Siemens Energy:
Fossil Power Generation Division

Michael Suess
CEO Fossil Power Generation

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Safe Harbour Statement

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New orders and backlog; adjusted or organic growth rates of Revenue and new orders; book-to-bill ratio; return on equity, or ROE; return on capital employed, or ROCE; Free cash flow; cash conversion rate, or CCR; EBITDA (adjusted); EBIT (adjusted); earnings effect from purchase price allocation (PPA effects) and integration costs; net debt and adjusted industrial net debt are or may be non-GAAP financial measures. These supplemental financial measures should not be viewed in isolation as alternatives to measures of Siemens’ financial condition, results of operations or cash flows as presented in accordance with IFRS in its Consolidated Financial Statements. A definition of these supplemental financial measures, a reconciliation to the most directly comparable IFRS financial measures and information regarding the usefulness and limitations of these supplemental financial measures can be found on Siemens' Investor Relations website at www.siemens.com/nonGAAP. 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.
Fossil Power Generation: The backbone of the energy chain

<table>
<thead>
<tr>
<th>Products</th>
<th>Energy Solutions</th>
<th>Instrumentation and Electrical</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Gas turbines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Steam turbines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Generators</td>
<td></td>
<td></td>
</tr>
<tr>
<td>#2</td>
<td>#1</td>
<td>#1</td>
</tr>
</tbody>
</table>

- **Fossil Power Generation**
  - FY 09
  - Employees: ~17,000

- **Energy Solutions**
  - Employees: ~4,000
  - All solutions through to complete power plants:
    - CCPP, GTPP
    - STPP
    - CSP

- **Instrumentation and Electrical**
  - Employees: ~3,000
  - Instrumentation and control systems for all types of power plants and refineries
  - IT solutions
  - Service

- **Nuclear Power**
  - Conventional island

- **New Technologies**
  - Carbon capture technologies
  - Gasifier
High profitability due to balanced business mix

Solution

- Simple Cycle / Combined Cycle Power Plant
- Steam Power Plant
- Concentrated Solar Power Plant
- Power Plant Solution for O&G Industry

Products

- Highly efficient product portfolio to sustain leading market position
- Innovations to assure strong and sustainable growth
- Reduction of CO₂ emissions by using the best technology from the Siemens Green Portfolio
- Sustainable foundation for the Energy Sector

Service
Fossil Power Generation has a sound portfolio

**Simple Cycle Power Plant**
- Typical size per train: 160 - 280 MW
- EPC volume: € 48 - 84 m
- Siemens component value: 55 - 65 %
- Installation time: ~18 - 24 months

**Combined Cycle Power Plant**
- Typical size per train: 400 - 600 MW
- EPC volume: € 240 - 360 m
- Siemens component value: 30 - 40 %
- Installation time: ~24 - 36 months

**Steam Power Plant**
- Typical size per train: 800 - 1,100 MW
- EPC volume: € 1,040 - 1,300 m
- Siemens component value: 8 - 15 %
- Installation time: ~50 months

**Nuclear Conventional Island**
- Typical size per train: 1,200 - 1,700 MW
- EPC volume: € 1,000 - 1,300 m
- Siemens component value: 20 - 30 %
- Installation time: ~84 months
Fossil Power Generation has a sound portfolio

- **Concentrated Solar Power Plant**
  - Typical size: 50 - 250 MW
  - EPC volume: €300 - 1,200 m
  - Project share of power block: ~20%
  - Installation time: ~24 months

- **Integrated Gasification Combined Cycle (IGCC)**
  - Summit Power, USA
  - Equipment contracts and licensing agreements for two 500-MW-class gasifiers and power block for Texas Clean Energy, one of the first commercial-scale IGCC plants with CCS in the USA

- **SPPA-T3000**
  - Siemens Fossil Power Generation is the No.1 in Instrumentation and Electrical
  - More than 900 units SPPA-T3000 of Control Systems sold
  - Global benchmark in controls
Well positioned for high performance

<table>
<thead>
<tr>
<th>New orders</th>
<th>€bn</th>
<th>+11%</th>
<th>-7%</th>
<th>11.7</th>
<th>13.0</th>
<th>12.1</th>
<th>7.5</th>
<th>4.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>€bn</td>
<td>+1%</td>
<td>+20%</td>
<td>8.1</td>
<td>8.2</td>
<td>9.8</td>
<td>4.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Profit</td>
<td>€m</td>
<td></td>
<td></td>
<td>792</td>
<td>89</td>
<td>1275</td>
<td>601</td>
<td>748</td>
</tr>
<tr>
<td>(in €m and % of revenue)</td>
<td></td>
<td></td>
<td></td>
<td>9.7%</td>
<td>1.1%</td>
<td>13.0%</td>
<td>12.7%</td>
<td>15.9%</td>
</tr>
<tr>
<td>Market share</td>
<td>GW</td>
<td>+2pp</td>
<td>+2pp</td>
<td>10%</td>
<td>12%</td>
<td>14%</td>
<td>H1 09</td>
<td>H1 10</td>
</tr>
</tbody>
</table>
Fossil Power Generation has a leading position

- High profitability due to balanced business mix: 1/3 Solution, 2/3 Products and Service
- No.1 position in steam market with an overall market penetration of > 40%
- No.1 position in advanced GT frames with an overall GT market penetration of >45%
- No.1 solution provider for the overall thermal power generation market (gas turbine power plant solutions 22% in GW)
- No.1 position in Instrumentation and Electrical business with a ~20% market share
- The top innovator: H- and F-class gas turbine
- Leading technology position for IGCC/ CCS
- Excellent cost position via our operational excellence programs
Scenario: Fossil energy sources remain dominant, but renewable energy becomes more important.

Power generation by energy carriers (in TWh)

- **2.5% per year**

2009:
- Coal: 16%
- Oil: 15%
- Gas: 22%
- Nuclear: 5%
- Renewable (w/o Hydro): 3%
- Fossil energy sources: 39%
- Total: 20,000 TWh

2030:
- Coal: 15%
- Oil: 20%
- Gas: 15%
- Nuclear: 17%
- Renewable (w/o Hydro): 15%
- Fossil energy sources: 31%
- Total: 33,000 TWh

Plus 4,200 TWh
Regional sales organization fosters close relationship with our customers

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of clusters and countries</th>
<th>No. of top customers</th>
<th>Selected top accounts</th>
<th>Operating fleet as of FY 09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Europe</strong></td>
<td>4 clusters 45 countries</td>
<td>47</td>
<td>E.ON (Germany), EDF (France), ENEL (Italy)</td>
<td>190 GT units 221 ST units</td>
</tr>
<tr>
<td><strong>Asia</strong></td>
<td>5 clusters 26 countries</td>
<td>42</td>
<td>SEC (China), BHEL (India), Doosan (Korea)</td>
<td>192 GT units 165 ST units</td>
</tr>
<tr>
<td><strong>NME/Africa/CIS</strong></td>
<td>3 clusters 45 countries</td>
<td>27</td>
<td>ESKOM (South Africa), Ministry of Electricity (Iraq), Saudi Electricity (SA)</td>
<td>208 GT units 96 ST units</td>
</tr>
<tr>
<td><strong>America</strong></td>
<td>5 clusters 20 countries</td>
<td>35</td>
<td>FPL (USA), FLUOR Corporation (USA), Petrobras (Brazil)</td>
<td>501 GT units 467 ST units</td>
</tr>
</tbody>
</table>
Multi-local setup
Our Global manufacturing and engineering network

- Siemens location 2015
- JV location / strategic partner / licensees
- Relocated until 2015

*) Shanghai Electric Power Generation with Siemens minority
**) Siemens Power Equipment Packages with Siemens majority
***) Siemens Gas Turbine Parts with Siemens majority
We maintain competitiveness and create headroom via our operational excellence programs

Our cost reduction programs…

20% Plant and material cost reduction by:
- Plant modularization
- Supplier workshops and design-to-cost initiatives
- Process optimization

30% Manufacturing lead-time reduction by:
- Design-to-cost measures
- Global LEAN manufacturing
- Process optimization

… to maintain competitiveness and create headroom

- 40% cost reduction for piping through project neutral detail design and realization of alternative sourcing approaches (component split instead of turnkey)
- 18% reduction of the number of steam turbine blades through design-to-cost measures; achieved a better cost position and an optimized performance
- 14% cost reduction for gas turbine vanes and blades through optimization of manufacturing processes and material selection
We have the right steam products for our customers

### Steam Turbine

<table>
<thead>
<tr>
<th>Model</th>
<th>Characteristics</th>
<th>Output Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>SST-3000</td>
<td>Reliable and robust</td>
<td>CCPP 90 - 250 MW</td>
</tr>
<tr>
<td>SST-5000</td>
<td>Efficient power</td>
<td>CCPP 120 - 500 MW, SPP 120 - 750 MW, CSP 180 – 350 MW</td>
</tr>
<tr>
<td>SST-6000</td>
<td>Leading technology</td>
<td>SPP 300 - 1,200 MW</td>
</tr>
<tr>
<td>SST-9000</td>
<td>Unique power</td>
<td>NPP 1,000 - 1,900 MW</td>
</tr>
<tr>
<td>Retrofit</td>
<td>Major service and up-grades</td>
<td></td>
</tr>
</tbody>
</table>

### Gas Turbine

- Output range
  - CCPP 90 - 250 MW

### Generator

- Output range
  - NPP 1,000 - 1,900 MW
Selective approach in steam turbine market

Operating ST fleet in units as of FY 09

Steam Power Plant market

- Biggest SPP markets China and India are served via JV partner and licenses
- Europe, USA and Middle East selected direct business
- Current CO₂ discussions will open new opportunities for new technologies, e.g. CCS

Market penetration ST in MW (FY 09)

- Siemens direct business
- JV/ Licensees: 40%
- Other market players: 55%
We have the right gas products for our customers

<table>
<thead>
<tr>
<th>Gas Turbine</th>
<th>Steam Turbine</th>
<th>Generator</th>
</tr>
</thead>
<tbody>
<tr>
<td>SGT5-2000E</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding reliability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GT 168 MW / ~ 35%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCPP 251 MW / ~ 52%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SGT5-4000F</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State of the art technology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GT 292 MW / ~ 40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCPP 423 MW / ~ 58%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SGT6-5000F</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highest performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GT 200 MW / ~ 38%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCPP 293 MW / ~ 57%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SGT5-8000H</td>
<td></td>
<td></td>
</tr>
<tr>
<td>World largest gas turbine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GT 375 MW / 40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCPP 575 MW / &gt;60%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Profitable growth in our core segment gas

Gas power plant market

- Future market for gas power plants will grow due to low CO₂ emissions
- Renewables will play a major role, gas power plants will continue to secure peak and base load demand
- Major regions for gas power plants in future: USA, Middle East and North East Asia

Operating GT fleet in units as of FY 09

<table>
<thead>
<tr>
<th>Region</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>190</td>
</tr>
<tr>
<td>Asia</td>
<td>192</td>
</tr>
<tr>
<td>NME/ Africa/ CIS</td>
<td>208</td>
</tr>
<tr>
<td>America</td>
<td>501</td>
</tr>
<tr>
<td>Total</td>
<td>1,091</td>
</tr>
</tbody>
</table>

Market penetration GT in MW (FY 09)

- Siemens direct business: 36%
- Other market players: 54%
- JV/ Licensees: 10%
Best-in-class Fossil Power Generation projects

**Russia**
- FY 09 market share gas power plant [MW] ~ 80%
- Recent project: Yuzhnouralskaya GRES-2
  - Supply of main components for combined cycle power unit
  - Order backlog of ~ € 1bn in Russia
    - Main projects: Nyaganskaya, Stavropol, Mosenergo

**Vietnam**
- FY 09 market share gas power plant [MW] 100%
- Recent project: Nuon Trach 2
  - Supply of power block for the combined cycle power plant
  - Follow-up order after projects Phu My 3, Ca Mau 1 and Ca Mau 2, executed by Siemens Energy

**The Netherlands**
- FY 09 market share gas power plant [MW] 100%
- Recent project: Hemweg 9
  - Fourth CCPP project in Netherlands since March 2007
  - Performance is the "self selling" argument
  - Turnkey construction of a combined cycle power plant

**USA**
- FY 09 market share gas power plant [MW] ~ 30% for advanced GT
- Recent project: Florida Power & Light
  - Supply of six 60-Hz SGT6-8000H as well a 15-year service agreement
  - For modernization of Riviera Beach and Cape Canaveral Next Generation Clean Energy Centers in Florida
Showcase core segment gas turbines: Well stocked innovation pipeline

Unique business conditions

- Limited number of competitors in the market
- Requirement of high capital investment and long life cycle of the products
- Wide spread of technology and integration competence
SGT-8000H
Proven economic advantages

- > 60% efficiency in combined cycle power plant
- 375 MW output in simple cycle power plant (50Hz)
- 575 MW output in combined cycle power plant (50Hz)
- Reduced emissions per produced kWh
- High efficiency and low emission also in part-load operation
- Fast start-up capability and operational flexibility

Up to 5% higher return on investment compared to F-class engine
Clear No.1 position in Instrumentation and Electrical business

- No.1 position in Instrumentation and Electrical business
- More than 900 units of Control System SPPA-T3000 sold
- Increase of market share above 20%
- Innovation: Never goes obsolete
- Global benchmark in controls
- Further market share increase by expanding the existing business:
  - Expand EPC business and electrical solution business through standardized packages
  - Serve renewable business, e.g. CSP and Oil & Gas refinery automation
All gas scenario could reduce emissions by 60%

World CO₂ emissions in 2007 (Gt)

- Industrial Power Generation
- Fossil Power Generation
- Other

CO₂ reduction:
- Within latest technology ~30%
- All gas scenario ~60%

Further potential by CCS

State-of-the-art Siemens CCPP technology
- MaasStroom Energie
  The Netherlands
- E.ON Energie AG
  Germany

Scenario: World CO₂ emissions in 2007 (Gt)

Use of latest SPP-, CCPP- and SCPP-technology

- Fossil CO₂ reduction
  - Fossil Power Generation
  - Other

Use of latest CCPP-technology

- Fossil CO₂ reduction
  - Fossil Power Generation
  - Other
Fossil Power Generation will maintain a leading position

Consistently deliver double-digit margin

Self-funded development of new technologies, conventional island and organizational restructuring

Strong contribution to the Siemens environmental portfolio based on high-efficiency gas power plants

Solution provider for the thermal power generation market via consortium approach with Oil & Gas and Renewables

Secure further profitable service growth via the product and solution sales channel
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;
- Return on equity, or ROE;
- Return on capital employed, or ROCE;
- Free cash flow and cash conversion rate, or CCR;
- EBITDA (adjusted) and EBIT (adjusted);
- Earnings effect from purchase price allocation (PPA effects) and integration costs
- Net debt; and
- Adjusted industrial net debt.

These supplemental financial measures are or may be “non-GAAP financial measures,” as defined in the rules of the U.S. Securities and Exchange Commission (SEC). They exclude or include amounts that are included or excluded, as applicable, in the calculation of the most directly comparable financial measures calculated in accordance with IFRS, and their usefulness is therefore subject to limitations, which are described below under “Limitations on Usefulness of Non-GAAP Financial Measures.” Accordingly, they should not be viewed in isolation as alternatives to the most directly comparable financial measures calculated in accordance with IFRS, as identified in the following discussion, and they should be considered in conjunction with Siemens’ Consolidated Financial Statements presented in accordance with IFRS and the Notes thereto. Siemens’ most recent Consolidated Financial Statements at any given time (the “Annual Financial Statements”) can be found in the most recent Annual Report of Siemens (the “Annual Report”), which can be accessed at www.siemens.com/annual-report. Siemens’ most recent interim Consolidated Financial Statements (the “Interim Financial Statements”) at any given time can be found at www.siemens.com/investors under the heading “Publications” – “Financial Publications” – “Financial Statements” or in the most recent Quarterly Report of Siemens (the “Quarterly Reports”), which can be accessed at www.siemens.com/quarterly-reports.

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

New orders and order backlog (continued)
New orders are generally recognized immediately when the relevant contract becomes legally effective and binding. The only exception are orders with short overall contract terms. In this case, a separate reporting of new orders would provide no significant additional information regarding our performance. For orders of this type the recognition of new orders thus occurs when the underlying revenue is recognized.

Order backlog represents the future revenues of our Company resulting from already recognized new orders. Order backlog is calculated by adding the new orders of the current fiscal year to the balance of the order backlog from the prior fiscal year and subtracting the revenue recognized in the current fiscal year. If an order from the current fiscal year is cancelled or its amount is modified, Siemens adjusts its new order total for the current quarter accordingly, but do not retroactively adjust previously published new order totals. However, if an order from a previous fiscal year is cancelled, new orders of the current quarter and accordingly the current fiscal year are generally not adjusted, instead, if the adjustment exceeds a certain threshold, the existing order backlog is revised. Aside from cancellations, the order backlog is also subject to changes in the consolidation group and to currency translation effects.

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

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

Siemens presents its Consolidated Financial Statements in Euros; however, a significant proportion of its operations takes place in a functional currency other than the Euro, particularly the U.S. dollar and the British pound. Converting figures from these currencies into Euros affects the comparability of Siemens’ results and financial position when the exchange rates for these currencies fluctuate. Some Divisions are significantly affected due to the large proportion of international operations, particularly in the U.S.

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

The adjusted or organic growth rates of Revenue and new orders are calculated by subtracting currency translation effects and portfolio effects from the relevant actual growth rates. The currency translation effect is calculated as (1) (a) Revenues or new orders, as the case may be, for the current period, based on the currency exchange rate of the current period minus (b) Revenues or new orders for the current period, based on the currency exchange rate of the previous period, divided by (2) Revenues or new orders for the previous period, based on the currency exchange rate of the previous period. The portfolio effect is calculated, in the case of acquisitions, as the percentage change in Revenues or new orders, as the case may be, attributable to the acquired business and, in the case of dispositions, as the percentage change in Revenues or new orders on the assumption that the disposed business had not been part of Siemens in the previous period. Adjusted growth rates of Revenue and new orders are always calculated for a period of twelve months.

Siemens is making portfolio adjustments for certain transactions, including the carve-outs of Siemens Home and Office Communication Devices GmbH & Co. KG and the Wireless Modules business, as well as for other minor transactions in the Sectors, Cross-Sector Businesses and Centrally managed portfolio activities. For further information regarding major acquisitions and dispositions, see “Notes to Consolidated Financial Statements.” Siemens believes that the presentation of an adjusted or organic growth rate of Revenue and new orders provides useful information to investors because a meaningful analysis of trends in Revenue and new orders from one period to the next requires an understanding of the developments in the operational business, net of the impact of currency translation and portfolio effects. Siemens’ management considers adjusted or organic rates of growth in its management of Siemens’ business. For this reason, Siemens believes that investors’ ability to assess Siemens’ overall performance may be improved by disclosure of this information.

Book-to-bill ratio
The book-to-bill ratio measures the relationship between orders received and the amount of products and services shipped and billed. A book-to-bill ratio of above 1 indicates that more orders were received than billed, indicating stronger demand, whereas a book-to-bill ratio of below 1 points to weaker demand. The book-to-bill ratio is not required or defined by IFRS.
Return on equity, or ROE
In line with common practice in the financial services industry, Siemens Financial Services (SFS) uses return on equity, or ROE, as one of its key profitability measures. Siemens defines ROE as annualized Income before income taxes of SFS divided by the average allocated equity for SFS. The allocated equity for SFS is determined and influenced by the size and quality of its portfolio of commercial finance assets (primarily leases) and equity investments. This allocation is designed to cover the risks of the underlying business and is in line with common credit risk management standards in banking. The actual risk portfolio of the SFS portfolio is evaluated and controlled monthly and is reflected in the quarterly (commercial finance) and annual (equity investments) adjustments of allocated equity.

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

Return on capital employed, or ROCE
Return on capital employed, or ROCE, is Siemens’ measure of capital efficiency. Siemens uses this financial performance ratio in order to assess its income generation from the point of view of its shareholders and creditors, who provide Siemens with equity and debt. The different methods of calculation are detailed below. Siemens believes that the presentation of ROCE and the various non-GAAP financial measures involved in its calculation provides useful information to investors because ROCE can be used to determine whether capital invested in the Company and the Sectors yields competitive returns. In addition, achievement of predetermined targets relating to ROCE is one of the factors Siemens takes into account in determining the amount of performance-based or variable compensation received by its management.

ROCE at the Siemens group level
Siemens defines group ROCE as net income (before interest) divided by average capital employed, or CE. Net income (before interest), the numerator in the ROCE calculation, is defined as Net income excluding Other interest income (expense), net and taxes thereon. Taxes on Other interest (expense), net are calculated in a simplified form by applying the current tax rate, which can be derived from the Consolidated Statements of Income, to Other interest income (expense), net. Capital employed, or CE, the denominator in the ROCE calculation, is defined as Total equity plus Long-term debt plus Short-term debt and current maturities of long-term debt minus Cash and cash equivalents. Each of the components of capital employed appears on the face of the Consolidated Balance Sheet.

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

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

Free cash flow and cash conversion rate
Siemens defines Free cash flow as Net cash provided by (used in) operating activities less Additions to intangible assets and property, plant and equipment. The IFRS financial measure most directly comparable to Free cash flow is Net cash provided by (used in) operating activities.
Siemens believes that the presentation of Free cash flow provides useful information to investors because it is a measure of cash generated by our operations after deducting cash outflows for Additions to intangible assets and property, plant and equipment. Therefore the measure gives an indication of the long-term cash generating ability of our business. In addition, because Free cash flow is not impacted by portfolio activities, it is less volatile than the total of Net cash provided by (used in) operating activities and Net cash provided by (used in) investing activities. For this reason, Free cash flow is reported on a regular basis to Siemens’ management, who uses it to assess and manage cash generation among the various reportable segments of Siemens and for the worldwide Siemens group. Achievement of predetermined targets relating to Free cash flow generation is one of the factors Siemens takes into account in determining the amount of performance-based or variable compensation received by its management, both at the level of the worldwide Siemens group and at the level of individual reportable segments.
Cash conversion rate, or CCR, is defined as Free cash flow divided by Net income. Siemens believes that the presentation of the CCR provides useful information to investors because it is an operational performance measure that shows how much of its income Siemens converts to Free cash flow. CCR is reported on a regular basis to Siemens’ management.
Reconciliation and Definitions for Non-GAAP Measures (IV)

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

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

**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 costs effects provides useful information to investors as it allows investors to consider earnings impacts related to business combination accounting and integration in the performance analysis.

**Net debt**
Siemens defines net debt as total debt less total liquidity. Total debt is defined as Short-term debt and current maturities of long-term debt plus Long-term debt. Total liquidity is defined as Cash and cash equivalents plus current Available-for-sale financial assets. Each of these components appears in the Consolidated Balance Sheets. The IFRS financial measure most directly comparable to net debt is total debt as reported in the Notes to Consolidated Financial Statements. Siemens believes that the presentation of net debt provides useful information to investors because its management reviews net debt as part of its management of Siemens’ overall liquidity, financial flexibility, capital structure and leverage. In particular, net debt is an important component of adjusted industrial net debt. Furthermore, certain debt rating agencies, creditors and credit analysts monitor Siemens’ net debt as part of their assessments of Siemens’ business.

**Adjusted industrial net debt**
Siemens defines adjusted industrial net debt as net debt less (1) SFS debt excluding SFS internally purchased receivables; less (2) 50% of the nominal amount of our hybrid bond; plus (3) the funded status of pension plans; plus (4) the funded status of other post-employment benefits; plus (5) credit guarantees; and (6) fair value hedge accounting adjustments. The fair value hedge accounting adjustment has been included in fiscal 2009 in our definition of adjusted industrial net debt. The fair value hedge accounting adjustment generally reflects risks being hedged. We believe that deducting the fair value hedge accounting adjustment from net debt in addition to the adjustments presented above provides investors more meaningful information to our scheduled debt service obligations. Further information concerning adjusted industrial net debt can be found in the Annual Report under the heading “Management’s discussion and analysis – Liquidity and capital resources – Capital structure.” Siemens manages adjusted industrial net debt as one component of its capital. As part of our “Fit42010” program, we decided to optimize our capital structure. A key consideration is to maintain ready access to capital markets through various debt products and to preserve our ability to repay and service our debt obligations over time. Siemens therefore has set a capital structure goal that is measured by adjusted industrial net debt divided by Earnings before interest taxes depreciation and amortization (EBITDA) as adjusted. Adjusted EBITDA is calculated as earnings before income taxes (EBIT) (adjusted) before amortization (defined as amortization and impairments of intangible assets other than goodwill) and depreciation and impairments of property, plant and equipment and goodwill. Adjusted EBIT is Income from continuing operations before income taxes less Financial income (expense), net and Income (loss) from investments accounted for using the equity method, net. Siemens believes that using the ratio of “adjusted industrial net debt” to “EBITDA (adjusted)” as a measure of its capital structure provides useful information to investors because management uses it to manage our debt-equity ratio while ensuring both unrestricted access to debt financing instruments in the capital markets and our ability to meet scheduled debt service obligations.
Reconciliation and Definitions for Non-GAAP Measures (V)

Limitations Associated with Siemens’ Supplemental Financial Measures
The supplemental financial measures reported by Siemens may be subject to limitations as analytical tools. In particular:

- With respect to adjusted or organic growth rates of Revenue and new orders: These measures are not adjusted for other effects, such as increases or decreases in prices or quantity/volume.
- With respect to book-to-bill ratio: The use of this measure is inherently limited by the fact that it is a ratio and thus does not provide information as to the absolute number of orders received by Siemens or the absolute amount of products and services shipped and billed by it.
- With respect to return on equity, or ROE: This measure is not adjusted for special items, such as the disposition of equity investments (allocated to SFS) or impairments, and therefore it has been volatile over prior year periods. In addition, the use of this measure is inherently limited by the fact that it is a ratio and thus does not provide information as to the absolute amount of Siemens’ income.
- With respect to return on capital employed, or ROCE: The use of this measure is inherently limited by the fact that it is a ratio and thus does not provide information as to the absolute amount of Siemens’ income.
- With respect to Free cash flow and cash conversion rate: Free cash flow is not a measure of cash generated by operations that is available exclusively for discretionary expenditures. This is, because in addition to capital expenditures needed to maintain or grow its business, Siemens requires cash for a wide variety of non-discretionary expenditures, such as interest and principal payments on outstanding debt, dividend payments or other operating expenses. In addition, the use of cash conversion rate is inherently limited by the fact that it is a ratio and thus does not provide information about the amount of Siemens’ free cash flow.
- With respect to EBITDA (adjusted) and EBIT (adjusted): EBITDA (adjusted) excludes non-cash items such as depreciation, amortization and impairment, it does not reflect the expense associated with, and accordingly the full economic effect of, the loss in value of Siemens’ assets over time. Similarly, neither EBITDA (adjusted) nor EBIT (adjusted) reflect the impact of financial income and taxes, which are significant cash expenses that may reduce the amount of cash available for distribution to shareholders or reinvestment in the business.
- With respect to earnings effects from purchase price allocation (PPA effects) and integration costs: The fact that the profit margin is adjusted for these effects does not mean that they do not impact profit of the relevant segment in the Consolidated Financial Statements.
- With respect to net debt and the ratio adjusted industrial net debt to EBITDA (adjusted): Siemens typically uses a considerable portion of its cash, cash equivalents and available-for-sale financial assets at any given time for purposes other than debt reduction. Therefore, the fact that these items are excluded from net debt does not mean that they are used exclusively for debt repayment. The use of the ratio adjusted industrial net debt to EBITDA (adjusted) is inherently limited by the fact that it is a ratio.

Compensation for Limitations Associated with Siemens’ Supplemental Financial Measure
Siemens provides a quantitative reconciliation of each supplemental financial measure to the most directly comparable IFRS financial measure below, in the Notes to Consolidated Financial Statements or in the Annual Reports and Quarterly Reports under the heading “Management’s discussion and analysis,” and Siemens encourages investors to review those reconciliations carefully.