

SIEMENS

Ingenuity for life

Half-year Financial Report

First Half of Fiscal 2018

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Introduction

Siemens AG's Half-year Financial Report complies with the applicable legal requirements of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and comprises condensed Half-year Consolidated Financial Statements, an Interim Group Management Report and a Responsibility statement in accordance with section 115 WpHG.

The Half-year Consolidated Financial Statements are in accordance with IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU.

This Half-year Financial Report should be read in conjunction with our Annual Report for fiscal 2017, which includes a detailed analysis of our operations and activities as well as explanations of financial measures used.

A. Interim Group Management Report

A.1 Results of operations

A.1.1 Orders and revenue by regions

| Orders (location of customer)

(in millions of €)	First half		% Change	
	FY 2018	FY 2017	Actual	Comp.
Europe, C.I.S., Africa, Middle East	22,960	22,932	0%	(2)%
<i>therein: Germany</i>	5,452	7,313	(25)%	(26)%
Americas	12,124	10,913	11%	13%
<i>therein: U.S.</i>	8,439	7,794	8%	11%
Asia, Australia	9,711	8,607	13%	1%
<i>therein: China</i>	3,987	3,480	15%	18%
Siemens	44,794	42,451	6%	3%
<i>therein: emerging markets</i>	15,722	13,310	18%	11%

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| Revenue (location of customer)

(in millions of €)	First half		% Change	
	FY 2018	FY 2017	Actual	Comp.
Europe, C.I.S., Africa, Middle East	20,386	20,551	(1)%	(1)%
<i>therein: Germany</i>	5,369	5,147	4%	4%
Americas	10,771	11,292	(5)%	(3)%
<i>therein: U.S.</i>	7,634	8,207	(7)%	(1)%
Asia, Australia	8,806	7,504	17%	12%
<i>therein: China</i>	3,812	3,224	18%	21%
Siemens	39,964	39,348	2%	1%
<i>therein: emerging markets</i>	13,657	13,326	2%	(2)%

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Siemens worldwide

- Strong order intake on double-digit growth in Mobility and Digital Factory; significantly lower volume from large orders in Energy Management, Power and Gas and Siemens Gamesa Renewable Energy (SGRE); excluding the change in large order volume, orders rose significantly
- Currency translation effects took six percentage points, while portfolio effects added nine percentage points to order growth year-over-year
- Strong book-to-bill ratio of 1.12
- Order backlog at €129 billion

Europe, C.I.S., Africa, Middle East

- Substantial growth in Mobility and a significant increase in Digital Factory offset by double-digit declines in Energy Management and SGRE, both of which recorded higher volumes from large orders in the first half of FY 2017
- Sharply lower volume from large orders in Germany; first half of FY 2017 included a €1.4 billion contract win for an offshore wind-farm, including service, at SGRE

Americas

- Broad-based increase held back by currency translation effects
- Increase in the U.S. due primarily to the SGRE merger and the acquisition of Mentor Graphics, partly offset by negative currency translation effects

Asia, Australia

- Increase at SGRE due to the merger, and sharp growth in Digital Factory and Mobility partly offset by declines in Power and Gas and Energy Management
- In China, increases in the majority of businesses, in particular in Digital Factory

Siemens worldwide

- Increase at SGRE due to the merger and double-digit growth in Digital Factory and Mobility, partly offset by a substantial decline in Power and Gas
- Currency translation effects took five percentage points, while portfolio effects added six percentage points to revenue growth year-over-year

Europe, C.I.S., Africa, Middle East

- Substantial decline in Power and Gas almost offset by increases in nearly all other businesses

Americas

- Decline in the region and in the U.S. due to negative currency translation effects and a substantial decline in Power and Gas, partially offset by portfolio effects from the acquisition of Mentor Graphics and the SGRE merger

Asia, Australia

- Broad-based growth led by SGRE and Digital Factory, both including positive portfolio effects
- Growth in China in all businesses, led by Digital Factory

A.1.2 Income

(in millions of €, earnings per share in €)	First half		% Change
	FY 2018	FY 2017	
Power and Gas	352	910	(61)%
Profit margin	5.8%	11.4%	
Energy Management	447	413	8%
Profit margin	7.7%	7.1%	
Building Technologies	325	405	(20)%
Profit margin	10.3%	12.8%	
Mobility	459	376	22%
Profit margin	10.7%	9.8%	
Digital Factory	1,289	1,179	9%
Profit margin	20.5%	22.3%	
Process Industries and Drives	291	268	8%
Profit margin	7.0%	6.2%	
Siemens Healthineers	1,072	1,210	(11)%
Profit margin	16.7%	18.0%	
Siemens Gamesa Renewable Energy	227	266	(15)%
Profit margin	5.2%	9.2%	
Industrial Business	4,462	5,026	(11)%
Profit margin	11.0%	12.6%	
Financial Services (SFS)	363	347	5%
Reconciliation to Consolidated Financial Statements	187	(516)	n/a
Income from continuing operations before income taxes	5,012	4,857	3%
Income tax expenses	(839)	(1,460)	43%
Income from continuing operations	4,173	3,397	23%
Income from discontinued operations, net of income taxes	56	37	51%
Net income	4,229	3,434	23%
Basic earnings per share	5.07	4.16	22%
ROCE	17.2%	15.9%	

Industrial Business

- Majority of industrial businesses in or above their respective target profit margin ranges; particularly strong performances by Mobility and Digital Factory
- Severance charges for Industrial Business were €190 million (first half FY 2017: €103 million)
- Sharply lower profit at Power and Gas in contracting markets resulting from lower revenue, price declines and reduced capacity utilization; global energy trends continue to structurally reduce overall demand in markets for the Division's offerings, resulting in declining new-unit large turbine business and corresponding price pressure due to current overcapacities and aggressive competitive behavior; as a consequence, the Division expects substantial severance charges in the second half of the fiscal year
- First half of FY 2017 included a positive effect related to amendments of pension plans totaling €138 million, of which €94 million was taken in Building Technologies
- Profit at Mobility up on successful execution of large projects
- Profit up at Digital Factory on strength in its short-cycle and product lifecycle management software businesses; in the first half of FY 2017, the Division recorded a gain of €172 million related to the eCar business
- Lower profit at Siemens Healthineers mainly due to negative currency effects
- Substantially lower profit margin at SGRE primarily due to ongoing price pressure in the onshore business and higher severance charges year-over-year

Income from continuing operations before income taxes

- Reconciliation to Consolidated Financial Statements included a gain of €900 million resulting from the transfer of Siemens' shares in Atos SE to Siemens Pension-Trust e.V. in Germany to fund pension plans and a gain of €655 million from the sale of OSRAM Licht AG shares; these positive effects were partly offset by an impairment loss of €154 million related to an equity investment
- In the first half of FY 2017, Reconciliation to Consolidated Financial Statements included positive effects totaling €355 million resulting from higher interest rates used in the measurement of a major asset retirement obligation, partly offset by a €230 million impairment of Siemens' stake in Primetals Technologies Ltd.
- Amortization of intangible assets acquired in business combinations increased by €249 million year-over-year related mainly to the SGRE merger and acquisition of Mentor Graphics
- Severance charges for continuing operations were €258 million (first half FY 2017: €134 million)

Income from continuing operations

- Tax rate of 17%; sharply lower due mainly to positive effects from reassessment of tax positions, including a net positive effect of €435 million following the U.S. tax reform, and the largely tax-free gains from the share transactions mentioned above; these factors were only partly offset by negative income tax effects related to establishing the Siemens Healthineers Group

Net income, Basic earnings per share, ROCE

- Basic earnings per share (EPS) up due to strong Net income; in future, higher share of non-controlling interests following the float of a 15% interest in Siemens Healthineers as part of its initial public offering (IPO)
- ROCE also up and in the target range due to strong Net income, even with a clear increase in average capital employed mainly from the SGRE merger and the acquisition of Mentor Graphics

A.2 Net assets position

(in millions of €)	Mar 31, 2018	Sep 30, 2017	% Change
Current assets	61,162	60,750	1%
<i>therein: total liquidity</i>	10,752	9,616	12%
Non-current assets	72,213	75,361	(4)%
Total assets	133,375	136,111	(2)%
Current liabilities	45,396	46,077	(1)%
Non-current liabilities	41,881	45,415	(8)%
Equity	46,098	44,619	3%
Total liabilities and equity	133,375	136,111	(2)%

Decrease in total assets due to negative currency translation effects totaling €3.0 billion (with an impact on goodwill amounting to €0.9 billion), primarily involving the US dollar

Current assets

- Increase in other current financial assets due primarily to a receivable of €0.5 billion in relation to the IPO of Siemens Healthineers
- Higher inventories in most industrial businesses, with the build-up most evident at Energy Management and Siemens Healthineers, partly offset by decreased inventories at SGRE and Power and Gas
- Assets classified as held for disposal decreased due primarily to the sale of €1.2 billion in shares in OSRAM Licht AG

Non-current assets

- Decrease in other financial assets related mainly to the transfer of Siemens' shares in Atos SE to Siemens Pension-Trust e.V.

Current liabilities

- Redemption of US\$0.5 billion fixed-rate instruments was more than offset by the reclassification of US\$0.7 billion floating-rate instruments from long-term to short-term debt
- Decrease in trade payables mainly driven by SGRE

Non-current liabilities

- Long-term debt decreased due primarily to currency translation effects for US\$ bonds and the above-mentioned reclassification of floating-rate instruments to short-term debt
- Decrease in provisions for pensions and similar obligations due primarily to funding of pension plans including the above-mentioned transfer of Siemens' shares in Atos SE to Siemens Pension-Trust e.V.

Equity

- Increase related primarily to net income and effects on retained earnings of €2.9 billion and non-controlling interests of €1.2 billion from the IPO of Siemens Healthineers; offsetting factors include dividend payments and a negative other comprehensive income, net of income taxes, mainly related to the transfer of Siemens' shares in Atos SE to Siemens Pension-Trust e.V. and the sale of shares in OSRAM Licht AG

A.3 Financial position

Cash flows

	First half FY 2018		
(in millions of €)	Continuing operations	Discontinued operations	Continuing and discontinued operations
Cash flows from:			
Operating activities	2,681	25	2,706
Investing activities	(619)	(19)	(638)
<i>therein: Additions to intangible assets and property, plant and equipment</i>	<i>(1,043)</i>	<i>-</i>	<i>(1,043)</i>
Free cash flow	1,638	25	1,662
Financing activities	(909)	-	(909)

Cash flows from operating activities

- Conversion of profit into cash inflows from operating activities was particularly evident in Digital Factory and Mobility
- Cash outflows of €0.6 billion related to the change in operating net working capital, with the biggest factor being a build-up of inventories driven by Energy Management and Siemens Healthineers

Cash flows from investing activities

- Cash inflows of €1.2 billion from the sale of OSRAM Licht AG shares in October 2017

Cash flows from financing activities

- The IPO of Siemens Healthineers with a total placement volume of €4.2 billion resulted in cash inflows (net of transaction costs) of €3.6 billion in the current period and €0.5 billion at beginning of the second half of fiscal 2018
- Cash outflows of €3.0 billion for dividends paid to shareholders of Siemens AG
- Cash outflows of €0.8 billion for purchase of 7,539 thousand treasury shares at a weighted average price of €111.67 per share

A.4 Outlook

We continue to expect geopolitical uncertainties such as trade restrictions that may affect investment sentiment.

Following the strong results achieved in the first half of fiscal 2018, we raise our outlook for basic EPS from net income to the range of €7.70 to €8.00, excluding severance charges, up from the range of €7.20 to €7.70. Furthermore we confirm our expectation of modest growth in revenue, net of effects from currency translation and portfolio transactions, and continue to anticipate that orders will exceed revenue for a book-to-bill ratio above 1 for the full fiscal year. We continue to expect a profit margin of 11.0% to 12.0% for our Industrial Business also excluding severance charges.

This outlook excludes charges related to legal and regulatory matters and potential effects which may follow the introduction of a new strategic program.

A.5 Risks and opportunities

In our Annual Report for fiscal 2017 we described certain risks, which could have a material adverse effect on our business, financial condition (including effects on assets, liabilities and cash flows), results of operations and reputation, our most significant opportunities as well as the design of our risk management system.

During the reporting period, we identified no further significant risks and opportunities besides those presented in our Annual Report for fiscal 2017 and in this Half-year Financial Report. Additional risks and opportunities not known to us or that we currently consider immaterial could also affect our business operations. At present, no risks have been identified that either individually or in combination with other risks could endanger our ability to continue as a going concern. We refer also to C.3 Notes and forward-looking statements.

B. Half-year Consolidated Financial Statements

B.1 Consolidated Statements of Income

(in millions of €, per share amounts in €)	Note	First half	
		FY 2018	FY 2017
Revenue		39,964	39,348
Cost of sales		(27,698)	(26,733)
Gross profit		12,266	12,615
Research and development expenses		(2,619)	(2,341)
Selling and general administrative expenses		(6,206)	(5,843)
Other operating income		199	395
Other operating expenses		(325)	(262)
Income (loss) from investments accounted for using the equity method, net	9	(26)	(81)
Interest income		721	732
Interest expenses		(544)	(486)
Other financial income (expenses), net	8	1,545	127
Income from continuing operations before income taxes		5,012	4,857
Income tax expenses	3	(839)	(1,460)
Income from continuing operations		4,173	3,397
Income from discontinued operations, net of income taxes		56	37
Net income		4,229	3,434
Attributable to:			
Non-controlling interests		87	68
Shareholders of Siemens AG		4,142	3,366
Basic earnings per share			
Income from continuing operations		5.00	4.11
Income from discontinued operations		0.07	0.05
Net income		5.07	4.16
Diluted earnings per share			
Income from continuing operations		4.92	4.03
Income from discontinued operations		0.07	0.04
Net income		4.99	4.08

B.2 Consolidated Statements of Comprehensive Income

(in millions of €)	First half	
	FY 2018	FY 2017
Net income	4,229	3,434
Remeasurements of defined benefit plans	(501)	2,261
<i>therein: Income tax effects</i>	(274)	(861)
Income (loss) from investments accounted for using the equity method, net	2	(2)
Items that will not be reclassified to profit or loss	(499)	2,259
Currency translation differences	(721)	447
Available-for-sale financial assets	(1,825)	358
<i>therein: Income tax effects</i>	28	(5)
Derivative financial instruments	(15)	37
<i>therein: Income tax effects</i>	12	(20)
Income (loss) from investments accounted for using the equity method, net	(30)	48
Items that may be reclassified subsequently to profit or loss	(2,592)	891
Other comprehensive income, net of income taxes	(3,091)	3,150
Total comprehensive income	1,138	6,584
Attributable to:		
Non-controlling interests	24	89
Shareholders of Siemens AG	1,114	6,494

B.3 Consolidated Statements of Financial Position

(in millions of €)	Note	Mar 31, 2018	Sep 30, 2017
Assets			
Cash and cash equivalents		9,581	8,375
Available-for-sale financial assets		1,171	1,242
Trade and other receivables		16,724	16,754
Other current financial assets		8,300	7,664
Contract assets	1	8,247	8,781
Inventories		14,414	13,885
Current income tax assets		786	1,098
Other current assets		1,685	1,466
Assets classified as held for disposal		254	1,484
Total current assets		61,162	60,750
Goodwill		27,437	27,906
Other intangible assets		10,257	10,926
Property, plant and equipment		10,877	10,977
Investments accounted for using the equity method	9	2,643	2,727
Other financial assets	8	16,636	19,044
Deferred tax assets	3	2,522	2,283
Other assets		1,841	1,498
Total non-current assets		72,213	75,361
Total assets		133,375	136,111
Liabilities and equity			
Short-term debt and current maturities of long-term debt	4	5,663	5,447
Trade payables		8,938	9,756
Other current financial liabilities		1,469	1,444
Contract liabilities	1	14,924	14,228
Current provisions		3,842	4,077
Current income tax liabilities		2,773	2,355
Other current liabilities		7,783	8,671
Liabilities associated with assets classified as held for disposal		3	99
Total current liabilities		45,396	46,077
Long-term debt	4	25,259	26,777
Provisions for pensions and similar obligations		8,115	9,582
Deferred tax liabilities	3	1,388	1,635
Provisions		4,384	4,366
Other financial liabilities		708	902
Other liabilities		2,027	2,153
Total non-current liabilities		41,881	45,415
Total liabilities		87,277	91,492
Equity			
Issued capital		2,550	2,550
Capital reserve		6,074	6,368
Retained earnings		39,216	35,794
Other components of equity		(775)	1,665
Treasury shares, at cost	5	(3,392)	(3,196)
Total equity attributable to shareholders of Siemens AG		43,672	43,181
Non-controlling interests		2,426	1,438
Total equity		46,098	44,619
Total liabilities and equity		133,375	136,111

B.4 Consolidated Statements of Cash Flows

(in millions of €)	First half	
	FY 2018	FY 2017
Cash flows from operating activities		
Net income	4,229	3,434
Adjustments to reconcile net income to cash flows from operating activities - continuing operations		
Income from discontinued operations, net of income taxes	(56)	(37)
Amortization, depreciation and impairments	1,692	1,330
Income tax expenses	839	1,460
Interest (income) expenses, net	(177)	(246)
(Income) loss related to investing activities	(1,683)	(191)
Other non-cash (income) expenses	308	174
Change in operating net working capital from		
Contract assets	379	(220)
Inventories	(822)	(1,117)
Trade and other receivables	(157)	274
Trade payables	(737)	(205)
Contract liabilities	696	573
Additions to assets leased to others in operating leases	(260)	(232)
Change in other assets and liabilities	(1,507)	(2,423)
Income taxes paid	(849)	(1,063)
Dividends received	116	184
Interest received	673	681
Cash flows from operating activities - continuing operations	2,681	2,375
Cash flows from operating activities - discontinued operations	25	(27)
Cash flows from operating activities - continuing and discontinued operations	2,706	2,348
Cash flows from investing activities		
Additions to intangible assets and property, plant and equipment	(1,043)	(896)
Acquisitions of businesses, net of cash acquired	(350)	(3,469)
Purchase of investments	(628)	(279)
Purchase of current available-for-sale financial assets	(245)	(392)
Change in receivables from financing activities	(257)	25
Disposal of investments, intangibles and property, plant and equipment	1,400	341
Disposal of businesses, net of cash disposed	194	(27)
Disposal of current available-for-sale financial assets	310	410
Cash flows from investing activities - continuing operations	(619)	(4,288)
Cash flows from investing activities - discontinued operations	(19)	(3)
Cash flows from investing activities - continuing and discontinued operations	(638)	(4,290)
Cash flows from financing activities		
Purchase of treasury shares	(836)	(144)
Re-issuance of treasury shares and other transactions with owners	3,618	27
Issuance of long-term debt	–	6,958
Repayment of long-term debt (including current maturities of long-term debt)	(414)	(3,581)
Change in short-term debt and other financing activities	275	1,311
Interest paid	(459)	(423)
Dividends paid to shareholders of Siemens AG	(3,011)	(2,914)
Dividends attributable to non-controlling interests	(82)	(115)
Cash flows from financing activities - continuing operations	(909)	1,119
Cash flows from financing activities - discontinued operations	–	–
Cash flows from financing activities - continuing and discontinued operations	(909)	1,119
Effect of changes in exchange rates on cash and cash equivalents	33	88
Change in cash and cash equivalents	1,192	(736)
Cash and cash equivalents at beginning of period	8,389	10,618
Cash and cash equivalents at end of period	9,581	9,881
Less: Cash and cash equivalents of assets classified as held for disposal and discontinued operations at end of period	–	–
Cash and cash equivalents at end of period (Consolidated Statements of Financial Position)	9,581	9,881

B.5 Consolidated Statements of Changes in Equity

	Issued capital	Capital reserve	Retained earnings	Currency translation differences	Available-for-sale financial assets	Derivative financial instruments	Treasury shares at cost	Total equity attributable to shareholders of Siemens AG	Non controlling interests	Total equity
(in millions of €)										
Balance as of October 1, 2016 (as previously reported)	2,550	5,890	27,454	909	1,160	(148)	(3,605)	34,211	605	34,816
Effect of retrospectively adopting IFRS 15	–	–	183	–	–	–	–	183	–	183
Balance as of October 1, 2016	2,550	5,890	27,638	909	1,160	(148)	(3,605)	34,394	605	34,999
Net income	–	–	3,366	–	–	–	–	3,366	68	3,434
Other comprehensive income, net of income taxes	–	–	2,259	440	359	71	–	3,128	22	3,150
Dividends	–	–	(2,914)	–	–	–	–	(2,914)	(117)	(3,031)
Share-based payment	–	42	(81)	–	–	–	–	(39)	–	(39)
Purchase of treasury shares	–	–	–	–	–	–	(144)	(144)	–	(144)
Re-issuance of treasury shares	–	53	–	–	–	–	275	328	–	328
Transactions with non-controlling interests	–	–	(2)	–	–	–	–	(2)	(9)	(11)
Other changes in equity	–	–	1	–	–	–	–	1	54	55
Balance as of March 31, 2017	2,550	5,985	30,266	1,349	1,519	(77)	(3,473)	38,118	623	38,741
Balance as of October 1, 2017	2,550	6,368	35,794	(181)	1,845	1	(3,196)	43,181	1,438	44,619
Net income	–	–	4,142	–	–	–	–	4,142	87	4,229
Other comprehensive income, net of income taxes	–	–	(495)	(713)	(1,825)	6	–	(3,027)	(63)	(3,091)
Dividends	–	–	(3,011)	–	–	–	–	(3,011)	(89)	(3,100)
Share-based payment	–	(320)	(73)	–	–	–	–	(393)	–	(393)
Purchase of treasury shares	–	–	–	–	–	–	(842)	(842)	–	(842)
Re-issuance of treasury shares	–	26	–	–	–	–	646	672	–	672
Changes in equity resulting from major portfolio transactions	–	–	2,884	92	–	–	–	2,977	1,053	4,029
Other transactions with non-controlling interests	–	–	2	–	–	–	–	2	(1)	1
Other changes in equity	–	–	(27)	–	–	–	–	(27)	1	(26)
Balance as of March 31, 2018	2,550	6,074	39,216	(802)	20	7	(3,392)	43,672	2,426	46,098

B.6 Notes to Half-year Consolidated Financial Statements

NOTE 1 Basis of presentation

The accompanying condensed Half-year Consolidated Financial Statements as of March 31, 2018 present the operations of Siemens AG and its subsidiaries (the Company or Siemens). These Half-year Consolidated Financial Statements are in accordance with IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU and should be read in conjunction with the Siemens Consolidated Financial Statements as of September 30, 2017. The Half-year Consolidated Financial Statements apply the same accounting principles and practices as those used in the 2017 annual financial statements, except for the early adoption of IFRS 15, Revenue from Contracts with Customers (IFRS 15) as of October 1, 2017. Results for the interim reporting period are not necessarily indicative of future results. In interim periods, tax expense is based on the current estimated annual effective tax rate of Siemens. The presentation of certain prior-year information has been reclassified to conform to the current year presentation. The Half-year Consolidated Financial Statements are unaudited and were authorized for issue by the Managing Board on May 8, 2018. For further information on changes in estimates (including income taxes), disaggregation of revenue and on segment information, see disclosures in the Interim Group Management Report. Regarding the first-time adoption of IFRS 9, Financial Instruments, as of October 1, 2018, no material impact is expected on Siemens' Consolidated Financial Statements. Due to rounding, numbers disclosed may not add up precisely to totals provided.

Recently adopted Pronouncements

IFRS 15 was adopted retrospectively as of October 1, 2017, i.e. the comparable prior year period is presented in accordance with IFRS 15 (using practical expedients). The adoption had no material impact on the line items of the Consolidated Statements of Income (including earnings per share); total cash flows from operating, investing and financing activities were not impacted in fiscal 2017. The following table summarizes the impacts of adopting IFRS 15 on Siemens' Consolidated Statement of Financial Position (mainly reclassifications):

(in millions of €)	Consolidated Statement of Financial Position as of September 30, 2017			Consolidated Statement of Financial Position as of October 1, 2016		
	Previously reported	Adjustments	Restated	Previously reported	Adjustments	Restated
Total assets	133,804	2,306	136,111	125,717	2,207	127,924
thereof Contract assets	-	8,781	8,781	-	7,543	7,543
thereof Inventories	19,942	(6,057)	13,885	18,160	(5,545)	12,615
Total liabilities	89,278	2,215	91,492	90,901	2,024	92,925
thereof Contract liabilities	-	14,228	14,228	-	14,501	14,501
thereof Other current liabilities	20,049	(11,378)	8,671	20,437	(11,841)	8,596
Total equity	44,527	92	44,619	34,816	183	34,999

NOTE 2 Acquisitions and changes in ownership interests in subsidiaries

Acquisitions

In the six months ended March 31, 2018, Siemens acquired several businesses for a total purchase price of €408 million, mainly paid in cash. The preliminary purchase price allocations resulted in Other intangible assets of €124 million and goodwill of €235 million, which comprises intangible assets that are not separable such as employee know-how and expected synergy effects.

The finalization of the purchase price allocation for SGRE as of the acquisition date resulted in a revised Goodwill of €2,788 million, mainly due to an increase in Provisions.

Changes in ownership interests in subsidiaries

In the course of the public listing on March 16, 2018, Siemens placed a 15% interest in Siemens Healthineers at a price of €28 per share with a total placement volume of €4,200 million. Equity attributable to shareholders of Siemens AG increased €2,962 million and non-controlling interests increased €1,163 million. Effects on equity are presented in line item Changes in equity resulting from major portfolio transactions in the Consolidated Statements of Changes in Equity.

NOTE 3 Income taxes

In December 2017, in the process of the U.S. tax reform the Tax Cuts and Jobs Act (TCJA) was enacted, entailing significant changes to U.S. income taxation. The reduced corporate income tax rate (Federal Tax Rate) from 35% to 21% and the revaluation of deferred taxes resulted in deferred income tax benefits of €243 million. Adopting the new territorial taxation system and the transition tax on retained foreign earnings led to current tax expenses which were offset by deferred income tax benefits from reversing outside basis differences; in total resulting in €192 million income tax benefits. The impacts reduced our tax rate by nine percentage points. Our potential impacts are subject to estimates based on best information and interpretations currently available. Due to the complexity and the magnitude of new regulations we have not yet completed our assessment of the tax impacts. Additional tax adjustments may need to be made in subsequent periods as we or local tax authorities obtain more accurate information, i.e. through new clarification guidance, which might result in future tax expenses or benefits.

In the six months ended March 31, 2018, additional tax effects resulted from various tax audits, the sale of equity stake interests and from carve out and transaction-related matters.

NOTE 4 Debt

(in millions of €)	Current debt		Non-current debt	
	Mar 31, 2018	Sep 30, 2017	Mar 31, 2018	Sep 30, 2017
Notes and bonds	3,602	3,554	23,797	25,243
Loans from banks	1,414	1,191	1,273	1,334
Other financial indebtedness	629	675	111	111
Obligations under finance leases	18	27	78	88
Total debt	5,663	5,447	25,259	26,777

In the six months ended March 31, 2018, the 1.5% US\$500 million fixed-rate instrument was redeemed as due.

Bond with Warrant Units: in the six months ended March 31, 2018, terms to 5,236 warrants exercisable until 2019 changed to receive 1,935.4236 Siemens AG shares per warrant at an exercise price of €97.0551 per share and terms for 764 warrants exercisable until 2019 changed to receive 1,843.7734 Siemens AG shares per warrant and 141.8556 OSRAM shares at an exercise price of €187,842.81. As of March 31, 2018, the warrants offered rights to 11.5 million Siemens AG shares.

As of March 31, 2018 and September 30, 2017, US\$710 million (€576 million) and US\$720 million (€610 million) in commercial paper were outstanding, respectively.

NOTE 5 Shareholders' equity

In the six months ended March 31, 2018 and 2017, Siemens repurchased 7,539 thousand and 1,175 thousand treasury shares, respectively. Siemens transferred a total of 6,778 thousand and 3,183 thousand shares of treasury stock, respectively, in the six months ended March 31, 2018 and 2017. In the second quarter of fiscal 2018, a dividend of €3.70 per share was paid.

NOTE 6 Commitments and contingencies

The following table presents the undiscounted amount of maximum potential future payments for major groups of guarantees:

(in millions of €)	Mar 31, 2018	Sep 30, 2017
Credit guarantees	442	639
Guarantees of third-party performance	2,140	2,283
Miscellaneous guarantees	200	200
	2,782	3,121

In addition to guarantees disclosed in the table above, the Company issued other guarantees including indemnifications in connection with dispositions of businesses. To the extent future claims are not considered remote, maximum future payments from these obligations amount to €532 million and €611 million as of March 31, 2018 and September 30, 2017, respectively.

NOTE 7 Legal proceedings

As previously reported, Siemens AG is a member of a supplier consortium that has been contracted to construct the nuclear power plant "Olkiluoto 3" in Finland for Teollisuuden Voima Oyj (TVO) on a turnkey basis. The agreed completion date for the nuclear power plant was April 30, 2009. Siemens AG's share of the contract value is approximately 27%. The other member of the supplier consortium is a further consortium consisting of Areva NP S.A.S. and its wholly-owned subsidiary, Areva GmbH. Completion of the power plant has been delayed for reasons which were in dispute. In December 2008, the supplier consortium filed a request for arbitration against TVO demanding an extension of the construction time, additional compensation, milestone payments, damages and interest. TVO rejected the claims and asserted counterclaims against the supplier consortium consisting primarily of damages due to the delay. In August 2015, TVO updated its counterclaims to approximately €2.3 billion. The supplier consortium's monetary claims as last updated amounted to approximately €3.6 billion. In March 2018, the supplier consortium, Areva SA and TVO signed a global settlement agreement which finally settles all claims and counterclaims raised in the arbitration against a lump sum payment of €450 million by Areva to TVO. In May 2018, the arbitral tribunal declared the proceedings closed.

As previously reported, in June 2015, Siemens Ltda., Brazil (Siemens Ltda.) appealed to the Supreme Court against a decision of a previous court to suspend Siemens Ltda. from participating in public tenders and signing contracts with public administrations in Brazil for a five year term based on alleged irregularities in calendar 1999 and 2004 in public tenders with the Brazilian Postal authority. In

February 2018, the appeal was rejected. Siemens Ltda. has introduced another remedy against the decision. Siemens Ltda. is currently not excluded from participating in public tenders. In February 2018, the Public Affairs Office (Ministério Público) Brasília filed a lawsuit based on the same set of facts described above, mainly claiming the exclusion of Siemens Ltda. from public tenders for a ten year term. Siemens Ltda. is defending itself against the lawsuit.

NOTE 8 Financial instruments

Financial instruments measured at cost or amortized cost for which the carrying amount does not approximate fair value:

(in millions of €)	Mar 31, 2018		Sep 30, 2017	
	Fair value	Carrying amount	Fair value	Carrying amount
Notes and bonds	27,829	27,399	32,303	28,797
Loans from banks, other financial indebtedness and finance leases	3,580	3,523	3,477	3,427

The following table allocates financial assets and liabilities measured at fair value to the three levels of the fair value hierarchy:

(in millions of €)	Mar 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value, thereof:	13	3,090	347	3,449
Available-for-sale financial assets: equity instruments	13	117	280	410
Available-for-sale financial assets: debt instruments	–	1,159	11	1,170
Derivative financial instruments	–	1,814	56	1,869
Financial liabilities measured at fair value – Derivative financial instruments	–	638	–	638

In March 2018, to fund our pension plan, Siemens transferred all of its shares in Atos SE to the Siemens Pension-Trust e.V. The shares, which were held as available-for-sale equity instruments, were derecognized at fair value of €1.4 billion; €886 million accumulated fair value changes were reclassified from Other comprehensive income, net of €14 million income taxes to Net income, thereof €900 million to Other financial income (expenses), net disclosed in Centrally managed portfolio activities. In addition, in the six months ended March 31, 2018, interest rate swaps not designated in a hedging relationship were transferred to the Siemens Pension-Trust e.V. at fair value of €373 million.

Due to the sale of OSRAM Licht AG shares in October 2017, €644 million were reclassified from Other comprehensive income, net of €10 million income taxes to Net income, thereof €655 million to Other financial income (expenses), net disclosed in Centrally managed portfolio activities.

NOTE 9 Segment information

(in millions of €)	Orders ¹		External revenue		Intersegment Revenue		Total revenue		Profit		Assets		Free cash flow		Additions to intangible assets and property, plant & equipment		Amortization, depreciation & impairments	
	First half		First half		First half		First half		First half		Mar 31,	Sep 30,	First half		First half		First half	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	2018	2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
Power and Gas	6,236	7,121	6,052	7,958	33	22	6,085	7,980	352	910	10,299	9,964	(144)	234	78	75	285	256
Energy Management	5,639	6,548	5,515	5,460	260	341	5,774	5,801	447	413	4,541	4,177	37	203	86	66	102	104
Building Technologies	3,481	3,597	3,099	3,084	65	72	3,164	3,156	325	405	1,314	1,241	231	371	22	22	37	45
Mobility	5,635	4,295	4,254	3,813	25	8	4,280	3,821	459	376	2,726	2,727	430	311	53	42	73	64
Digital Factory	6,925	5,549	5,940	4,956	335	340	6,275	5,296	1,289	1,179	9,189	9,304	1,128	896	103	64	295	151
Process Industries and Drives	4,580	4,431	3,372	3,462	766	843	4,139	4,305	291	268	2,343	2,003	95	103	53	59	92	102
Siemens Healthineers	6,693	6,896	6,374	6,713	48	18	6,422	6,731	1,072	1,210	12,017	11,047	548	820	208	179	241	266
Siemens Gamesa Renewable Energy	5,956	4,578	4,367	2,899	1	1	4,368	2,900	227	266	4,418	4,663	(206)	299	166	180	317	83
Industrial Business	45,145	43,015	38,973	38,344	1,532	1,646	40,505	39,990	4,462	5,026	46,848	45,126	2,118	3,237	768	687	1,442	1,071
Financial Services (SFS)	479	471	411	397	69	73	479	471	363	347	26,320	26,474	371	460	17	9	104	105
Reconciliation to Consolidated Financial Statements	(830)	(1,035)	580	606	(1,601)	(1,719)	(1,021)	(1,113)	187	(516)	60,207	64,512	(852)	(2,217)	258	200	146	154
Siemens (continuing operations)	44,794	42,451	39,964	39,348	-	-	39,964	39,348	5,012	4,857	133,375	136,111	1,638	1,479	1,043	896	1,692	1,330

¹ This supplemental information on Orders is provided on a voluntary basis. It is not part of the Half-year Consolidated Financial Statements subject to the review opinion.

Segment information is disclosed for continuing operations. Segment measurement principles are the same as those described in the September 30, 2017 Annual Report. Revenue includes revenue from contracts with customers and revenue from leasing activities. In the six months ended March 31, 2018 and 2017, lease revenue is mainly generated at Siemens Healthineers €70 million and €74 million, Financial Services €124 million and €123 million, and Siemens Real Estate €40 million and €40 million, respectively. The Power and Gas, Siemens Gamesa Renewable Energy and Mobility segments recognize revenue predominantly over time due to the nature of their long-term contracts. All other segments generally recognize revenue at a point in time.

Reconciliation to Consolidated Financial Statements

Profit

(in millions of €)	First half	
	FY 2018	FY 2017
Centrally managed portfolio activities	1,336	412
Siemens Real Estate	53	91
Corporate items	(203)	(266)
Centrally carried pension expense	(246)	(199)
Amortization of intangible assets acquired in business combinations	(585)	(336)
Eliminations, Corporate Treasury, and other reconciling items	(167)	(218)
Reconciliation to Consolidated Financial Statements	187	(516)

Income from investments accounted for using the equity method includes an impairment loss of €154 million relating to an investment presented within Centrally Managed Portfolio Activities. The continuing adverse market environment triggered an impairment test on the investment. The recoverable amount was determined as the investment's fair value less cost of disposal using a market multiple approach based on the investment's adjusted EBIT (level 3 of the fair value hierarchy).

Assets

(in millions of €)	Mar 31,	Sep 30,
	2018	2017
Assets Centrally managed portfolio activities	172	3,448
Assets Siemens Real Estate	3,805	4,533
Assets Corporate items and pensions	(671)	(1,346)
Asset-based adjustments:		
Intragroup financing receivables	51,467	45,475
Tax-related assets	3,182	3,245
Liability-based adjustments	44,111	46,257
Eliminations, Corporate Treasury, other items	(41,859)	(37,100)
Reconciliation to Consolidated Financial Statements	60,207	64,512

NOTE 10 Related party transactions

Siemens has relationships with many joint ventures and associates in the ordinary course of business whereby Siemens buys and sells a wide variety of products and services generally on arm's length terms. The transactions with joint ventures and associates were as follows:

(in millions of €)	Sales of goods and services and other income		Purchases of goods and services and other expenses		Receivables		Liabilities	
	First half		First half		Mar 31,	Sep 30,	Mar 31,	Sep 30,
	FY 2018	FY 2017	FY 2018	FY 2017	2018	2017	2018	2017
Joint ventures	970	983	61	65	222	277	103	126
Associates	130	315	115	84	43	43	225	266
	1,100	1,298	176	150	266	320	328	392

As of March 31, 2018 and September 30, 2017, guarantees for joint ventures and associates amounted to €522 million and €726 million, respectively. As of March 31, 2018 and September 30, 2017, loans given to joint ventures and associates amounted to €266 million and €222 million, therein €263 million and €218 million related to joint ventures, respectively. As of March 31, 2018 and September 30, 2017 there were loan commitments to joint ventures amounting to €105 million and €147 million, respectively.

C. Additional information

C.1 Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for half-year financial reporting, the Half-year Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Munich, May 8, 2018

Siemens Aktiengesellschaft

The Managing Board

Joe Kaeser

Dr. Roland Busch

Lisa Davis

Klaus Helmrich

Janina Kugel

Cedrik Neike

Michael Sen

Dr. Ralf P. Thomas

C.2 Review report

To Siemens Aktiengesellschaft, Berlin and Munich

We have reviewed the half-year consolidated financial statements comprising the consolidated statements of income, comprehensive income, financial position, cash flows and changes in equity, and notes to half-year consolidated financial statements, and the interim group management report, of Siemens Aktiengesellschaft, Berlin and Munich for the period from October 1, 2017 to March 31, 2018 which are part of the half-year financial report pursuant to Sec. 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the half-year consolidated financial statements in accordance with IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the half-year consolidated financial statements and the interim group management report based on our review.

We conducted our review of the half-year consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW - Institute of Public Auditors in Germany) and in supplementary compliance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the half-year consolidated financial statements are not prepared, in all material respects, in accordance with IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU and that the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed a financial statement audit and, accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the half-year consolidated financial statements are not prepared, in all material respects, in accordance with IFRS applicable to interim financial reporting as issued by the IASB and as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Munich, May 8, 2018

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Spannagl

Breitsameter

Wirtschaftsprüfer

Wirtschaftsprüferin

C.3 Notes and forward-looking statements

This document contains statements related to our future business and financial performance and future events or developments involving Siemens that may constitute forward-looking statements. These statements may be identified by words such as “expect,” “look forward to,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” “will,” “project” or words of similar meaning. We may also make forward-looking statements in other reports, in presentations, in material delivered to shareholders and in press releases. In addition, our representatives may from time to time make oral forward-looking statements. Such statements are based on the current expectations and certain assumptions of Siemens’ management, of which many are beyond Siemens’ control. These are subject to a number of risks, uncertainties and factors, including, but not limited to those described in disclosures, in particular in the chapter Risks in the Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying expectations not occur or assumptions prove incorrect, actual results, performance or achievements of Siemens may (negatively or positively) vary materially from those described explicitly or implicitly in the relevant forward-looking statement. Siemens neither intends, nor assumes any obligation, to update or revise these forward-looking statements in light of developments which differ from those anticipated.

This document includes – in the applicable financial reporting framework not clearly defined – supplemental financial measures that are or may be alternative performance measures (non-GAAP-measures). These supplemental financial measures should not be viewed in isolation or as alternatives to measures of Siemens’ net assets and financial positions or results of operations as presented in accordance with the applicable financial reporting framework in its Consolidated Financial Statements. Other companies that report or describe similarly titled alternative performance measures may calculate them differently.

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

This document is an English language translation of the German document. In case of discrepancies, the German language document is the sole authoritative and universally valid version.

For technical reasons, there may be differences between the accounting records appearing in this document and those published pursuant to legal requirements.

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