

C.3 Report of the Supervisory Board

Berlin and Munich, November 29, 2017

In fiscal 2017, the Supervisory Board performed, in accordance with its obligations, the duties assigned to it by law, the Siemens Articles of Association and the Bylaws for the Supervisory Board. We regularly advised the Managing Board on the management of the Company and monitored the Managing Board's activities. We were directly involved at an early stage in all major decisions regarding the Company. In written and oral reports, the Managing Board regularly provided us with timely and comprehensive information on Company planning and business operations as well as on the strategic development and current state of the Company. On the basis of reports submitted by the Managing Board, we considered in detail business development and all decisions and transactions of major significance to the Company. Deviations from business plans were explained to us in detail and intensively discussed. The Managing Board coordinated the Company's strategic orientation with us. The proposals made by the Managing Board were approved by the Supervisory Board and/or the relevant Supervisory Board committees after in-depth examination and consultation. In my capacity as Chairman of the Supervisory Board, I was also in regular contact with the Managing Board and, in particular, with the President and Chief Executive Officer and was kept up-to-date on current developments in the Company's business situation and on key business transactions.

TOPICS AT THE PLENARY MEETINGS OF THE SUPERVISORY BOARD

We held a total of six regular plenary meetings and one extraordinary meeting in fiscal 2017. Topics of discussion at our regular plenary meetings were revenue, profit and employment development at Siemens AG, the Company's operating units and the Siemens Group as well as the Company's financial position and the results of its operations. We also concerned ourselves as required with major investment and divestment projects and with certain risks to the Company.

At our meeting on November 9, 2016, we discussed the Company's key financial figures for fiscal 2016 and approved the budget for 2017. On the basis of reported target achievement, we also defined the compensation of the Managing Board members for fiscal 2016. The appropriateness of this compensation was confirmed by an internal review. On the recommendation of the Compensation Committee, we also approved the targets for Managing Board compensation for fiscal 2017. The remuneration system for the Managing Board members for fiscal 2017 is unchanged vis-à-vis the remuneration system for fiscal 2015, which the Annual Shareholders' Meeting approved by a majority of more than 92% on January 27, 2015. At our meeting on November 9, 2016, we also approved the preparation of the public listing of the strategic unit Healthineers as well as the acquisition of Mentor Graphics Corporation.

On November 30, 2016, we discussed the financial statements and the Combined Management Report for Siemens AG and the Siemens Group as of September 30, 2016, the Annual Report for 2016 (including the Report of the Supervisory Board, the Corporate Governance Report and the Compensation Report) and the agenda for the Annual Shareholders' Meeting on February 1, 2017. The Managing Board informed us about the current status of acquisitions and divestments – in particular, the planned merger of Siemens' wind power business with the publicly listed company Gamesa Corporación Tecnológica S.A. (Spain) and the status of the integration of the two previously acquired companies Dresser Rand Group Inc. and CD-adapco Ltd. In addition, the Managing Board reported on the status of the implementation of the "Vision 2020" strategy. We also discussed the annual report of the Chief Compliance Officer and the pension system. In addition, the Managing Board informed us about the Mobility Division's business position and business development. Finally, at this meeting, the Supervisory Board approved the recommendation of the Chairman's Committee that Michael Sen and Cedrik Neike be appointed full members of the Managing Board, effective April 1, 2017.

At our meeting on January 31, 2017, the Managing Board reported to us on the Company's business and financial position following the conclusion of the first quarter. The Supervisory Board approved Managing Board decisions regarding financing measures. In addition, the Supervisory Board was informed about the Nominating Committee's decision that Jim Hagemann Snabe be nominated as a candidate for election by the Supervisory Board to the position of Supervisory Board Chairman on January 31, 2018.

At our meeting on May 3, 2017, the Managing Board reported to us on the Company's current business and financial position following the conclusion of the second quarter. The Supervisory Board defined the target – effective from July 1, 2017 – for the proportion of women on the Managing Board by June 30, 2022, as explained in greater detail in chapter → **C.4.2 CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTIONS 289 A AND 315 PARA. 5 OF THE GERMAN COMMERCIAL CODE**. As part of a strategy focus, we concerned ourselves comprehensively and in detail with the Company's strategic orientation, taking into account current technology and innovation topics and the status of the implementation of the "Vision 2020" strategy.

At our meeting on August 2, 2017, the Managing Board reported to us on the Company's business and financial position following the conclusion of the third quarter. On the recommendation of the Chairman's Committee, we extended Joe Kaeser's term of office as a member of the Managing Board and as President and CEO, effective from August 1, 2018, until the end of the Annual Shareholders' Meeting that will decide on the ratification of the acts of the members of the Managing Board for fiscal 2020.

The Supervisory Board considered in detail the strategic setup of the Mobility Division and discussed the further actions planned regarding the preparation of the public listing of the strategic unit Healthineers. In addition, the Supervisory Board concerned itself with the recommendations of the Siemens Technology & Innovation Council and, in a continuation of the strategy focus of May 3, 2017, discussed the Company's strategic orientation.

At our meeting on September 20, 2017, the Managing Board reported to us on the state of the Company and on the business position of the Process Industries and Drives Division and on the business position of next47, the separate unit for startups. On the recommendation of the Chairman's Committee, we extended Dr. Ralf Thomas's term of office as a member of the Managing Board, effective from September 18, 2018, until September 17, 2023. In addition, we discussed the Mobility Division's strategic orientation. As part of our regular review, we adjusted – following preparation and a recommendation by the Compensation Committee – the amount of Managing Board compensation for fiscal 2018. In a further continuation of the strategy focus of May 3, 2017, the Supervisory Board also concerned itself with the Company's strategic orientation. Finally, we discussed the efficiency review of our activities.

At an extraordinary meeting on September 26, 2017, the Supervisory Board approved the planned merger of Siemens' mobility business with the publicly listed company Alstom SA (France).

CORPORATE GOVERNANCE CODE

At our meeting on September 20, 2017, we approved an unqualified Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (*Aktiengesetz*). Information on corporate governance at Siemens is available in chapter → **C.4 CORPORATE GOVERNANCE**. Our Declaration of Conformity has been made permanently available to our shareholders on our website. The current Declaration of Conformity is also available in chapter → **C.4.2 CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTIONS 289 A AND 315 PARA. 5 OF THE GERMAN COMMERCIAL CODE**.

WORK IN THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board has established seven standing committees, which prepare proposals and issues to be dealt with at its plenary meetings. Some of the Supervisory Board's decision-making powers have also been delegated to these committees within the permissible legal framework. The committee chairpersons report to the Supervisory Board on their committees' work at the subsequent Board meetings. A list of the members and a detailed explanation of the tasks of the individual Supervisory Board committees are contained in chapter → **C.4.1 MANAGEMENT AND CONTROL STRUCTURE**.

The **Chairman's Committee** met seven times. It also made one decision by written circulation. Between meetings, I discussed topics of major importance with the members of the Chairman's Committee. The Committee concerned itself, in particular, with personnel topics and corporate governance issues, including the assumption by Managing Board members of positions at other companies and institutions.

The **Nominating Committee** met six times. Outside these meetings, it also concerned itself intensively with the long-term succession planning for the Supervisory Board and, in particular, with succession to the Chairmanship of the Supervisory Board and to the Chairmanship of the Audit Committee. At its meeting on January 31, 2017, the Nominating Committee approved the nomination of Jim Hagemann Snabe as a candidate for election by the Supervisory Board to the position of Supervisory Board Chairman, with the election to take place at the Supervisory Board's constituent meeting after the elections to the Supervisory Board at the Annual Shareholders' Meeting on January 31, 2018. The Nominating Committee prepared the Supervisory Board's proposal to the Annual Shareholders' Meeting on January 31, 2018, regarding the upcoming regular election of seven shareholder representatives on the Supervisory Board. When searching for and evaluating candidates, the Nominating Committee took into consideration – in addition to the requirements of the German Stock Corporation Act, the German Corporate Governance Code and the Bylaws for the Supervisory Board – the targets established by the Supervisory Board for its composition and the profile of skills and expertise defined by the Supervisory Board for its composition. The Nominating Committee was supported in its activities by an external personnel consultant.

The **Compliance Committee** met four times. It primarily discussed the quarterly reports and the annual report of the Chief Compliance Officer.

The **Mediation Committee** had no need to meet.

The **Compensation Committee** met three times. It also made one decision by written circulation. The Compensation Committee prepared, in particular, proposals for the Supervisory Board regarding the determination of targets for variable compensation, the determination and review of the appropriateness of Managing Board compensation and the approval of the Compensation Report.

The **Innovation and Finance Committee** held three ordinary and two extraordinary meetings. The focuses of its meetings included the Committee's recommendation regarding the budget for fiscal 2017 and the discussion of the Company's strategy,

including portfolio measures, as well as the preparation and approval of investment and divestment projects. For example, the Committee prepared proposals for the Supervisory Board regarding the acquisition of Mentor Graphics Corporation, regarding the preparation of the public listing of the strategic unit Healthineers and regarding actions relating to the strategic orientation of the Mobility Division. At its meeting on September 19, 2017, the Committee also approved the Managing Board decision concerning an investment in a combined cycle power plant project in the United Arab Emirates and prepared the proposal for the Supervisory Board regarding Managing Board decisions relating to financial measures. In addition, the Innovation and Finance Committee intensively discussed the Company's strategic orientation and its innovation and technology focuses. In particular, it discussed the activities and recommendations of the Siemens Technology & Innovation Council.

The **Audit Committee** met six times. In the presence of the independent auditors as well as the President and Chief Executive Officer and the Chief Financial Officer, the Committee dealt with the financial statements and the Combined Management Report for Siemens AG and the Siemens Group. The Audit Committee discussed the Half-year Financial Report and the quarterly statements with the Managing Board and the independent auditors. In the presence of the independent auditors, it also discussed the report on the auditors' review of the Company's Half-year Consolidated Financial Statements and of its Interim Group Management Report. The Committee recommended that the Supervisory Board propose to the Annual Shareholders' Meeting the election of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Stuttgart, Germany) as the independent auditors. The Committee appointed the independent auditors for fiscal 2017, defined the audit focal points and determined the auditors' fee. The Committee monitored the selection, independence, qualification, rotation and efficiency of the independent auditors. Furthermore, the Audit Committee dealt with the Company's accounting and accounting process, the effectiveness of its internal control system, its risk management system and the effectiveness, resources and findings of the internal audit as well as with reports concerning potential and pending legal disputes.

DETAILED DISCUSSION OF THE AUDIT OF THE FINANCIAL STATEMENTS

The independent auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Stuttgart, Germany), audited the Annual Financial Statements of Siemens AG, the Consolidated Financial Statements of the Siemens Group and the Combined Management Report for Siemens AG and the Siemens Group for fiscal 2017 and issued an unqualified opinion. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Stuttgart, Germany) has served as independent auditors of Siemens AG and the Siemens Group since

fiscal 2009. Katharina Breitsameter has signed as auditor since fiscal 2016, and Thomas Spannagl has signed as auditor responsible for the audit since fiscal 2014. The Annual Financial Statements of Siemens AG and the Combined Management Report for Siemens AG and the Siemens Group were prepared in accordance with the requirements of German law. The Consolidated Financial Statements of the Siemens Group were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and with the additional requirements of German law set out in Section 315a (1) of the German Commercial Code (*Handelsgesetzbuch*). The Consolidated Financial Statements of the Siemens Group also comply with the IFRS as issued by the International Accounting Standards Board (IASB). The independent auditors conducted their audit in accordance with Section 317 of the German Commercial Code, the EU Audit Regulation (Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, "EU Audit Regulation") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in supplementary compliance with the International Standards on Auditing (ISA). The abovementioned documents as well as the Managing Board's proposal for the appropriation of net income were submitted to us by the Managing Board in advance. The Audit Committee discussed the dividend proposal in detail at its meeting on November 7, 2017. It discussed the Annual Financial Statements of Siemens AG, the Consolidated Financial Statements of the Siemens Group and the Combined Management Report in detail at its meeting on November 28, 2017. In this context, the Audit Committee concerned itself, in particular, with key audit matters, including the audit procedures implemented. The audit reports prepared by the independent auditors were distributed to all members of the Supervisory Board and comprehensively reviewed at the Supervisory Board's meeting on November 29, 2017, in the presence of the independent auditors, who reported on the scope, focal points and main findings of their audit, addressing, in particular, key audit matters and the audit procedures implemented. No major weaknesses in the Company's internal control or risk management systems were reported. At this meeting, the Managing Board explained the financial statements of Siemens AG and the Siemens Group as well as the Company's risk management system. At its meeting on November 29, 2017, the Supervisory Board also approved the proposal to the Annual Shareholders' Meeting, taking into account the Audit Committee's recommendation regarding the election of the independent auditors. This proposal was based on the Audit Committee's declaration that its recommendation was free of undue influence by third parties and that it had not entered into any contractual clause that could restrict the choice within the meaning of Art. 16, para. 6 of the EU Audit Regulation.

The Supervisory Board concurs with the results of the audit. Following the definitive findings of the Audit Committee's examination and our own examination, we have no objections. The Managing Board prepared the Annual Financial Statements of Siemens AG and the Consolidated Financial Statements of the Siemens Group. We approved the Annual Financial Statements and the Consolidated Financial Statements. In view of our approval, the Annual Financial Statements of Siemens AG are adopted as submitted. We endorsed the Managing Board's proposal that the net income available for distribution be used to pay out a dividend of €3.70 per share entitled to a dividend and that the amount of net income attributable to shares of stock not entitled to receive a dividend for fiscal 2017 be carried forward.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY AND MANAGING BOARDS

Prof. Dr. Siegfried Russwurm left the Managing Board, effective March 31, 2017. The Supervisory Board appointed Michael Sen and Cedrik Neike full members of the Managing Board, effective April 1, 2017. There were no changes in the composition of the Supervisory Board during the year under review. Effective at the end of the day on September 30, 2017, Hans-Jürgen Hartung left the Supervisory Board. Dorothea Simon was appointed a member of the Supervisory Board by order of the district court of Charlottenburg, Germany, effective from October 1, 2017 until the end of the Annual Shareholders' Meeting on January 31, 2018.

On behalf of the Supervisory Board, I would like to thank the members of the Managing Board as well as the employees and employee representatives of Siemens AG and all Group companies for their outstanding commitment and constructive cooperation in fiscal 2017.

For the Supervisory Board



Dr. Gerhard Cromme
Chairman