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Annual Press Conference
Fiscal 2010

Siemens' growth gains momentum

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Siemens AG

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Disclaimer

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. In particular, Siemens is strongly affected by changes in general economic and business conditions as these directly impact its processes, customers and suppliers. This may negatively impact our revenue development and the realization of greater capacity utilization as a result of growth. Yet due to their diversity, not all of Siemens’ businesses are equally affected by changes in economic conditions; considerable differences exist in the timing and magnitude of the effects of such changes. This effect is amplified by the fact that, as a global company, Siemens is active in countries with economies that vary widely in terms of growth rate. Uncertainties arise from, among other things, the risk of customers delaying the conversion of recognized orders into revenue or cancellations of recognized orders, of prices declining as a result of continued adverse market conditions by more than is currently anticipated by Siemens’ management or of functional costs increasing in anticipation of growth that is not realized as expected. Other factors that may cause Siemens’ results to deviate from expectations include developments in the financial markets, including fluctuations in interest and exchange rates (in particular in relation to the U.S. dollar), in commodity and equity prices, in debt prices (credit spreads) and in the value of financial assets generally. Any changes in interest rates or other assumptions used in calculating pension obligations may impact Siemens’ defined benefit obligations and the anticipated performance of pension plan assets resulting in unexpected changes in the funded status of Siemens’ pension and post-employment benefit plans. Any increase in market volatility, further deterioration in the capital markets, decline in the conditions for the credit business, continued uncertainty related to the subprime, financial market and liquidity crises, or fluctuations in the future financial performance of the major industries served by Siemens may have unexpected effects on Siemens’ results. Furthermore, Siemens faces risks and uncertainties in connection with certain strategic reorientation measures; the performance of its equity interests and strategic alliances; the challenge of integrating major acquisitions and implementing joint ventures and other significant portfolio measures; the introduction of competing products or technologies by other companies; changing competitive dynamics (particularly in developing markets); the risk that new products or services will not be accepted by customers targeted by Siemens; changes in business strategy; the outcome of pending investigations, legal proceedings and actions resulting from the findings of, or related to the subject matter of, such investigations; the potential impact of such investigations and proceedings on Siemens’ business, including its relationships with governments and other customers; the potential impact of such matters on Siemens’ financial statements, and 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 neither intends to, nor assumes any obligation to, update or revise these forward-looking statements in light of developments which differ from those anticipated.

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, or ROE; return on capital employed, or ROCE; Free cash flow; cash conversion rate, or CCR; adjusted EBITDA; adjusted EBIT; 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. 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. For additional information, see “Supplemental financial measures” and the related discussion in Siemens’ annual report on Form 20-F, which can be found on Siemens’ Investor Relations website or via the EDGAR system on the website of the United States Securities and Exchange Commission.

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World economy has stabilized

Real economic growth (in percent)	2009	2010
World	-1.8	+3.8
U.S.	-2.6	+2.6
Germany	-4.7	+3.3
China	+9.1	+10.3
Brazil	-0.2	+7.4
India	+6.8	+8.2
Russia	-7.9	+4.2

Source: IHS Global Insight, October 2010

Growth perspectives

- **Recovery** of global economy **faster and stronger** than expected.
- **High growth momentum will probably slacken somewhat** in the months ahead.
- **However, global economic growth still expected to exceed three percent in 2011.**
- **Emerging countries will grow faster** than the industrialized countries.
- **Two-speed growth likely to continue** in the years ahead.

Total Sectors profit at record level for second year in a row

Continuing operations in millions of euros	FY 2009	FY 2010	Change
New orders	78,991	**81,163**	+3% [1)]
Revenue	76,651	**75,978**	-1% [1)]
Total Sectors profit	7,466	**7,789** [2)]	+4% [2)]
Net income [3)]	2,497	**4,068**	+63%
Dividend (in euros)	1.60	**2.70** [4)]	

1) Excluding currency translation and portfolio effects, new orders rose one percent, while revenue declined three percent.
2) Including impairment charges of €1.204 billion at the Healthcare Sector's diagnostics business. Excluding these charges, Total Sectors profit would have increased 20 percent.
3) Net income including discontinued activities
4) Supervisory Board and Managing Board proposal to Siemens' Annual Shareholders' Meeting

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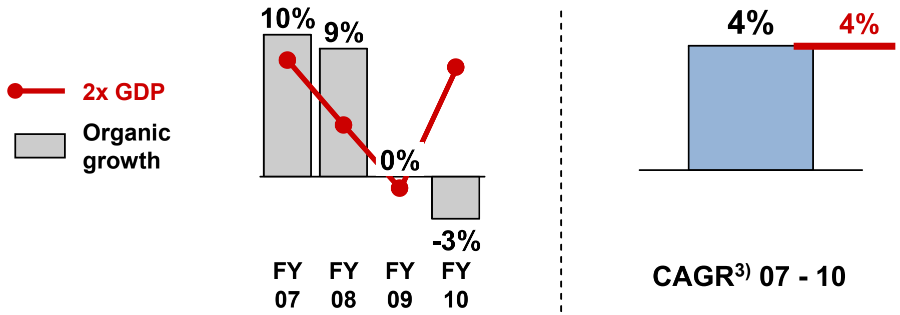
Fit *4* 2010 – Company program successfully completed

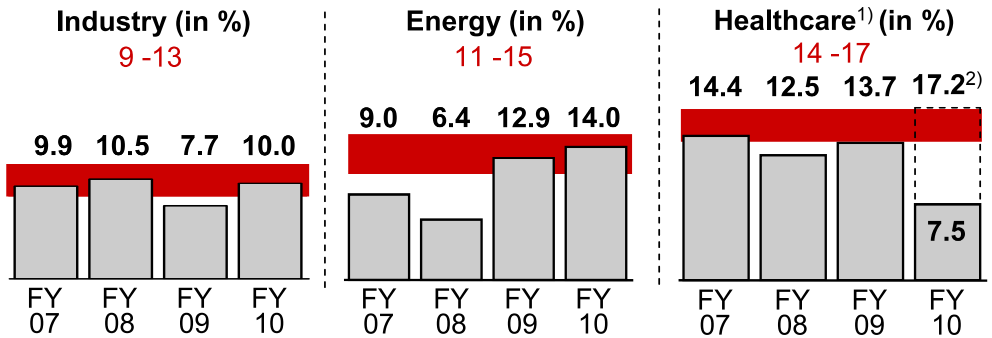
Portfolio focused on core businesses

- Clear **focus on three Sectors**:
  Industry, Energy and Healthcare.
- Strengthening of **pioneering ecofriendly technologies**.
- **Pruning of Other Operations**
  Sale of some 200 marginal activities, final exit from telecommunications business.

Growth



Profitability



Diversity and integrity fostered

- **Four nationalities** are represented in Siemens' **Managing Board**.
- The **percentage of women in management positions** has **more than doubled** in the last seven years. There are **two women on the Managing Board**.
- In 2010, for **the second time in a row**, Siemens is **No. 1 in its industry** on the **Dow Jones Sustainability Index**.

1) Excluding purchase price allocation at Diagnostics (DX) 2) Excluding impairment charges and PPA at DX in Q4 3) Compound annual growth rate

Siemens aims at new dividend level

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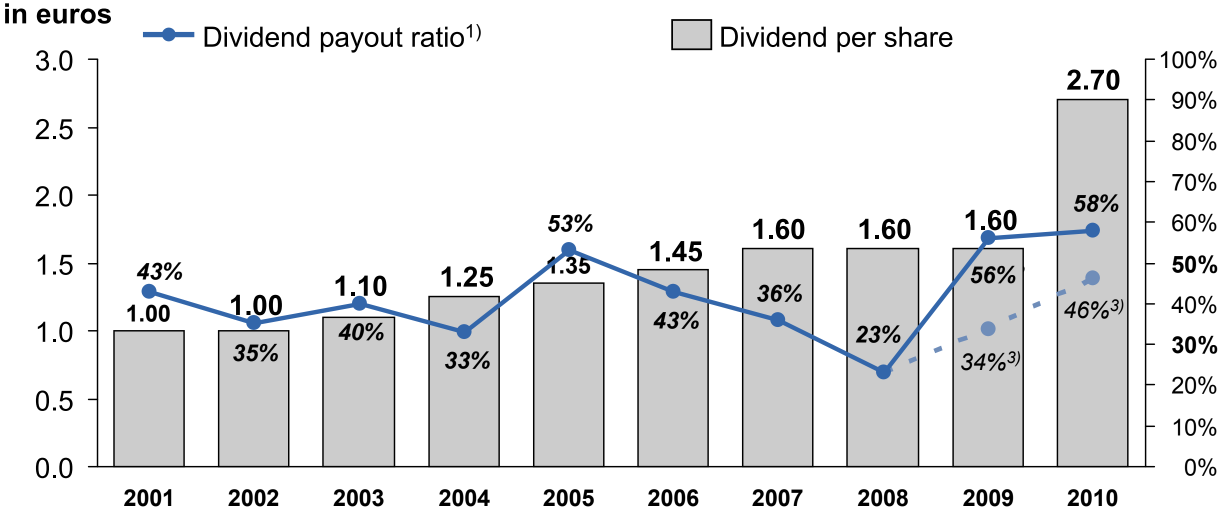
Dividend payouts and share buyback



in millions of euros

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Dividend	888	896	978	1,112	1,201	1,292	1,462	1,380	1,388	2,349
Yield[2]	1.37%	2.49%	1.62%	1.97%	1.78%	1.76%	1.89%	3.57%	2.36%	3.2%[4]

1) Dividend payout rate related to net income
2) Adjustment based on share price on day of Annual Shareholders' Meeting
3) Adjusted for extraordinary non-cash items; impairment charges at NSN (2009) and DX (2010)
4) Calculation based on closing share price of € 85.10 on Nov. 8th, 2010

Direct participation in success

- **Future dividend payouts** to range from **30 to 50 percent** of net income*).
- For fiscal 2010, **Managing Board and Supervisory Board** of Siemens AG **will propose** a **dividend of €2.70 per share**.
- **As co-owners of Siemens, the 120,000 employees** participating in the employee share program are **profiting** from the company's success.

*) Adjusted for extraordinary non-cash items

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One Siemens – Framework for sustainable value creation

One Siemens

The integrated technology company

Financial target system

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Outperforming revenue growth	Capital efficiency	Capital structure
Growth (nominal) > most relevant competitors	ROCE (cont. ops.)[1] **15 – 20%**	Adjusted industrial net debt / EBITDA **0.5 – 1.0x**
M&A hurdle rates 1) EVA accretive within 2 yrs post closing 2) In line with ROCE target within 3 yrs post integration	SFS ROE[2] **15 – 20%**	Dividend payout ratio **30 – 50%**[3]

Sectors

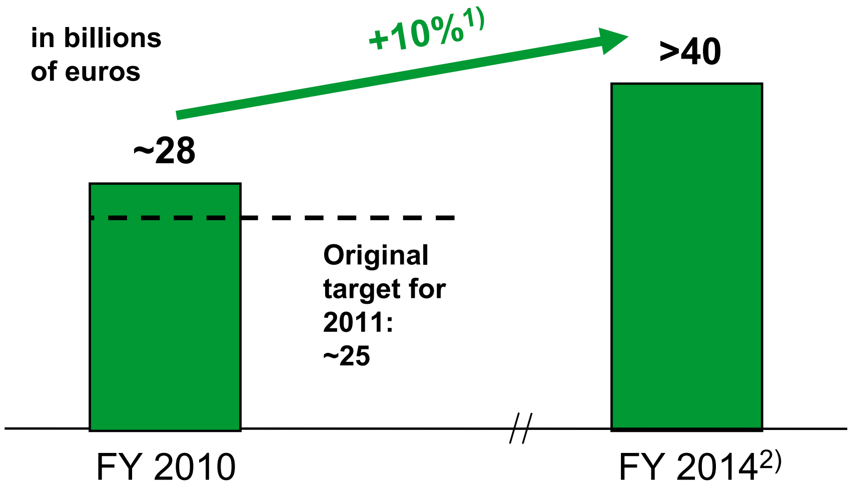
Top EBITDA margins of respective markets throughout business cycles		
Industry **10 – 15%**	Energy **10 – 15%**	Healthcare **15 – 20%**

Continuous improvement relative to market / competitors

1) After tax, adjusted primarily for SFS debt, pension plans and similar commitments, hedge accounting of bonds 2) after tax
3) of net income excluding exceptional non-cash items

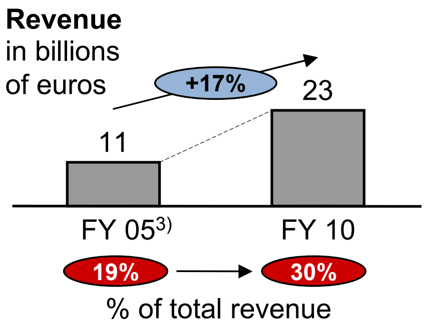
Focus on key growth drivers …

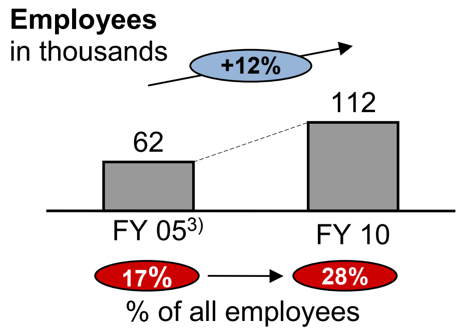
Further expand Environmental Portfolio



- In 2010, green **Siemens products** enabled customers **to reduce their CO_2 emissions by about 270 million tons**.

Siemens' share in emerging countries





Expansion of service business

- **Broad installed basis** provides **good starting position** for service business expansion. Siemens has the most computed tomograph and magnetic resonance scanners in use worldwide.
- **Expansion of consulting services** to optimize customer workflows or increase energy efficiency.

1) Compound annual growth rate 2) 2014 target 3) On a comparable basis, excluding COM, SV, SIS SDE

… and future growth markets and customers

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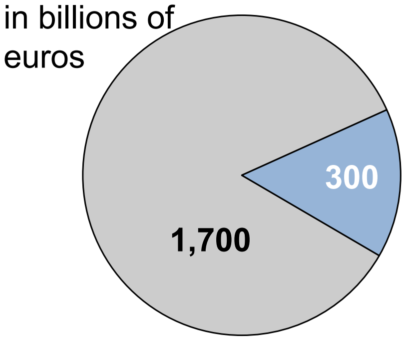
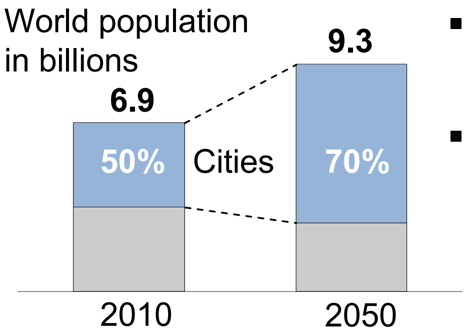
Cities offer Siemens major market potential



- **Infrastructure expenditures** worldwide: around €2 trillion.
- **Siemens-relevant market**: about €300 billion.



- **Cities growing at above-average rate.**
- In **2050**, some **70 percent** of the world's population will live **in urban areas.**

Figures based on OECD data, "Infrastructure 2030"

Siemens helps build the green cities of tomorrow

- **Abu Dhabi and Siemens** expand alliance through **strategic partnership with Masdar.**
- Construction of **smart grid** in Masdar City.
- Installation of **intelligent building technologies.**
- Research in **CO_2 capture and storage.**

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Outlook fiscal 2011

- With continuing improvement in Siemens' markets, we expect organic order intake to show a clear increase compared to fiscal 2010.
- Supported also by our already strong order backlog, we expect revenue to return to moderate organic growth.
- We anticipate income from continuing operations to exceed reported fiscal 2010 results by at least 25% to 35%.

This outlook excludes effects that may arise from legal and regulatory matters

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, or ROE;
- Return on capital employed, or ROCE;
- Return on capital employed (adjusted), or ROCE (adjusted)
- Free cash flow and cash conversion rate, or CCR;
- Adjusted EBITDA and adjusted EBIT;
- Earnings effect from purchase price allocation (PPA effects) and integration costs;
- 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 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 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 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 in the most recent Interim Report on Form 6-K furnished with the SEC (the "Interim Report"), which can be accessed at www.siemens.com/quarterly-reports. Alternatively, the reports can be also found at 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.

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 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 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 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.

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 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 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 the operations of its Sectors, Divisions and Cross-Sector Businesses takes place in a functional currency other than the Euro, particularly the U.S. dollar, 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 Divisions 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 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 in fiscal 2008, as well as for other minor transactions in the Sectors, Cross-Sector Businesses and Centrally managed portfolio activities. For further information regarding major acquisitions and dispositions, see "Notes to Consolidated Financial Statements" in the Annual Report or Interim Report.

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 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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Total Sectors Profit
Siemens uses Total Sectors Profit to measure the sum of Profit of the three Sectors Industry, Energy and Healthcare. Profit of the Sectors is earnings before financing interest, certain pension costs and income taxes. Certain other items not considered performance indicative 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.
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 three Sectors representing the core industrial activities of Siemens.

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 supplemental 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 average 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. For information on how average capital employed is calculated, refer to "Compensation for limitations associated with Siemens' supplemental financial measures." Each of the components of capital employed appears on the face of the Consolidated Statements of Financial Position in the Annual Report or Interim Report.

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 excluding Other interest income (expense), net and taxes thereon and the denominator is average 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. For information on how average capital employed (continuing operations) is calculated, refer to "Compensation for limitations associated with Siemens' supplemental financial measures."

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.

Reconciliation and Definitions for Non-GAAP Measures (IV)

ROCE (adjusted)
Starting fiscal 2011, Siemens is adjusting the ROCE definition.
Net income (before interest), the numerator in the ROCE calculation, is defined as Net income excluding Other interest income (expense), net (excluding SFS), and excluding interest cost on Pension plans and similar commitments and taxes thereon. Interest cost on Pension plans and similar commitments are calculated in a simplified form by applying a respective weighted-average discount rate to Pension plans and similar commitments as reported in the Consolidated Statements of Financial Position as of September 30 of the previous fiscal year. Pension plans and similar commitments primarily represents the funded status of pension plans and of other post-employment benefits as well as the liabilities for other long-term post-employment benefits and for deferred compensation. Taxes on Other interest income (expense), net (excluding SFS) and on interest cost of pension plans and similar commitments are calculated in a simplified form by applying the current tax rate, which can be derived from the Consolidated Statements of Income, to these interest adjustments.
Average 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, less Cash and cash equivalents, plus Pension plans and similar commitments, less SFS Debt and less Fair value hedge accounting adjustment. Each of the components of capital employed appears on the face of the Consolidated Balance Sheet or in the “Notes to Consolidated Financial Statements” or in the relevant tables of Item 5: “Operating and financial review and prospects”.
Siemens is adjusting the ROCE definition, primarily to consider pension underfunding as financing, to increase comparability of the metric with competitors and to align our ROCE definition with the definition of adjusted industrial net debt.

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 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.

Adjusted EBITDA and adjusted EBIT

Adjusted EBITDA and adjusted EBIT at the Siemens group level
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 impairment of property, plant and equipment and goodwill. Siemens defines adjusted EBIT as Income from continuing operations before income taxes less Other financial income (expense), less Interest expense, less Interest income and less 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 Item 5: “Operating and financial review and prospects” in the Annual Report, or in “Interim group management report” in the Interim Report. The IFRS financial measure most directly comparable to adjusted EBIT and adjusted EBITDA is Net income.
Siemens believes that the presentation of adjusted EBITDA and adjusted EBIT as a performance measure provides useful information to investors. In addition, adjusted EBITDA is included in the ratio of adjusted industrial net debt to adjusted EBITDA, a measure of our capital structure. Measures similar to adjusted EBITDA and adjusted EBIT are also broadly used by analysts, rating agencies and investors to assess the performance of a company. For further information regarding the ratio of adjusted industrial net debt to adjusted EBITDA, see “Adjusted industrial net debt.”

Reconciliation and Definitions for Non-GAAP Measures (V)

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Adjusted EBITDA and adjusted EBIT at the Sector level
Siemens also presents adjusted EBITDA and adjusted EBIT on the Sector level. Siemens defines adjusted EBITDA on 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 impairment of property, plant and equipment and goodwill on the Sector level. Siemens defines adjusted EBIT on the Sector level as Profit as presented in the Segment Information less financial income (expense), net and less Income (loss) from investments accounted for using the equity method, net. Each of the components of adjusted EBITDA and adjusted EBIT on the level of each Sector, respectively, is presented in the table “Reconciliation to adjusted EBITDA” in “Reconciliation to adjusted EBITDA (continuing operations)” in Item 5 in the Annual Report or in the Interim Report. The IFRS financial measure in a manner similar to and most directly comparable to adjusted EBITDA and adjusted EBIT on the Sector level is Profit of the relevant Sector as presented in the “Notes to Consolidated Financial Statements” in the Annual Report or Interim Report.
Reporting adjusted EBITDA and adjusted EBIT on a segment level enhances the ability of investors to compare performance across segments.

Earnings effect from purchase price allocation (PPA effects) and integration costs
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 cost 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 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.

Adjusted industrial net debt
Siemens manages adjusted industrial net debt as one component of its capital. Siemens defines adjusted industrial net debt as net debt less SFS debt; less 50% of the nominal amount of our hybrid bond ; plus the Funded Status of principal pension benefit plans; plus the Funded Status of principal other post-employment benefit plans; plus credit guarantees; and 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 or subordination to all senior and debt obligations. The fair value hedge accounting adjustment represents the change in the fair value of derivatives relating to fixed-rate long-term debt attributable to the interest rate risk 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 on our scheduled debt service obligations. 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” in the Interim Report.
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 goal that is measured by adjusted industrial net debt divided by Earnings before interest taxes depreciation and amortization (EBITDA) as adjusted.
Siemens believes that using the ratio of adjusted industrial net debt to adjusted EBITDA 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)

SIEMENS

Limitations Associated with Siemens' Supplemental Financial Measures (continued)

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 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, Cross-Sector Businesses, 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 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 adjusted EBITDA and adjusted EBIT: As adjusted EBITDA 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 adjusted EBITDA nor adjusted EBIT reflects 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 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.

Compensation for limitations associated with Siemens' supplemental financial measures

Siemens provides a quantitative reconciliation of each supplemental financial measure to the most directly comparable IFRS financial measures and Siemens encourages investors to review those reconciliations carefully.

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