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# Non-GAAP Financial Measures

Fourth Quarter and Fiscal 2013

siemens.com

## FOURTH QUARTER AND FISCAL 2013

Siemens (the "Company") presents the following financial measures to supplement its Consolidated Financial Statements which are prepared in accordance with International Financial Reporting Standards, or IFRS. These measures are designed to measure growth, capital efficiency, cash and profit generation, and optimization of Siemens' capital structure:

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

These supplemental financial measures are or may be non-GAAP financial measures as defined in the rules of the U.S. Securities and Exchange Commission, or SEC. They may exclude or include amounts that are included or excluded, as applicable, in the calculation of the most directly comparable financial measures calculated in accordance with IFRS, and their usefulness is therefore subject to limitations, which are described below for each measure. 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 prepared in accordance with IFRS and the Notes thereto.

Our most recent annual Consolidated Financial Statements at any given time can be found in the most recent Annual Report on Form 20-F filed with the SEC (the "Annual Report"), which is available online at WWW.SIEMENS.COM/ANNUAL-REPORT. Our most recent Condensed Interim Consolidated Financial Statements at any given time can be found in the most recent Interim Report that is also furnished to the SEC on Form 6-K (the "Interim Report"). Our Interim Reports are available at WWW.SIEMENS.COM/QUARTERLY-REPORTS or at WWW.SIEMENS.COM/INVESTORS under the heading "Publications."

In considering our 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 our supplemental financial measures to similarly titled financial measures reported by other companies.

The following discussion provides:

> the definitions of these supplemental financial measures;
> the most directly comparable IFRS financial measures;
> information regarding the usefulness of these supplemental financial measures;
> limitations on the usefulness of these supplemental financial measures; and
> quantitative reconciliations of these supplemental financial measures to the most directly comparable IFRS financial measures.

Amounts presented in reconciliations are generally taken from the Consolidated Financial Statements. We encourage our investors to review the following information carefully.

## ORDERS AND ORDER BACKLOG

### Definition, most directly comparable IFRS financial measures and usefulness

Under our policy for the recognition of orders, we generally recognize the total contract amount for an order when we enter into a contract that we consider legally effective and compulsory based on a number of different criteria. The contract amount is the agreed price or fee for that portion of the contract for which the delivery of goods and/or the provision of services has been irrevocably agreed. Future revenue from service, maintenance and outsourcing contracts is recognized as 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). Orders are generally recognized immediately when the relevant contract is considered legally effective and compulsory. The only exceptions are orders with short overall contract terms. In this case, a separate reporting of orders would provide no significant additional information regarding our performance. For orders of this type, the recognition of orders thus occurs when the corresponding revenue is recognized. There is no comparable IFRS financial measure for orders. We believe that orders are a useful indicator regarding the future revenue of our Company.

Order backlog is calculated by adding the orders of the current fiscal year to the balance of the order backlog as of the end of the prior fiscal year and then subtracting the revenue recognized in the current fiscal year. If the amount of an order already recognized in the current or the previous fiscal years is modified or if an order from the current fiscal year is cancelled, we adjust orders for the current quarter and also our order backlog accordingly, but do not retroactively adjust previously published orders. However, if an order from a previous fiscal year is cancelled, orders of the current quarter and, accordingly, the current fiscal year are generally not adjusted; instead, the existing order backlog is revised directly. Aside from cancellations, the order backlog is also subject to currency translation and portfolio effects. There is no comparable IFRS financial measure for order backlog. We believe that order backlog is a useful indicator regarding the future revenue of our Company resulting from already recognized orders.

### Limitations on the usefulness

There is no standard system for compiling and calculating orders and order backlog information that applies across companies. Accordingly, our orders and order backlog may not be comparable with orders and order backlog measures reported by other companies. We subject our orders and our order backlog to internal documentation and review requirements. We may change our policies for recognizing orders and order backlog in the future without previous notice.

Order reporting for the current period may include adjustments to orders added in previous quarters of the current fiscal year and prior fiscal years (except for cancellations). Order backlog is based on firm commitments which may be cancelled in future periods.

### Quantitative reconciliation

There is no comparable IFRS financial measure. Therefore, a quantitative reconciliation of orders and order backlog is not provided.

## ADJUSTED OR ORGANIC GROWTH RATES OF REVENUE AND ORDERS

### Definition, most directly comparable IFRS financial measures and usefulness

We present, on a worldwide basis and for Sectors and Divisions, the percentage change from period to period in revenue and orders as adjusted for currency translation and portfolio effects. The adjusted percentage changes are called adjusted or organic growth rates.

We prepare our Consolidated Financial Statements in euros; however, a significant portion of our operations of our Sectors is conducted in a functional currency other than the euro and is therefore subject to currency translation effects. Translating amounts from these currencies into euro affects the comparability of our results when the exchange rates for these currencies fluctuate. Some businesses are significantly affected because they conduct a large portion of operations outside the Eurozone, particularly in the U.S. In addition, the impact of acquisitions and dispositions on our consolidated revenue affects the comparability of the Consolidated Financial Statements between different periods.

The adjusted or organic growth rates of revenue and orders are calculated by subtracting currency translation effects and portfolio effects from the actual growth rates. The currency translation effects are calculated as (1) (a) revenue or orders for the current period, based on the exchange rate of the current period minus (b) revenue or orders for the current period, based on the exchange rate of the comparative period, divided by (2) revenue or orders for the previous period, based on the exchange rate of the comparative period. The portfolio effects are calculated, in the case of acquisitions, as the percentage change in revenue or orders attributable to the acquired business and, in the case of dispositions, as the percentage change in revenue or orders on the assumption that the disposed business had not been part of Siemens in the previous period. Portfolio effects are always considered in the calculation of adjusted or organic growth rates for a period of twelve months. We make portfolio adjustments for certain carve-in and carve-out transactions, as well as for other minor transactions and reclassifications in the segments. The IFRS financial measure most directly comparable to the adjusted or organic growth rate of revenue is the unadjusted growth rate calculated based on the actual revenue figures presented in the Consolidated Financial Statements. There is no comparable IFRS financial measure for the adjusted or organic growth rate of orders.

We believe that the presentation of an adjusted or organic growth rate of revenue and orders provides useful information to investors because a meaningful analysis of trends in revenue and 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. Our management considers adjusted or organic rates of growth in its management of our business. For this reason, we believe that the ability of investors to assess our overall performance may be improved by disclosure of this information.

### Limitations on the usefulness

Adjusted or organic growth rates of revenue and orders are not adjusted for other effects, such as increases or decreases in prices or quantity/volume.

### Quantitative reconciliation

For a quantitative reconciliation of adjusted or organic growth rates of revenue and orders to unadjusted growth rates of revenue and orders, refer to the relevant tables within Item 5: Operating and financial review and prospects in the Annual Report or within the Interim group management report in the Interim Reports.

## BOOK-TO-BILL RATIO

### Definition, most directly comparable IFRS financial measures and usefulness

The book-to-bill ratio measures the relationship between orders and revenue. The book-to-bill ratio is neither required nor defined by IFRS, therefore there is no comparable IFRS financial measure. A book-to-bill ratio of above 1 indicates that more orders were received than revenue was recognized, indicating stronger demand, whereas a book-to-bill ratio of below 1 points to weaker demand.

### Limitations on the usefulness

The usefulness of the book-to-bill ratio 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 us, or the amount of revenue recognized.

### Quantitative reconciliation

When we present the book-to-bill ratio, we generally provide figures for the orders and revenue which we used for the calculation. The calculation is orders divided by revenue. For book-to-bill ratio, refer to the relevant tables within Item 5: Operating and financial review and prospects in the Annual Report or within the Interim group management report in the Interim Reports.

## TOTAL SECTORS PROFIT

### Definition, most directly comparable IFRS financial measures and usefulness

We use Total Sectors profit to measure the sum of the profit or loss of four of our reportable segments, which are the four Sectors Energy, Healthcare, Industry and Infrastructure & Cities. As required by IFRS 8, Operating segments, we present profit or loss for each reportable segment. This is the measure reported to the chief operating decision maker. We define profit or loss of a Sector as earnings before financing interest, certain pension costs and income taxes. We may further exclude certain other items not considered indicative of performance by management. The IFRS financial measure most directly comparable to Total Sectors profit is Income from continuing operations before income taxes.

We believe that the ability of investors to assess our overall performance may be improved by disclosure of Total Sectors profit as a measure of the operational performance of the four Sectors because they conduct substantially all of the core industrial activities of our Company.

### Limitations on the usefulness

Profit of Equity Investments, SFS, Centrally managed portfolio activities, Siemens Real Estate, Corporate items and pensions as well as of Eliminations, Corporate Treasury and other reconciling items can have a material impact on our 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.

### Quantitative reconciliation

Total Sectors profit is reconciled to Income from continuing operations before income taxes in the Notes to Consolidated Financial Statements in the Annual Report or Interim Reports. For a reconciliation of Income from continuing operations before income taxes to Income from continuing operations, see the Consolidated Statements of Income in the Annual Report or Interim Reports.

## RETURN ON EQUITY (AFTER TAX)

### Definition, most directly comparable IFRS financial measures and usefulness

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

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

### Limitations on the usefulness

IBIT as reported in the Notes to Consolidated Financial Statements may exclude certain items not considered indicative of performance by management. The relevant income taxes used to determine SFS profit after tax (used in the numerator) is calculated by applying an assumed flat tax rate to IBIT. As a portion of the IBIT is tax free, certain IBIT components are deducted before applying the flat tax rate. For feasibility purposes, the tax-free portion of IBIT is determined based on a simplified methodology, i.e., not all of the tax-free IBIT components are treated as such. Accordingly, the effective amount of income taxes payable differs from the amount calculated by means of this simplified procedure. In addition, the use of ROE (after tax) is inherently limited by the fact that it is a ratio and thus does not provide information as to the absolute amount of SFS' income.

## Quantitative reconciliation

**Reconciliation to ROE (after tax) for fiscal 2013** (unaudited)

| (in millions of €, except where otherwise stated) | Fiscal 2013 twelve months | fourth quarter | third quarter | second quarter | first quarter |
|---|---|---|---|---|---|
| **Calculation of income taxes of SFS** | | | | | |
| Profit of SFS (IBIT) | 409 | 107 | 73 | 113 | 117 |
| Less/Plus: Income/loss from investments accounted for using the equity method, net, of SFS[1] | (85) | (17) | (23) | (20) | (25) |
| Less/Plus: Tax-free income components and others[2] | (26) | (6) | (6) | (9) | (6) |
| Tax basis | 298 | 83 | 44 | 84 | 86 |
| *Tax rate (flat)* | *30%* | *30%* | *30%* | *30%* | *30%* |
| **Calculated income taxes of SFS** | **89** | **25** | **13** | **25** | **26** |
| **Profit after tax of SFS** | | | | | |
| Profit of SFS (IBIT) | 409 | 107 | 73 | 113 | 117 |
| Less: Calculated income taxes of SFS | (89) | (25) | (13) | (25) | (26) |
| **Profit after tax of SFS** | **320** | **82** | **60** | **87** | **91** |
| (I) (Annualized) profit after tax of SFS[3] | 320 | 326 | 238 | 349 | 366 |
| (II) Average allocated equity of SFS[4] | 1,874 | 1,926 | 1,912 | 1,865 | 1,804 |
| **(I)/(II) ROE (after tax) of SFS** | **17.1%** | **17.0%** | **12.5%** | **18.7%** | **20.3%** |

**Reconciliation to ROE (after tax) for fiscal 2012** (unaudited)

| (in millions of €, except where otherwise stated) | Fiscal 2012 twelve months | fourth quarter | third quarter | second quarter | first quarter |
|---|---|---|---|---|---|
| **Calculation of income taxes of SFS** | | | | | |
| Profit of SFS (IBIT) | 479 | 100 | 105 | 74 | 199 |
| Less/Plus: Income/loss from investments accounted for using the equity method, net, of SFS[1] | (168) | (22) | (30) | (21) | (95) |
| Less/Plus: Tax-free income components and others[2] | 57 | (6) | (6) | (5) | 73 |
| Tax basis | 368 | 72 | 70 | 49 | 178 |
| *Tax rate (flat)* | *30%* | *30%* | *30%* | *30%* | *30%* |
| **Calculated income taxes of SFS** | **110** | **21** | **21** | **15** | **53** |
| **Profit after tax of SFS** | | | | | |
| Profit of SFS (IBIT) | 479 | 100 | 105 | 74 | 199 |
| Less: Calculated income taxes of SFS | (110) | (21) | (21) | (15) | (53) |
| **Profit after tax of SFS** | **368** | **78** | **84** | **60** | **146** |
| (I) (Annualized) profit after tax of SFS[3] | 368 | 313 | 338 | 239 | 584 |
| (II) Average allocated equity of SFS[4] | 1,681 | 1,742 | 1,673 | 1,665 | 1,636 |
| **(I)/(II) ROE (after tax) of SFS** | **21.9%** | **17.9%** | **20.2%** | **14.3%** | **35.7%** |

1 For information on Income (loss) from investments accounted for using the equity method, net of SFS for the current quarter, see Reconciliation to adjusted EBITDA (continuing operations) within this document.

2 Tax-free income components include forms of financing which are generally exempted from income taxes. Others comprise result components related to the (partial) sale/divestment of equity investments, which are reclassified from "at equity" to "available-for-sale financial assets" and are therefore not included in the (Income) loss from investments accounted for using the equity method, net of SFS; such results are already taxed or generally tax free. Others may also comprise an adjustment for material taxable Income (loss) from investments accounted for using the equity method, net of SFS.

3 Please note that annualized profit after tax of SFS presented on a quarterly basis is only a technical measure in order to make the ROE values comparable and may not be used as a forecast figure.

4 Average allocated equity of SFS on a quarterly basis is determined as a two-point average of allocated equity at the end of the prior quarter and the end of the current quarter. Average allocated equity of SFS on a year to date basis comprising n quarters is determined as a (n+1)-point average starting with the allocated equity as of September 30 of the previous fiscal year.

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

## RETURN ON CAPITAL EMPLOYED (ADJUSTED)

### Definition, most directly comparable IFRS financial measures and usefulness

We present ROCE (adjusted) at the Siemens group level for continuing operations. ROCE (adjusted) is our measure of capital efficiency and sustainable value creation. It is defined as Income from continuing operations before interest after tax (annualized for purposes of interim reporting) divided by average capital employed (continuing operations). Income from continuing operations before interest after tax is defined as Income from continuing operations, excluding Other interest income (expenses), net (but not Other interest income (expenses) of SFS) (both as reported in the Consolidated Financial Statements or in the Notes to Consolidated Financial Statements). It also excludes Interest expenses from post-employment benefits (as reported in the Consolidated Financial Statements or in the Notes to Consolidated Financial Statements) and taxes on these nterest adjustments. SFS Other income (expenses) is included in Other interest income (expenses), net. Adding back SFS Other income (expenses) in the numerator corresponds to the adjustment for SFS Debt in the denominator Average capital employed.

Average capital employed (continuing operations), the denominator in the ROCE (adjusted) calculation, is defined as the average of Total equity plus Long-term debt, plus Short-term debt and current maturities of long-term debt, less Cash and cash equivalents, less Current available-for-sale financial assets, plus Post-employment benefits, less SFS Debt, less Fair value hedge accounting adjustment and less Assets classified as held for disposal (presented as discontinued operations), net of Liabilities associated with assets classified as held for disposal (presented as discontinued operations). Each of the components of capital employed is presented either on the face of the Consolidated Statements of Financial Position, in the Notes to Consolidated Financial Statements, or in the relevant tables of Item 5: Operating and financial review and prospects in the Annual Report or in the Interim group management report of the Interim Reports.

The most directly comparable IFRS financial measure for the numerator in the ROCE (adjusted) (continuing operations) calculation is Net income. For the denominator, it is Total equity.

We use the ROCE (adjusted) financial performance ratio in order to assess our income generation from the point of view of our shareholders and creditors, who provide us with capital in the forms of equity and debt. We believe that the presentation of ROCE (adjusted) and the various supplemental financial measures involved in its calculation provides useful information to investors because ROCE (adjusted) can be used to determine whether capital invested in the Company yields competitive returns. In addition, achievement of predetermined targets relating to ROCE (adjusted) is one of the factors we take into account in determining the amount of performance-based compensation received by our management.

### Limitations on the usefulness

Due to practical considerations, taxes on interest adjustments are determined based on a simplified methodology: the effective tax rate for the determination of taxes on interest adjustments is calculated by dividing Income tax expenses by Income from continuing operations before income taxes, both as reported in the Consolidated Statements of Income. Accordingly, the effective amount of Income tax expenses related to these adjustments may differ from the amount calculated by means of this simplified procedure. In addition, the usefulness of ROCE (adjusted) is inherently limited by the fact that it is a ratio and thus does not provide information as to the absolute amount of our income from continuing operations.

## Quantitative reconciliation

**Reconciliation to capital employed for fiscal 2013** (unaudited)

| | | | | | Fiscal 2013 |
|---|---|---|---|---|---|
| (in millions of €, except where otherwise stated) | 09/30/2013 | 06/30/2013 | 03/31/2013 | 12/31/2012 | 09/30/2012 |
| **Capital employed** | | | | | |
| Total equity | 28,625 | 27,909 | 26,620 | 30,551 | 31,424 |
| Plus: Long-term debt | 18,509 | 19,140 | 20,182 | 16,651 | 16,880 |
| Plus: Short-term debt and current maturities of long-term debt | 1,944 | 3,656 | 2,752 | 3,709 | 3,826 |
| Less: Cash and cash equivalents | (9,190) | (6,071) | (7,892) | (7,823) | (10,891) |
| Less: Current available-for-sale financial assets | (601) | (506) | (533) | (517) | (524) |
| Plus: Post-employment benefits | 9,265 | 9,325 | 9,890 | 9,856 | 9,801 |
| Less: SFS Debt | (15,600) | (15,004) | (14,879) | (14,490) | (14,558) |
| Less: Fair value hedge accounting adjustment[1] | (1,247) | (1,323) | (1,473) | (1,570) | (1,670) |
| **Capital employed** (continuing and discontinued operations) | **31,706** | **37,127** | **34,667** | **36,367** | **34,289** |
| Less: Assets classified as held for disposal presented as discontinued operations | (768) | (4,783) | (4,616) | (4,589) | (4,693) |
| Plus: Liabilities associated with assets classified as held for disposal presented as discontinued operations | 258 | 1,948 | 1,948 | 2,045 | 2,010 |
| **Capital employed** (continuing operations) | **31,195** | **34,291** | **31,999** | **33,823** | **31,606** |

**Reconciliation to capital employed for fiscal 2012** (unaudited)

| | | | | | Fiscal 2012 |
|---|---|---|---|---|---|
| (in millions of €, except where otherwise stated) | 09/30/2012 | 06/30/2012 | 03/31/2012 | 12/31/2011 | 09/30/2011 |
| **Capital employed** | | | | | |
| Total equity | 31,424 | 32,417 | 32,250 | 34,059 | 32,271 |
| Plus: Long-term debt | 16,880 | 15,234 | 14,731 | 14,566 | 14,280 |
| Plus: Short-term debt and current maturities of long-term debt | 3,826 | 5,236 | 4,799 | 2,841 | 3,660 |
| Less: Cash and cash equivalents | (10,891) | (8,963) | (8,424) | (8,977) | (12,468) |
| Less: Current available-for-sale financial assets | (524) | (532) | (542) | (478) | (477) |
| Plus: Post-employment benefits | 9,801 | 8,949 | 7,378 | 6,657 | 7,188 |
| Less: SFS Debt | (14,558) | (13,644) | (13,303) | (13,424) | (12,075) |
| Less: Fair value hedge accounting adjustment[1] | (1,670) | (1,638) | (1,474) | (1,544) | (1,470) |
| **Capital employed** (continuing and discontinued operations) | **34,289** | **37,058** | **35,414** | **33,699** | **30,909** |
| Less: Assets classified as held for disposal presented as discontinued operations | (4,693) | (4,695) | (4,893) | (4,968) | (4,666) |
| Plus: Liabilities associated with assets classified as held for disposal presented as discontinued operations | 2,010 | 1,919 | 1,679 | 1,663 | 1,749 |
| **Capital employed** (continuing operations) | **31,606** | **34,283** | **32,201** | **30,394** | **27,993** |

1 Debt is generally reported with a value representing approximately the amount to be repaid. However for debt designated in a hedging relationship (fair value hedges), this amount is adjusted by changes in market value mainly due to changes in interest rates. Accordingly, we deduct these changes in market value in order to end up with an amount of debt that approximately will be repaid, which we belive is a more meaningful figure for the calculation presented above. See Notes to (Condensed Interim) Consolidated Financial Statements.

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

## Reconciliation to ROCE (adjusted) for fiscal 2013 (unaudited)

| (in millions of €, except where otherwise stated) | Fiscal 2013 twelve months | fourth quarter | third quarter | second quarter | first quarter |
|---|---|---|---|---|---|
| **Income from continuing operations before interest after tax** | | | | | |
| Net income | 4,409 | 1,068 | 1,098 | 1,030 | 1,214 |
| Plus/Less: Other interest expenses/income, net | (455) | (103) | (125) | (109) | (118) |
| Less/Plus: SFS Other interest expenses/ income [1] | 556 | 140 | 154 | 121 | 141 |
| Plus: Interest expenses from post-employment benefits | 297 | 74 | 72 | 75 | 76 |
| Less: Taxes on interest adjustments [2] | (111) | (29) | (26) | (23) | (32) |
| **Income before interest after tax** | **4,695** | **1,149** | **1,172** | **1,093** | **1,281** |
| Less/Plus: Income/loss from discontinued operations, net of income taxes | (197) | 7 | (91) | (49) | (64) |
| **Income from continuing operations before interest after tax** | **4,499** | **1,156** | **1,081** | **1,044** | **1,217** |
| **Calculation of tax rate** | | | | | |
| (I) Income from continuing operations before income taxes | 5,843 | 1,456 | 1,354 | 1,333 | 1,700 |
| (II) Income tax expenses | (1,630) | (381) | (346) | (352) | (550) |
| **(II)/(I) Tax rate** | **28%** | **26%** | **26%** | **26%** | **32%** |
| **ROCE (adjusted)** (continuing operations) | | | | | |
| (I) (Annualized) income from continuing operations before interest after tax [3] | 4,499 | 4,625 | 4,326 | 4,176 | 4,868 |
| (II) Average capital employed (continuing operations) [4, 5] | 32,583 | 32,743 | 33,145 | 32,911 | 32,715 |
| **(I)/(II) ROCE (adjusted)** (continuing operations) | **13.8%** | **14.1%** | **13.1%** | **12.7%** | **14.9%** |

## Reconciliation to ROCE (adjusted) for fiscal 2012 (unaudited)

| (in millions of €, except where otherwise stated) | Fiscal 2012 twelve months | fourth quarter | third quarter | second quarter | first quarter |
|---|---|---|---|---|---|
| **Income from continuing operations before interest after tax** | | | | | |
| Net income | 4,282 | 1,191 | 770 | 938 | 1,383 |
| Plus/Less: Other interest expenses/income, net | (471) | (124) | (112) | (108) | (127) |
| Less/Plus: SFS Other interest expenses/ income [1] | 462 | 120 | 114 | 113 | 114 |
| Plus: Interest expenses from post-employment benefits | 310 | 78 | 78 | 77 | 77 |
| Less: Taxes on interest adjustments [2] | (91) | (22) | (28) | (24) | (17) |
| **Income before interest after tax** | **4,493** | **1,244** | **823** | **996** | **1,430** |
| Less/Plus: Income/loss from discontinued operations, net of income taxes | 360 | 39 | 381 | 38 | (98) |
| **Income from continuing operations before interest after tax** | **4,853** | **1,283** | **1,204** | **1,034** | **1,332** |
| **Calculation of tax rate** | | | | | |
| (I) Income from continuing operations before income taxes | 6,636 | 1,737 | 1,749 | 1,399 | 1,751 |
| (II) Income tax expenses | (1,994) | (507) | (599) | (422) | (466) |
| **(II)/(I) Tax rate** | **30%** | **29%** | **34%** | **30%** | **27%** |
| **ROCE (adjusted)** (continuing operations) | | | | | |
| (I) (Annualized) income from continuing operations before interest after tax [3] | 4,853 | 5,133 | 4,815 | 4,136 | 5,327 |
| (II) Average capital employed (continuing operations) [4, 5] | 31,295 | 32,944 | 33,242 | 31,297 | 29,194 |
| **(I)/(II) ROCE (adjusted)** (continuing operations) | **15.5%** | **15.6%** | **14.5%** | **13.2%** | **18.2%** |

1 SFS Other interest income/expenses is included in Other interest income/expenses, net. Adding back SFS Other interest income/expenses in the numerator corresponds to the adjustment for SFS Debt in the denominator.

2 Effective tax rate for the determination of taxes on interest adjustments is calculated by dividing Income tax expenses through Income from continuing operations before income taxes, both as reported in the Consolidated Statements of Income.

3 Please note that annualized income before interest after tax and annualized income from continuing operations before interest after tax presented on a quarterly basis is only a technical measure in order to make the ROCE value comparable and may not be used as a forecast figure.

4 Debt is generally reported with a value representing approximately the amount to be repaid. However for debt designated in a hedging relationship (fair value hedges), this amount is adjusted by changes in market value mainly due to changes in interest rates. Accordingly, we deduct these changes in market value in order to end up with an amount of debt that approximately will be repaid, which we believe is a more meaningful figure for the calculation presented above. See Notes to (Condensed Interim) Consolidated Financial Statements.

5 Average capital employed on a quarterly basis is determined as a two-point average of capital employed at the end of the prior quarter and the end of the respective quarter. Average capital employed on a year to date basis comprising n quarters is determined as a (n+1)-point average starting with the capital employed as of September 30 of the previous fiscal year.

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

## FREE CASH FLOW

### Definition, most directly comparable IFRS financial measures and usefulness

We define FCF as Cash flows from operating activities less Additions to intangible assets and property, plant and equipment. The IFRS financial measure most directly comparable to FCF is Cash flows from operating activities.

We believe that the presentation of FCF provides useful information to investors because it is a measure of cash generated by our operations after deducting cash outflows for Additions to intangible assets and property, plant and equipment. Therefore, the measure provides an indication of the long-term cash generating ability of our business. In addition, because FCF is not impacted by portfolio activities, it is less volatile than the total of Cash flows from operating activities and Cash flows from investing activities. For this reason, FCF is reported on a regular basis to our management, who uses it to assess and manage cash generation among the various reportable segments of the Company and for the group. Achievement of predetermined targets relating to FCF generation is one of the factors we take into account in determining the amount of performance-based compensation received by our management, both at the level of the worldwide group and at the level of individual reportable segments.

### Limitations on the usefulness

FCF is not a measure of cash generated by operations that is available exclusively for discretionary expenditures. This is, because in addition to capital expenditures needed to maintain or grow our business, we require cash for a wide variety of non-discretionary expenditures, such as interest and principal payments on outstanding debt, dividend payments or other operating expenses.

## Quantitative reconciliation

**Reconciliation to FCF for fiscal 2013** (unaudited)

| (in millions of €, except where otherwise stated) | Fiscal 2013 twelve months | fourth quarter | first nine months | third quarter | second quarter | first quarter |
|---|---|---|---|---|---|---|
| **Free cash flow** (continuing and discontinued operations) | | | | | | |
| Cash flows from operating activities (continuing and discontinued operations) | 7,340 | 5,095 | 2,246 | 1,489 | 1,732 | (976) |
| Less: Additions to intangible assets and property, plant and equipment (continuing and discontinued operations) | (2,012) | (758) | (1,253) | (436) | (398) | (420) |
| **Free cash flow** (continuing and discontinued operations) | **5,328** | **4,336** | **992** | **1,053** | **1,335** | **(1,395)** |
| Cash flows from investing activities (continuing and discontinued operations) | (5,076) | (78) | (4,998) | (3,034) | (1,332) | (632) |
| Cash flows from financing activities (continuing and discontinued operations) | (3,396) | (1,612) | (1,784) | 33 | (393) | (1,424) |
| **Free cash flow** (continuing operations) | | | | | | |
| Cash flows from operating activities (continuing operations) | 7,126 | 5,106 | 2,020 | 1,351 | 1,712 | (1,044) |
| Less: Additions to intangible assets and property, plant and equipment (continuing operations) | (1,869) | (749) | (1,120) | (396) | (352) | (372) |
| **Free cash flow** (continuing operations) | **5,257** | **4,357** | **900** | **956** | **1,360** | **(1,416)** |
| Cash flows from investing activities (continuing operations) | (4,836) | (48) | (4,788) | (2,938) | (1,273) | (576) |
| Cash flows from financing activities (continuing operations) | (3,422) | (1,654) | (1,769) | 75 | (431) | (1,412) |

**Reconciliation to FCF for fiscal 2012** (unaudited)

| (in millions of €, except where otherwise stated) | Fiscal 2012 twelve months | fourth quarter | first nine months | third quarter | second quarter | first quarter |
|---|---|---|---|---|---|---|
| **Free cash flow** (continuing and discontinued operations) | | | | | | |
| Cash flows from operating activities (continuing and discontinued operations) | 7,110 | 5,253 | 1,857 | 1,518 | 1,057 | (718) |
| Less: Additions to intangible assets and property, plant and equipment (continuing and discontinued operations) | (2,410) | (844) | (1,566) | (551) | (530) | (485) |
| **Free cash flow** (continuing and discontinued operations) | **4,700** | **4,409** | **291** | **967** | **528** | **(1,204)** |
| Cash flows from investing activities (continuing and discontinued operations) | (5,685) | (1,776) | (3,909) | (883) | (1,440) | (1,586) |
| Cash flows from financing activities (continuing and discontinued operations) | (3,055) | (1,471) | (1,584) | (169) | (157) | (1,259) |
| **Free cash flow** (continuing operations) | | | | | | |
| Cash flows from operating activities (continuing operations) | 6,923 | 5,094 | 1,829 | 1,379 | 1,012 | (562) |
| Less: Additions to intangible assets and property, plant and equipment (continuing operations) | (2,195) | (766) | (1,429) | (509) | (479) | (442) |
| **Free cash flow** (continuing operations) | **4,727** | **4,328** | **399** | **870** | **534** | **(1,004)** |
| Cash flows from investing activities (continuing operations) | (5,029) | (1,686) | (3,343) | (755) | (1,119) | (1,468) |
| Cash flows from financing activities (continuing operations) | (3,523) | (1,400) | (2,123) | (157) | (433) | (1,533) |

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

## ADJUSTED EBITDA, ADJUSTED EBIT AND ADJUSTED EBITDA MARGINS

### Definition, most directly comparable IFRS financial measures and usefulness

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

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

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

Adjusted EBITDA is included in the ratio of adjusted industrial net debt to adjusted EBITDA, a measure of our capital structure. For further information regarding the ratio of adjusted industrial net debt to adjusted EBITDA see Adjusted industrial net debt below.

#### Adjusted EBITDA and adjusted EBIT at the Sector level

We also present adjusted EBITDA and adjusted EBIT at the Sector level. We define adjusted EBITDA at the Sector level as adjusted EBIT before amortization (which in turn is defined as Amortization and impairments of intangible assets other than goodwill) and Depreciation and impairments of property, plant and equipment and goodwill at the Sector level. We define adjusted EBIT at the Sector level as profit (as presented in the Segment information) excluding Financial income (expenses), net as well as Income (loss) from investments accounted for using the equity method, net. Each of the components of adjusted EBITDA and adjusted EBIT at the level of each Sector, respectively, is presented in the table – Reconciliation to adjusted EBITDA (continuing operations) within Item 5: Operating and financial review and prospects of the Annual Report, within Interim group management report in the Interim Reports or within this document for the current quarter. The IFRS financial measure most directly comparable to adjusted EBITDA and adjusted EBIT at the Sector level is profit of the relevant Sector as presented in the Notes to Consolidated Financial Statements in the Annual Report or Interim Reports.

Accordingly, we believe that reporting adjusted EBITDA and adjusted EBIT on a segment level enhances the ability of investors to compare performance across segments.

#### Adjusted EBITDA margins at the Sector level

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

We believe that the presentation of adjusted EBITDA margins as a part of One Siemens provides useful information on how successfully we operate in our markets and enhances the ability of investors to compare profitability across segments.

### Limitations on the usefulness

As adjusted EBITDA excludes non-cash items such as depreciation, amortization and impairments, it does not reflect the expenses associated with the full economic effect on our assets over time. Similarly, neither adjusted EBITDA, adjusted EBIT nor adjusted EBITDA margins reflects the impact of Financial income (expenses), net, Income (loss) from investments accounted for using the equity method, net and Income tax expenses.

## Quantitative reconciliation

**Reconciliation to adjusted EBIT and adjusted EBITDA for fiscal 2013** (unaudited)

| | Fiscal 2013 | | | | |
|---|---|---|---|---|---|
| (in millions of €, except where otherwise stated) | twelve months | fourth quarter | third quarter | second quarter | first quarter |
| Net income | 4,409 | 1,068 | 1,098 | 1,030 | 1,214 |
| Less/Plus: Income/loss from discontinued operations, net of income taxes | (197) | 7 | (91) | (49) | (64) |
| Income from continuing operations | 4,212 | 1,075 | 1,007 | 980 | 1,150 |
| Plus: Income tax expenses | 1,630 | 381 | 346 | 352 | 550 |
| Income from continuing operations before income taxes | 5,843 | 1,456 | 1,354 | 1,333 | 1,700 |
| Less/Plus: Other financial income/expenses, net[1] | 154 | 52 | 32 | 37 | 34 |
| Plus: Interest expenses[1] | 789 | 211 | 203 | 185 | 189 |
| Less: Interest income[1] | (948) | (239) | (251) | (225) | (233) |
| Less/Plus: Income/loss from investments accounted for using the equity method, net | (510) | (159) | (188) | (68) | (95) |
| **Adjusted EBIT** (continuing operations) | **5,328** | **1,321** | **1,150** | **1,262** | **1,594** |
| Plus: Amortization, depreciation and impairments[2] | 2,888 | 873 | 675 | 695 | 644 |
| **Adjusted EBITDA** (continuing operations) | **8,215** | **2,195** | **1,825** | **1,957** | **2,239** |

**Reconciliation to adjusted EBIT and adjusted EBITDA for fiscal 2012** (unaudited)

| | Fiscal 2012 | | | | |
|---|---|---|---|---|---|
| (in millions of €, except where otherwise stated) | twelve months | fourth quarter | third quarter | second quarter | first quarter |
| Net income | 4,282 | 1,191 | 770 | 938 | 1,383 |
| Less/Plus: Income/loss from discontinued operations, net of income taxes | 360 | 39 | 381 | 38 | (98) |
| Income from continuing operations | 4,642 | 1,230 | 1,151 | 976 | 1,285 |
| Plus: Income tax expenses | 1,994 | 507 | 599 | 422 | 466 |
| Income from continuing operations before income taxes | 6,636 | 1,737 | 1,749 | 1,399 | 1,751 |
| Less/Plus: Other financial income/expenses, net[1] | 5 | 93 | (68) | 29 | (48) |
| Plus: Interest expenses[1] | 760 | 185 | 190 | 192 | 194 |
| Less: Interest income[1] | (939) | (234) | (235) | (227) | (242) |
| Less/Plus: Income/loss from investments accounted for using the equity method, net | 333 | (60) | 26 | 564 | (197) |
| **Adjusted EBIT** (continuing operations) | **6,796** | **1,721** | **1,661** | **1,957** | **1,457** |
| Plus: Amortization, depreciation and impairments[2] | 2,818 | 847 | 668 | 663 | 639 |
| **Adjusted EBITDA** (continuing operations) | **9,613** | **2,568** | **2,330** | **2,620** | **2,095** |

1 The total of Other financial income/expenses, net, Interest expenses and Interest income as reported in Consolidated Statements of Income equals Financial income/expenses, net in the Reconciliation to adjusted EBITDA presented in Reconciliation to adjusted EBITDA (continuing operations) within the Interim group management report, within Item 5: Operating and financial review and prospects – Reconciliation to adjusted EBITDA (continuing operations) or within this document.

2 Amortization, depreciation and impairments as reported in Segment information (continuing operations) within Notes to Condensed Interim Consolidated Financial Statements does not include impairments of goodwill. Impairments of goodwill are presented in Reconciliation to adjusted EBITDA (continuing operations) within Item 5: Operating and financial review and prospects – Reconciliation to adjusted EBITDA (continuing operations) or within this document.

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

**Reconciliation from Profit / Income before income taxes to adjusted EBITDA**
For the three months ended September 30. 2013 and 2012 (continuing operations – unaudited)

| (in millions of €) | Profit[1] 2013 | Profit[1] 2012 | Income (loss) from investments accounted for using the equity method, net[2] 2013 | Income (loss) from investments accounted for using the equity method, net[2] 2012 |
|---|---|---|---|---|
| **Sectors** | | | | |
| **Energy Sector** | **564** | **163** | **2** | **(21)** |
| *therein:* Fossil Power Generation | 387 | 376 | 7 | 13 |
| Wind Power | 179 | 134 | 1 | 2 |
| Oil & Gas | 151 | (111) | – | – |
| Power Transmission | (42) | (40) | 3 | 5 |
| **Healthcare Sector** | **601** | **631** | **2** | **3** |
| *therein:* Diagnostics | 82 | 86 | – | – |
| **Industry Sector** | **278** | **721** | **1** | **3** |
| *therein:* Industry Automation | 289 | 398 | – | – |
| Drive Technologies | 84 | 286 | 1 | 3 |
| **Infrastructure & Cities Sector** | **166** | **416** | **3** | **6** |
| *therein:* Transportation & Logistics | (78) | 73 | 1 | 3 |
| Power Grid Solutions & Products | 103 | 200 | 2 | 2 |
| Building Technologies | 168 | 153 | – | – |
| **Total Sectors** | **1,609** | **1,932** | **9** | **(9)** |
| **Equity Investments** | **110** | **44** | **108** | **42** |
| **Financial Services (SFS)** | **107** | **100** | **17** | **22** |
| **Reconciliation to Consolidated Financial Statements** | | | | |
| Centrally managed portfolio activities | (47) | (24) | 28 | 3 |
| Siemens Real Estate (SRE) | 112 | 88 | – | – |
| Corporate items and pensions | (396) | (386) | – | – |
| Eliminations, Corporate Treasury and other reconciling items | (39) | (16) | (3) | 1 |
| **Siemens** | **1,456** | **1,737** | **159** | **60** |

1 Profit of the Sectors as well as of Equity Investments and Centrally managed portfolio activities is earnings before financing interest, certain pension costs and income taxes. Certain other items not considered performance indicative by Management may be excluded. Profit of SFS and SRE is Income before income taxes. Profit of Siemens is Income from continuing operations before income taxes. For a reconciliation of Income from continuing operations before income taxes to Net income see Consolidated Statements of Income.

2 Includes impairments and reversals of impairments of investments accounted for using the equity method.

3 Includes impairment of non-current available-for-sale financial assets. For Siemens, Financial income (expenses), net comprises Interest income, Interest expenses and Other financial income (expenses), net as reported in the Consolidated Statements of Income.

| Financial income (expenses), net[3] | | Adjusted EBIT[4] | | Amortization[5] | | Depreciation and impairments of property, plant and equipment and goodwill[6] | | Adjusted EBITDA | | Adjusted EBITDA margin | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | | | | | | | | | | | |
| **(7)** | **(22)** | **569** | **207** | **46** | **30** | **153** | **257** | **769** | **493** | ***10.3%*** | ***6.4%*** |
| (3) | (5) | 383 | 368 | 5 | 6 | 40 | 42 | 427 | 416 | | |
| (2) | – | 179 | 131 | 8 | 7 | 30 | 40 | 217 | 178 | | |
| (1) | (1) | 152 | (111) | 12 | 13 | 20 | 21 | 183 | (77) | | |
| (2) | (17) | (43) | (27) | 3 | 4 | 39 | 44 | (1) | 20 | | |
| **11** | **11** | **588** | **617** | **77** | **84** | **82** | **90** | **746** | **790** | ***20.0%*** | ***20.9%*** |
| 1 | 4 | 81 | 82 | 48 | 51 | 51 | 59 | 180 | 192 | | |
| **(3)** | **(4)** | **280** | **722** | **79** | **65** | **108** | **84** | **466** | **871** | ***9.2%*** | ***16.4%*** |
| (1) | (4) | 290 | 402 | 65 | 50 | 36 | 34 | 390 | 486 | | |
| (1) | – | 84 | 283 | 13 | 12 | 69 | 47 | 166 | 342 | | |
| **(4)** | **7** | **166** | **403** | **60** | **30** | **103** | **46** | **329** | **479** | ***6.3%*** | ***9.6%*** |
| (2) | (5) | (78) | 74 | 16 | 3 | 64 | 13 | 2 | 91 | | |
| (2) | (2) | 103 | 199 | 30 | 10 | 25 | 21 | 158 | 229 | | |
| – | – | 169 | 154 | 14 | 16 | 13 | 12 | 195 | 182 | | |
| **(2)** | **(8)** | **1,603** | **1,949** | **262** | **208** | **446** | **477** | **2,311** | **2,634** | | |
| **1** | **2** | **2** | **–** | **–** | **–** | **–** | **–** | **2** | **–** | | |
| **100** | **97** | **(11)** | **(19)** | **1** | **2** | **52** | **67** | **42** | **50** | | |
| | | | | | | | | | | | |
| (1) | – | (74) | (27) | – | – | – | 1 | (73) | (26) | | |
| (27) | (30) | 139 | 118 | – | – | 100 | 83 | 240 | 201 | | |
| (94) | (114) | (302) | (272) | 4 | 5 | 15 | 14 | (283) | (253) | | |
| – | 11 | (36) | (28) | – | – | (8) | (10) | (44) | (37) | | |
| **(24)** | **(43)** | **1,321** | **1,721** | **268** | **216** | **606** | **632** | **2,195** | **2,568** | | |

4 Adjusted EBIT is Income from continuing operations before income taxes less Financial income (expenses), net and Income (loss) from investments accounted for using the equity method, net.

5 Amortization and impairments, net of reversals, of intangible assets other than goodwill.

6 Depreciation and impairments of property, plant and equipment, net of reversals. Includes impairments of goodwill of €70 million and €85 million for the three months ended September 30, 2013 and 2012, respectively.

Due to rounding, numbers presented may not add up precisely to totals provided.

For a quantitative reconciliation to adjusted EBITDA margins, see also Item 5: Operating and financial review and prospects – Reconciliation to adjusted EBITDA (continuing operations) in the Annual Report or within the Interim group management report in the Interim Reports.

## EARNINGS-EFFECTS FROM PURCHASE PRICE ALLOCATION

### Definition, most directly comparable IFRS financial measures and usefulness

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 earnings effects over time, e.g. additional amortization of fair value step-ups of intangible assets, which are defined as PPA effects.

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

### Limitations on the usefulness

The fact that PPA effects are stated separately does not mean that they do not impact profit of the relevant segment in the Consolidated Financial Statements.

### Quantitative reconciliation

When we report PPA effects, we provide the absolute values of the PPA effects. The absolute values enable investors to consider earnings impacts related to business combination accounting in the performance analysis.

## NET DEBT

### Definition, most directly comparable IFRS financial measures and usefulness

We define 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 the components of net debt appears in the Consolidated Statements of Financial Position. The IFRS financial measure most directly comparable to net debt is the total of Short-term debt and current maturities of long-term debt and Long-term debt as reported in the Notes to Consolidated Financial Statements.

We believe that the presentation of net debt provides useful information to investors because our management reviews net debt as part of its management of our 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 our Net debt as part of their assessments of our business.

### Limitations on the usefulness

We typically need a considerable portion of our Cash and cash equivalents as well as Current available-for-sale financial assets at any given time for purposes other than debt reduction. The deduction of these items from total debt in the calculation of Net debt therefore should not be understood to mean that these items are available exclusively for debt reduction at any given time.

### Quantitative reconciliation

For a quantitative reconciliation of net debt to total debt, refer to Item 5: Operating and financial review and prospects – Liquidity and capital resources – Capital structure in the Annual Report or Liquidity, capital resources and requirements in the Interim Reports. For a quantitative reconciliation of net debt see also Adjusted industrial net debt, below.

## ADJUSTED INDUSTRIAL NET DEBT

### Definition, most directly comparable IFRS financial measures and usefulness

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

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

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

### Limitations on the usefulness

We typically use a considerable portion of our 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 adjusted industrial 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.

## Quantitative reconciliation

**Reconciliation to adjusted industrial net debt for fiscal 2013** (unaudited)

| (in millions of €, except where otherwise stated) | Fiscal 2013 twelve months | fourth quarter | third quarter | second quarter | first quarter |
|---|---|---|---|---|---|
| Short-term debt and current-maturities of long-term debt [1] | 1,944 | 1,944 | 3,656 | 2,752 | 3,709 |
| Plus: Long-term debt [1] | 18,509 | 18,509 | 19,140 | 20,182 | 16,651 |
| Less: Cash and cash equivalents | (9,190) | (9,190) | (6,071) | (7,892) | (7,823) |
| Less: Current available-for-sale financial assets | (601) | (601) | (506) | (533) | (517) |
| **Net debt** | **10,663** | **10,663** | **16,219** | **14,509** | **12,020** |
| Less: SFS Debt [2] | (15,600) | (15,600) | (15,004) | (14,879) | (14,490) |
| Plus: Post-employment benefits | 9,265 | 9,265 | 9,325 | 9,890 | 9,856 |
| Plus: Credit guarantees | 622 | 622 | 581 | 575 | 313 |
| Less: 50% nominal amount hybrid bond [3] | (899) | (899) | (887) | (893) | (910) |
| Less: Fair value hedge accounting adjustment [4] | (1,247) | (1,247) | (1,323) | (1,473) | (1,570) |
| **(I) Adjusted industrial net debt** | **2,805** | **2,805** | **8,911** | **7,728** | **5,220** |
| **Adjusted EBITDA** (continuing operations) | **8,215** | **2,195** | **1,825** | **1,957** | **2,239** |
| **(II) (Annualized) adjusted EBITDA** (continuing operations) [5] | **8,215** | **8,778** | **7,301** | **7,828** | **8,954** |
| **(I)/(II) Adjusted industrial net debt/adjusted EBITDA** (continuing operations) | **0.34** | **0.32** | **1.22** | **0.99** | **0.58** |

**Reconciliation to adjusted industrial net debt for fiscal 2012** (unaudited)

| (in millions of €, except where otherwise stated) | Fiscal 2012 twelve months | fourth quarter | third quarter | second quarter | first quarter |
|---|---|---|---|---|---|
| Short-term debt and current-maturities of long-term debt [1] | 3,826 | 3,826 | 5,236 | 4,799 | 2,841 |
| Plus: Long-term debt [1] | 16,880 | 16,880 | 15,234 | 14,731 | 14,566 |
| Less: Cash and cash equivalents | (10,891) | (10,891) | (8,963) | (8,424) | (8,977) |
| Less: Current available-for-sale financial assets | (524) | (524) | (532) | (542) | (478) |
| **Net debt** | **9,292** | **9,292** | **10,974** | **10,563** | **7,951** |
| Less: SFS Debt [2] | (14,558) | (14,558) | (13,644) | (13,303) | (13,424) |
| Plus: Post-employment benefits | 9,801 | 9,801 | 8,949 | 7,378 | 6,657 |
| Plus: Credit guarantees | 326 | 326 | 611 | 587 | 640 |
| Less: 50% nominal amount hybrid bond [3] | (920) | (920) | (915) | (900) | (899) |
| Less: Fair value hedge accounting adjustment [4] | (1,670) | (1,670) | (1,638) | (1,474) | (1,544) |
| **(I) Adjusted industrial net debt** | **2,271** | **2,271** | **4,337** | **2,851** | **(619)** |
| **Adjusted EBITDA** (continuing operations) | **9,613** | **2,568** | **2,330** | **2,620** | **2,095** |
| **(II) (Annualized) adjusted EBITDA** (continuing operations) [5] | **9,613** | **10,272** | **9,319** | **10,480** | **8,381** |
| **(I)/(II) Adjusted industrial net debt/adjusted EBITDA** (continuing operations) | **0.24** | **0.22** | **0.47** | **0.27** | **(0,07)** |

1 Short-term debt and current-maturities of long-term debt as well as Long-term debt included overall fair value hedge accounting adjustments of €(1,247) million as of September 30, 2013, €(1,670) million as of September 30, 2012, €(1,323) million as of June 30, 2013, €(1,638) million as of June 30, 2012, €(1,473) million as of March 31, 2013, €(1,474) million as of March 31, 2012, €(1,570) million as of December 31, 2013 and €(1,544) million as of December 31, 2012.

2 The adjustment considers that both Moody's and S&P view SFS as a captive finance company. These rating agencies generally recognize and accept higher levels of debt attributable to captive finance subsidiaries in determining credit ratings. Following this concept, we exclude SFS Debt in order to derive an adjusted industrial net debt which is not affected by SFS's financing activities.

3 The adjustment for our hybrid bond considers the calculation of this financial ratio applied by rating agencies to classify 50% of our hybrid bond as equity and 50% as debt. This assignment follows the characteristics of our hybrid bond such as a long maturity date and subordination to all senior and debt obligations.

4 Debt is generally reported with a value representing approximately the amount to be repaid. However for debt designated in a hedging relationship (fair value hedges), this amount is adjusted by changes in market value mainly due to changes in interest rates. Accordingly, we deduct these changes in market value in order to end up with an amount of debt that approximately will be repaid, which we believe is a more meaningful figure for the calculation presented above. For further information on fair value hedges see Note 31 in D.6 Notes to Consolidated Financial Statements in our Annual Report for fiscal 2013.

5 Please note that annualized adjusted EBITDA (continuing operations) is only a technical measure in order to make the Adjusted industrial net debt/adjusted EBITDA (continuing operations) values comparable and may not be used as a forecast figure.

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

**INFORMATION RESOURCES**


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