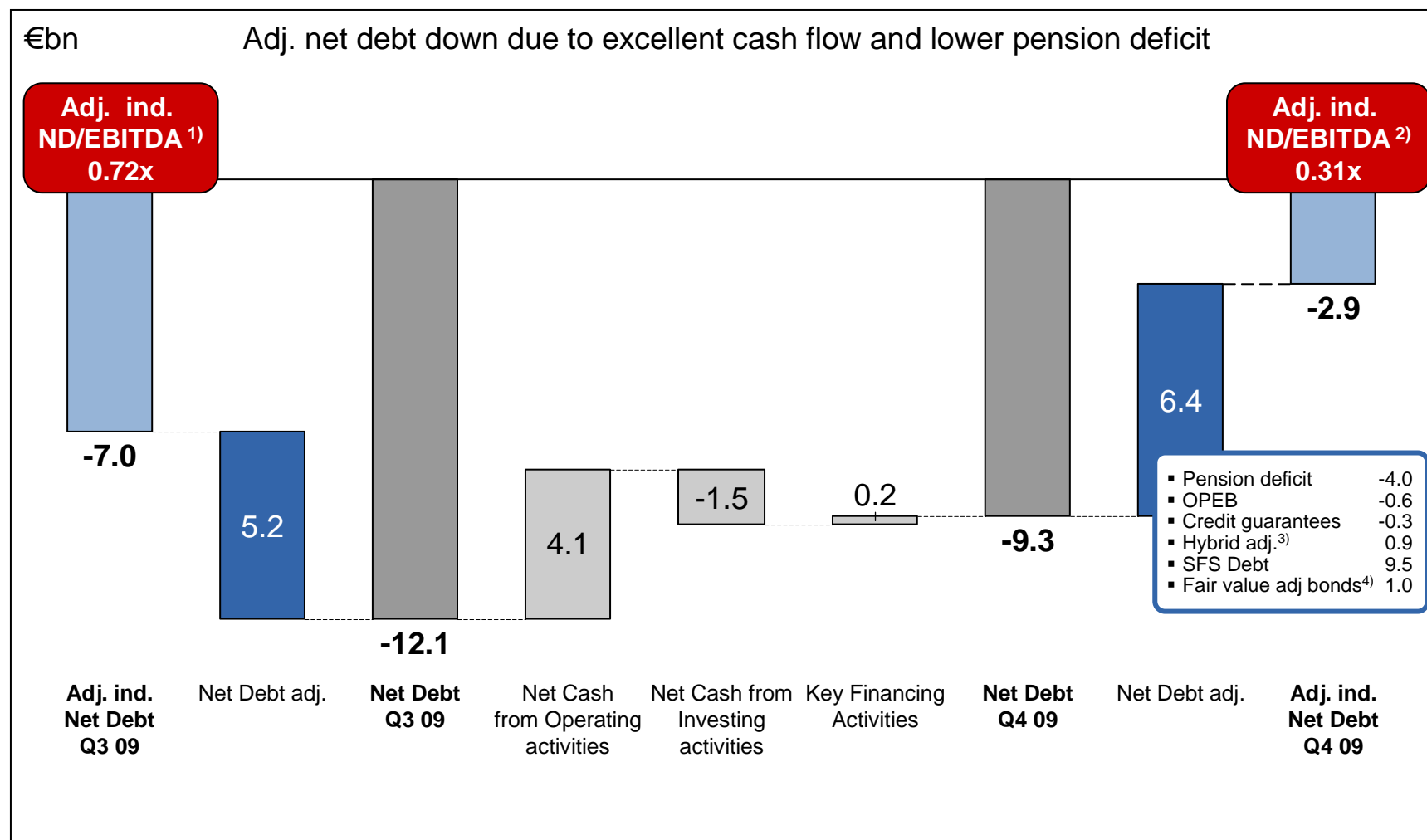


# Advance payments and billings in excess may follow trend of order intake



1) Billings in excess

# Lower leverage providing confidence and flexibility in volatile financial markets



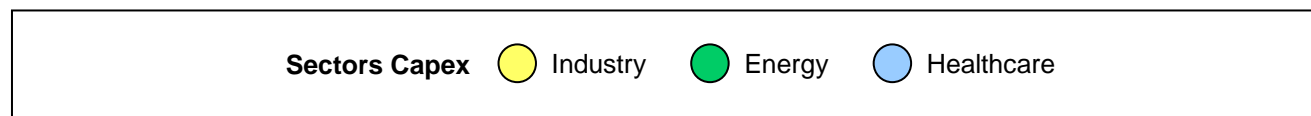
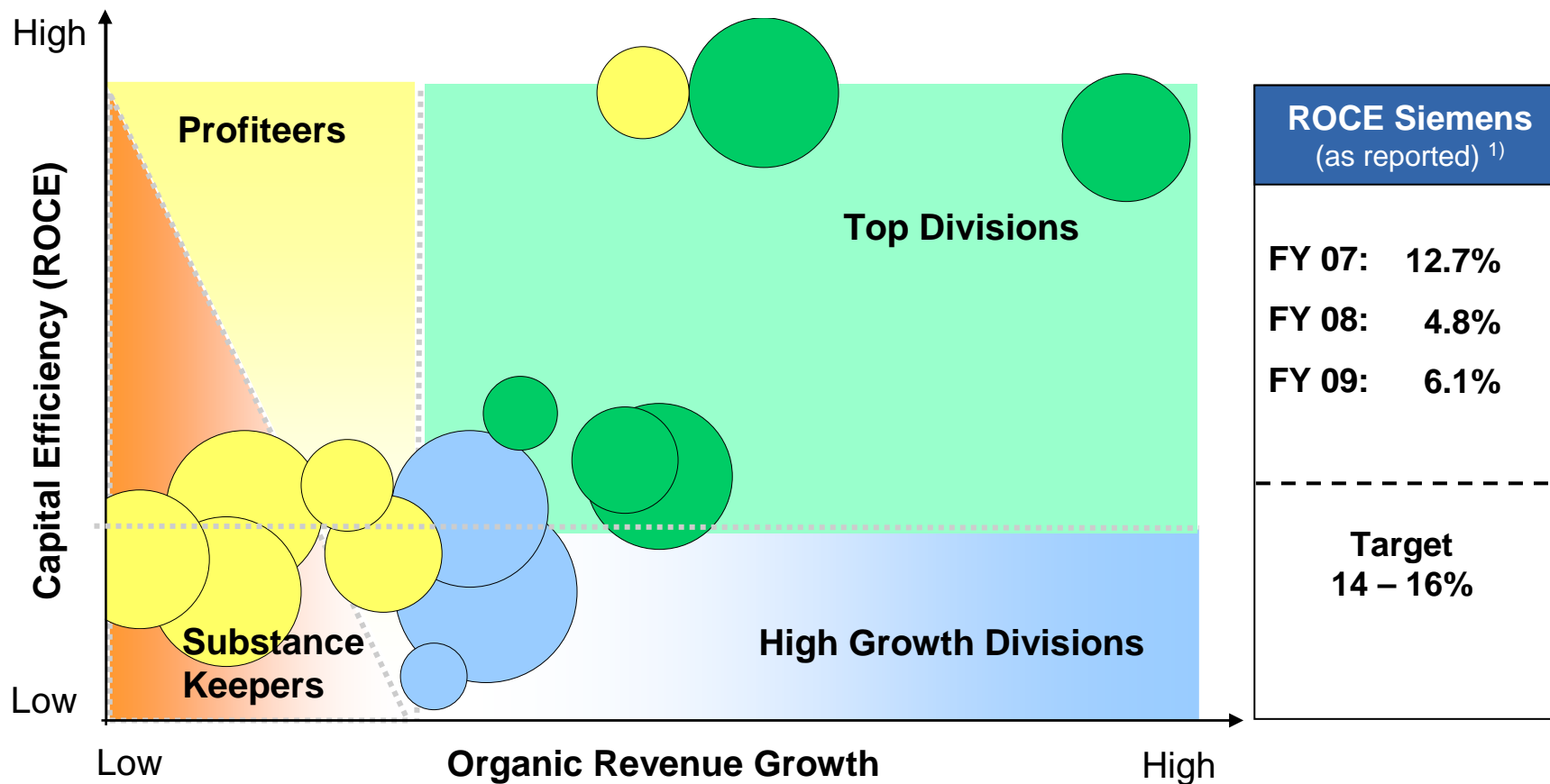
1) YTD value with ratio annualized; QTD amounts to 0.69x

2) QTD amounts to 0.36x

3) Approx. 50% nominal amount hybrid bond

4) Hedge accounting

**Sustainability means Capital Efficiency**  
**Stringent capital allocation needs top priority**

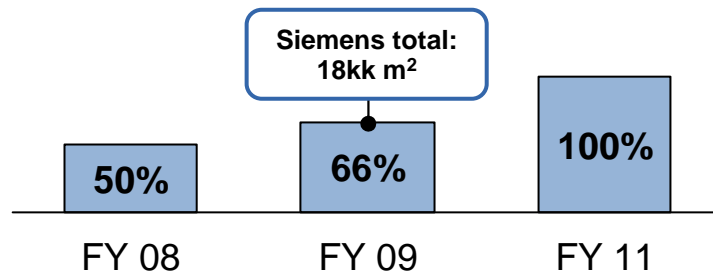


1) ROCE as reported (from divisions and continuing operations)

## REIP<sup>1)</sup>-Program secures cost savings up to €400m p.a. by 2014

### Bundled real estate management

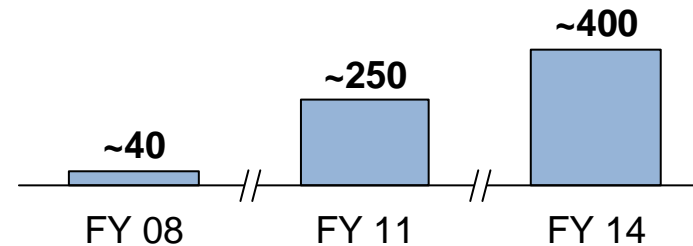
Real estate managed by SRE as % of total Siemens real estate



- Global **real estate management bundled** within Siemens Real Estate
- **Assets gradually transferred** from Sectors to SRE at **book value**
- SRE responsible for **efficient space management**
  - Sectors pay per m<sup>2</sup> used at market rate
  - SRE responsible for excess space

### Significant savings potential

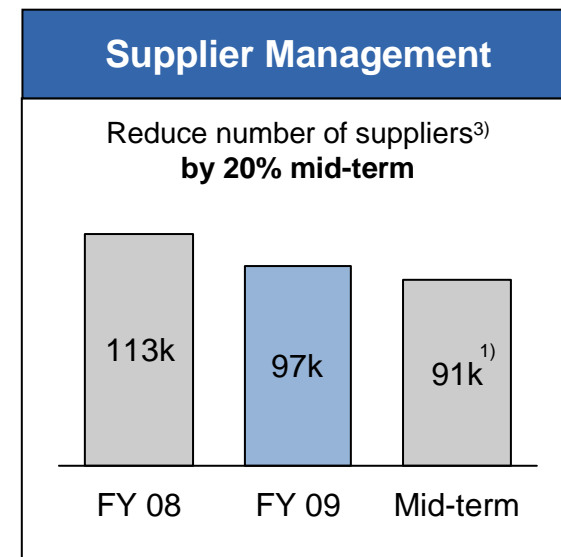
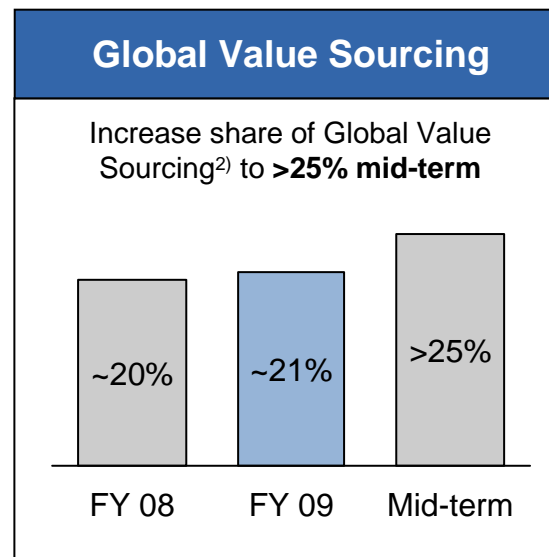
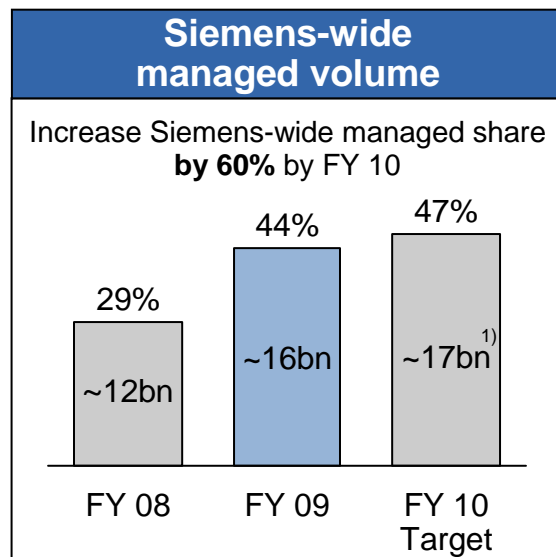
Targeted savings p.a. (€m)



- **Reduction of office space**
  - **Standardization** of maintenance/service
  - **Streamlined organization and processes**
- ▼
- **Up to ~€300m one-off costs** during project implementation (thereof 2010: ~ €100m)
  - **SRE profit negatively impacted**

1) Real Estate Integration Project

## SCM well under way to achieve clear targets for value creation



### Implemented and in progress

- Siemens-wide global responsibility for all non-production materials established in FY 09
- Further increase of Siemens-wide managed share for pooled directs in FY 10 and beyond

### Implemented and in progress

- Strengthening of organization in target regions, e.g. China CPO
- Company-wide GVS program started in all Sectors

### Implemented and in progress

- Company-wide active mgmt. of total supplier base initiated
- Siemens-wide strategic supplier base selected for all material fields
- Best score of 86 for supplier mgmt. in Dow Jones Sustainability index

1) Based on purchasing volume and structure FY 09

2) 1<sup>st</sup> tier + 2<sup>nd</sup> tier components and work benches

3) Supplier with valid "Dun & Bradstreet Global Ultimate" and purchasing volume > €10k

**Note: All figures non-audited, only indicative**

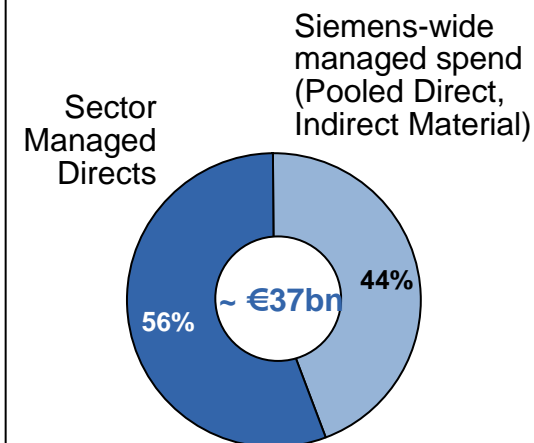
# Comprehensive measures taken to ensure SCM performance in 2010 and beyond



## Increasing and sustainable effect on Material Cost Productivity

- **More rigorous SCM approach now core at Siemens**
  - Organization built
  - Global roll-out continuing
  - Green sourcing program initiated
  - Competitive incentives in place
- **Full benefit of centralized purchasing emerges in 2010**
  - Indirect Material
  - Pooled Direct Material
- **Expanding SCM tools**
  - E-auctions
  - Preferred suppliers
  - In-depth supplier intelligence

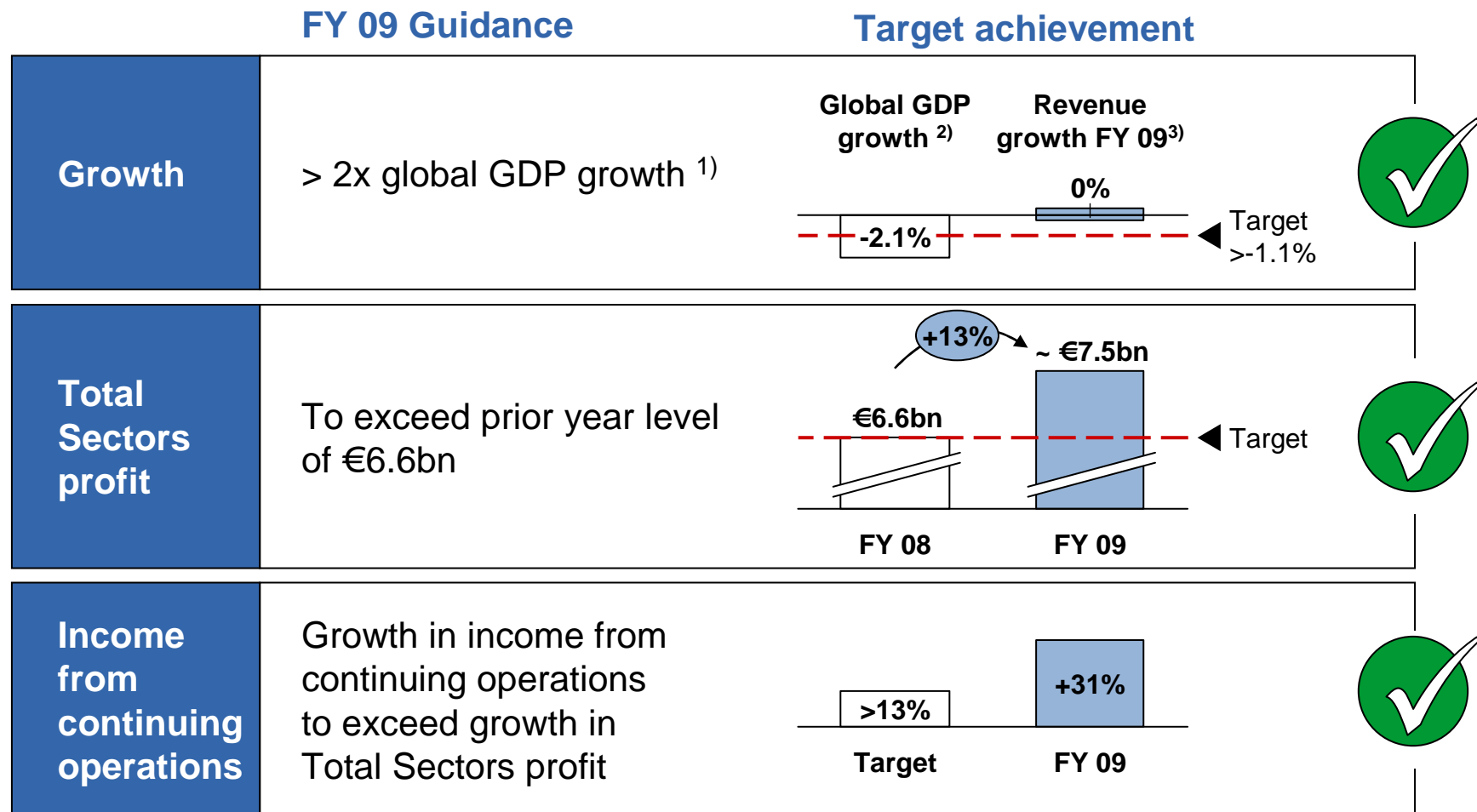
## External Spend FY 09



### FY 09 vs. FY 08:

- Significant reduction in external spend driven by SCM savings, strict inventory management, SG&A program and revenue decline
- Full utilization of sourcing tools led to significant productivity achievements beyond market development

# We achieved our FY 09 guidance



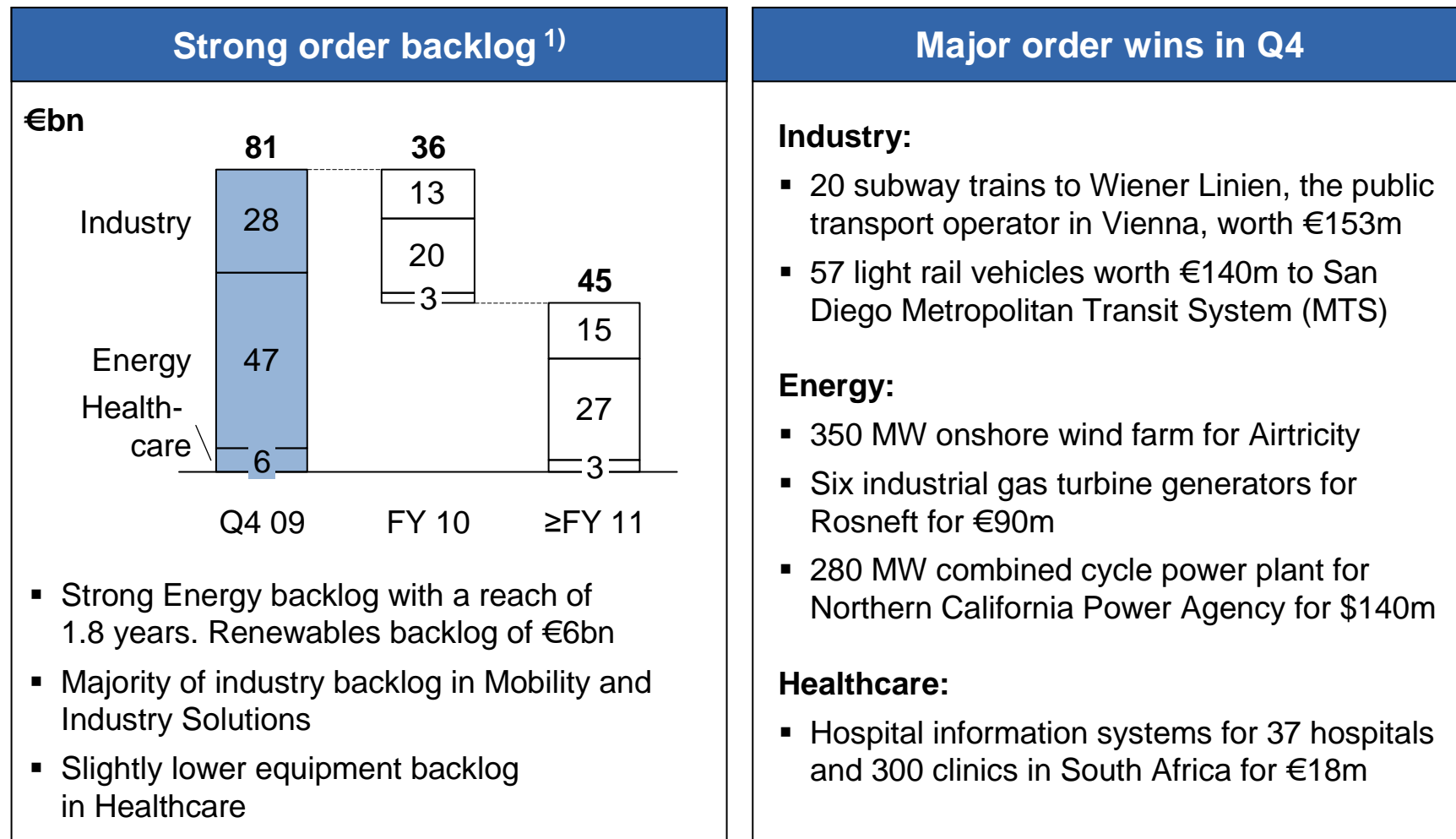
1) The growth target is less than 0.5x GDP decline, in case global GDP growth is negative

2) Source: Global Insight Inc., October GDP growth CY 2009 forecast at -2.1%

3) FY 09 y-o-y comparable excl. currency translation and portfolio effects



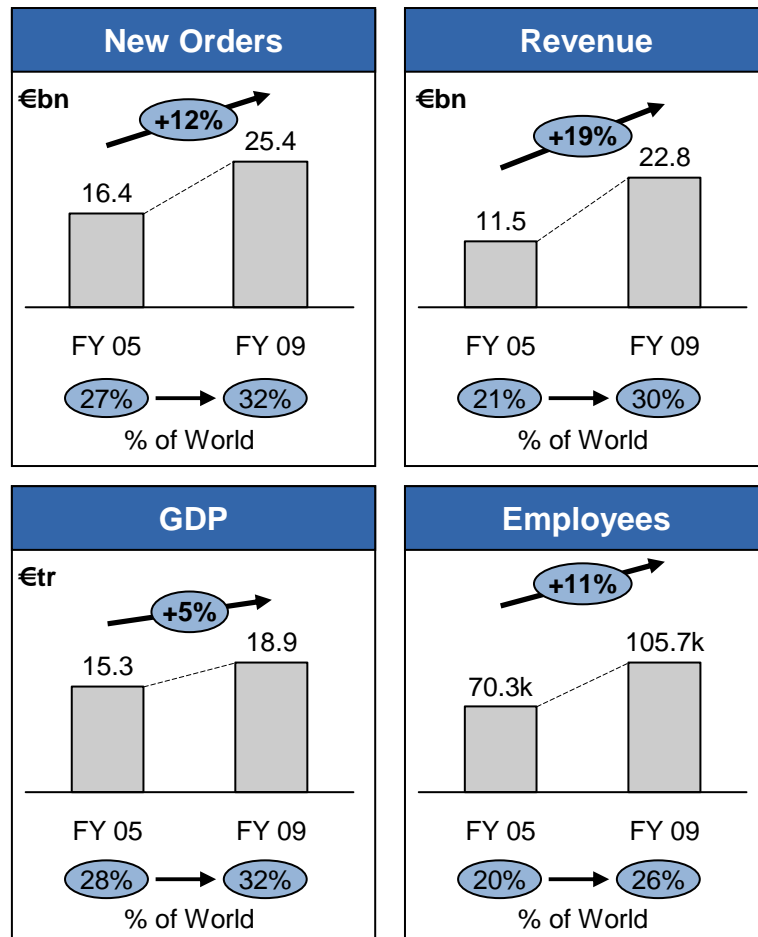
## Excellent backlog going into 2010



1) Total Sectors, excl. SIS; non-audited figures

# Well-positioned in Emerging Markets

Development of business in Emerging and Developing Markets (IMF Definition) <sup>1)</sup>



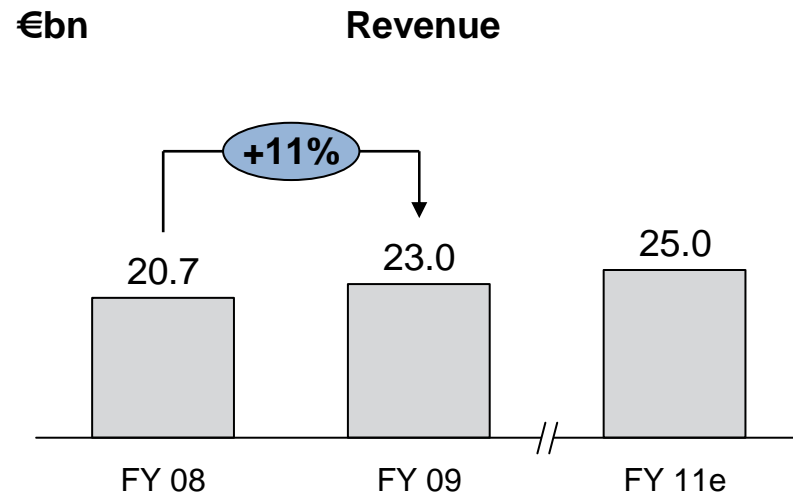
- **Emerging Markets** (or Emerging and Developing Markets) will contribute **36% to the World Economy in 2015**
- **Siemens is well-positioned to grow over-proportional** in these countries:
  - **New orders and revenue** contribute **more than 30%** to Siemens worldwide business in FY 09
  - Example **China**: >90 operating companies, 18 R&D centers and **43,000 employees** (incl. Joint Ventures)
  - Example **Qatar**: €1.5bn orders for High voltage substations
  - **New green production facilities** set up in
    - Colombia: €70m investments
    - Turkey: €100m investments
- **Further improve our footprint** in Emerging Markets:
  - **Gain market share** through growth initiatives set up in the regions (e.g. Middle East and Africa)
  - Develop a truly **diverse and global talent pipeline**
  - **Improve our competitiveness** through expanding our product portfolio for Emerging Markets

1) New orders and revenue by location of customer, Employees by local consolidated companies; without Com and SV; growth rates are CAGR

**Profiting from demand for green solutions**



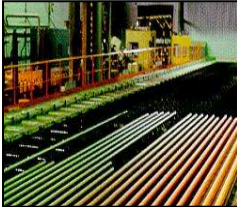


**Largest environmental portfolio worldwide**



- Business with environmental portfolio grew 11% in FY 09
- Our customers saved 210m tons CO<sub>2</sub> with the "green" solutions in FY 09 <sup>1)</sup>
- Green product and solutions with stabilizing effect during downturn

1) The cumulative CO<sub>2</sub> abatement of 210m tons is based on products and solutions installed at our customers in FY 09 and previous years

## SMART <sup>1)</sup>: Fully exploit opportunities in growth markets

Objectives	Examples
<p><b>Achieve top positions in Emerging Markets</b></p> <ul style="list-style-type: none"> <li>▪ Develop and produce products for emerging markets locally</li> </ul> <p><b>Increase market share in entry-level segment globally</b></p> <ul style="list-style-type: none"> <li>▪ Fully exploit global market opportunity with range of dedicated products</li> </ul> <p><b>Increase local value-add in Emerging Markets</b></p> <ul style="list-style-type: none"> <li>▪ Cost reduction for complete portfolio</li> </ul>	<p><b>Industry</b></p>  <p><b>Energy</b></p>  <p><b>Healthcare</b></p>  <p><b>Energy Automation for Long Rolling</b></p> <ul style="list-style-type: none"> <li>▪ Chinese entry-level market leader</li> <li>▪ Engineering know-how exported to Asia and Middle East</li> <li>▪ Global training center for customers</li> </ul> <p><b>Circuit breakers &amp; Substations</b></p> <ul style="list-style-type: none"> <li>▪ Clear market leader in China</li> <li>▪ Localization of &gt;90% for circuit breakers and &gt;80% for H-GIS <sup>2)</sup></li> </ul> <p><b>X-Ray products for rural healthcare</b></p> <ul style="list-style-type: none"> <li>▪ Leading player in India</li> <li>▪ Fully localized value chain</li> <li>▪ Exporting to 36 countries</li> </ul>

1) SMART = Simple, Maintenance-friendly, Affordable, Reliable, Timely-to-market

2) Hybrid gas-insulated substations

## We actively manage our portfolio

### SIEMENS

#### Energy



#### Industry



#### Healthcare



#### Below Sectors

### Main portfolio movements in last 24 months

#### Strengthening of core businesses

- Building up leading position in Concentrated Solar Power
  - Acquisition of Solel
  - 28% stake in Archimede
- Strengthening of core businesses, e.g.
  - High voltage products: Majority stakes in two Chinese companies
  - Industrial software: innotec, Elan Software Systems

#### Streamlining operations

- Clean up of 'Other operations' completed
- Sale of 50% stake in Fujitsu Siemens for €450m
- Reduced impact of remaining telecom businesses via J.V.s
  - Siemens Enterprise Networks (SEN)
  - Siemens Home Communication (SHC)
- Sale of Airfield lighting business (ADB) and Wireless Modules
- Restructuring of Electronics Assembly (EA) under 'Centrally managed portfolio activities'

## What we expect for 2010

- Conditions in manufacturing sector and world financial markets remain challenging
- After a double-digit order decline in FY 09 we expect a mid-single-digit percentage decline in organic revenue in FY 10 due to the stabilizing effect of our strong order backlog
- Total Sectors profit will be in the range of €6.0–6.5bn
- Income from continuing operations expected to be ~20% above FY 09 level of €2,457m



This outlook is conditional on no material deterioration in our pricing power during the fiscal year and on improving market conditions in the second half, particularly for our shorter-cycle businesses. Furthermore this outlook excludes major impacts that may arise during the fiscal year from restructuring, portfolio transactions, impairments, and legal and regulatory matters.

## **Building on proven strengths, but we're not done yet ...**

### **Financially fit**

- Continuous strong cash flow
- Actively solid capital structure management and keep strong investment grade rating
- Narrow the gap between sector profits and net income

### **...but continue to diligently control costs**

- SG&A target achieved one year ahead of schedule
- SCM gaining traction
- SRE cost savings
- Restructuring in selective businesses

### **Portfolio alignment to continue**

- Acquisition of Solel in October 2009
- Sale of ADB (airfield lighting business)

### **Growth and innovation**

- High quality businesses in strong positions
- Stimulus packages expected to generate new orders of roughly €15bn
- SMART products in growth markets
- Green portfolio

## TAP: Consistent execution against plan

Reporting dates	Milestones (deliverables)	
<b>January 2008</b> Q1 call and AGM	<ul style="list-style-type: none"> <li>▪ New <b>target margins</b> for <b>Energy</b> and <b>Industry Sector</b></li> <li>▪ <b>Target margins</b> for <b>Divisions</b></li> </ul>	
<b>April 2008</b> Q2 analyst conference	<ul style="list-style-type: none"> <li>▪ Update on <b>SG&amp;A</b> project</li> </ul>	
<b>July 2008</b> Q3 conference call	<ul style="list-style-type: none"> <li>▪ Start <b>reporting</b> in new structure</li> <li>▪ Outline new management <b>compensation</b> scheme</li> <li>▪ <b>Operational guidance</b> for 2009</li> </ul>	
<b>October 2008</b>	<ul style="list-style-type: none"> <li>▪ New management <b>compensation</b> scheme in place</li> </ul>	
<b>November 2008</b>	<ul style="list-style-type: none"> <li>▪ New board member and strategic <b>supply chain</b> initiative announced</li> </ul>	
<b>April 2009</b> Q2 analyst conference	<ul style="list-style-type: none"> <li>▪ Targets and roadmap of <b>supply chain</b> initiative</li> <li>▪ Update on <b>SG&amp;A</b> project and <b>earnings guidance</b> for FY 2009</li> </ul>	
<b>December 2009</b> Q4 analyst conference	<ul style="list-style-type: none"> <li>▪ Streamlining <b>Other Operations</b> largely completed</li> <li>▪ Update on <b>SCM</b> project</li> </ul>	
<b>November 2010</b> Q4 analyst conference	<ul style="list-style-type: none"> <li>▪ <b>Capital structure</b> target achieved</li> <li>▪ <b>SG&amp;A</b> project completed </li> <li>▪ <b>Target margins</b> achieved <sup>1)</sup></li> <li>▪ Update on <b>SCM</b> project</li> </ul>	

1) Target margin ranges are based on normal business cycles



**Financial calendar****December****December 3, 2009**

Q4 financial report and analyst conference (London)

**December 8-15, 2009**

Post-Q4 roadshow (London, Frankfurt, New York, Boston)

**January****January 11, 2010**

Commerzbank German Investment Seminar (New York)

**January 26, 2010**

Q1 financial report and analyst conference call  
Annual Shareholders' Meeting 2010 (Munich)

**February****February, 2010**

Post-Q1 Roadshow – details to be determined

**Siemens investor relations contact data**

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



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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;
- 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);
- Earnings effect from purchase price allocation (PPA effects) and integration costs
- Net debt; and
- Adjusted industrial net debt.

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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 on Usefulness of Non-GAAP 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](http://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](http://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](http://www.siemens.com/quarterly-reports).

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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.

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## 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.

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### 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 binding” based on a number of different criteria. In general, if a contract is considered legally effective and binding, 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 is 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).

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



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## **New orders and order backlog (continued)**

New orders are generally recognized immediately when the relevant contract becomes legally effective and binding. The only exception 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.

Order backlog represents 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 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 do not retroactively adjust previously published new order totals. However, if an order from a previous fiscal year is cancelled, new orders of the current quarter and accordingly the current fiscal year are generally not adjusted, instead, if the adjustment exceeds a certain threshold, 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, its new orders and order backlog may not be comparable with new orders and order backlog reported by other companies. Siemens does subject 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.

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## **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. 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 not an IFRS financial measure.

Siemens presents its Consolidated Financial Statements in Euros; however, a significant proportion of its operations takes place in a functional currency other than the Euro, particularly the U.S. dollar and the British pound. 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 Divisions are significantly affected due to the large proportion of international operations, particularly in the U.S.

All Sectors and Divisions as well as Cross-Sector Businesses are subject to foreign currency translation effects; however, some Divisions are particularly affected since they generate a significant portion of their operations through subsidiaries whose results are subject to foreign currency translation effects. The effect of acquisitions and dispositions on Siemens' consolidated revenues and expenses affects the comparability of the Consolidated Financial Statements between different periods.

The adjusted or organic growth rates of Revenue and new orders 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. Adjusted growth rates of Revenue and new orders are always calculated for a period of twelve months.

Siemens is making portfolio adjustments for certain transactions, including the carve-outs of Siemens Home and Office Communication Devices GmbH & Co. KG and the Wireless Modules business, as well as for other minor transactions in the Sectors, Cross-Sector Businesses and Other Operations. For further information regarding major acquisitions and dispositions, see "Notes to Consolidated Financial Statements."

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.

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## **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.

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



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## **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.

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## **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.

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### **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.

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### **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.

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### **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.

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### **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 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 Free cash flow 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, 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.

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



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## **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.

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## **Earnings effect from purchase price allocation (PPA effects) and integration costs**

Profit margins may be adjusted for PPA effects and integration costs 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 a PPA effect. Integration costs are internal or external costs that arise after the signing of an acquisition in connection with the integration of the acquired business, e.g. costs in connection with the adoption of Siemens' guidelines and policies.

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

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## **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 Balance Sheets. The IFRS financial measure most directly comparable to net debt is total 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.

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## **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 plans; plus (4) the funded status of other post-employment benefits; plus (5) credit guarantees; and (6) fair value hedge accounting adjustments. The fair value hedge accounting adjustment has been included in fiscal 2009 in our definition of adjusted industrial net debt. The fair value hedge accounting adjustment is representing risks being hedged. We believe that deducting the fair value hedge accounting adjustment from net debt in addition to the adjustments presented above provides investors more meaningful information to our scheduled debt service obligations. 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 manages adjusted industrial net debt as one component of its capital. As part of our "Fit42010" program, we decided to optimize our capital structure. A key consideration is to maintain ready access to capital markets through various debt products and to preserve our ability to repay and service our debt obligations over time. Siemens therefore has set a capital structure goal that is measured by adjusted industrial net debt divided by Earnings before interest taxes depreciation and amortization (EBITDA) as adjusted. Adjusted EBITDA is calculated as earnings before income taxes (EBIT) (adjusted) before amortization (defined as amortization and impairments of intangible assets other than goodwill) and depreciation and impairments of property, plant and equipment and goodwill. Adjusted EBIT is Income from continuing operations before income taxes less Financial income (expense), net and Income (loss) from investments accounted for using the equity method, net.

Siemens believes that using the ratio of "adjusted industrial net debt" to "EBITDA (adjusted)" as a measure of its capital structure provides useful information to investors because management uses it to manage our debt-equity ratio while ensuring both unrestricted access to debt financing instruments in the capital markets and our ability to meet scheduled debt service obligations.

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



## 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 earnings effects from purchase price allocation (PPA effects) and integration costs: The fact that the profit margin is adjusted for these effects 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 adjusted industrial net debt to EBITDA (adjusted): 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 EBITDA (adjusted) 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 below, 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.