

Siemens AG's new performance metrics:

Return on Capital Employed and Cash Conversion Rate

This document provides the definitions and calculations of the new business metrics Return on Capital Employed and Cash Conversion Rate. Figures published in the company's financial reports were used to establish the values for these metrics for previous fiscal years. This means that through fiscal 2004, calculated values are based on the consolidated financial statements prepared in accordance with U.S. GAAP. From 2005 on, values used in the calculations are based on IFRS.

To ensure that the representation of the new metrics is transparent and understandable, beginning with the third quarter of fiscal 2007 Siemens will adjust its financial statement so that the cash conversion rate is apparent or can be calculated quickly.

In the "Segment Information" table, Siemens will report "free cash flow" instead of "net cash from operating and investing activities" (net cash). In the future, the concept of capital spending, which was formerly all-inclusive, will cover only additions to intangible assets and property, plant and equipment, and in place of total amortization, depreciation and impairments, the figures will show only amortization of intangible assets and depreciation of property, plant and equipment. These latter two figures can be used to calculate the capex-ratio directly for both the Groups and the company as a whole. Net cash at the corporate level can still be determined directly from the Consolidated Statements of Cash Flow.

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Return on Capital Employed (ROCE)

$$\text{ROCE} = \frac{\text{Net income (before interest)}}{\text{Average capital employed}}$$

Source

Net income	(Consolidated Statements of Income)
+/- Other interest income, net	(Notes to the Financial Statements)
<u>+/- Taxes on Other interest income, net</u>	
= Net income (before interest)	
Total Equity	(Consolidated Balance Sheets)
+ Long-term debt	(Consolidated Balance Sheets)
+ Short-term debt and current maturities of long-term debt	(Consolidated Balance Sheets)
<u>- Cash and cash equivalents</u>	(Consolidated Balance Sheets)
= Capital employed	
Calculation of average capital employed using the "five-point average"	

Notes:

- The values needed for the calculation can be obtained from the Consolidated Statements of Income, the Consolidated Balance Sheets, and the Notes to the Consolidated Financial Statements (for "Other interest income, net," in the note "Financial income, net").
- Because ROCE is an after-tax figure, the tax impact on "Other interest income, net" must also be taken into account. In simplified form, this is done by applying the current tax rate that can be derived from the Consolidated Statements of Income to the "Other interest income, net."
- Normally, the figure for capital does not relate to a reporting date; instead, the return is determined from the average capital tied up during the reporting period. In reviewing its fiscal year, Siemens calculates average capital employed as a "five-point average", obtained by averaging the capital at the beginning of the first quarter plus the final figures for all four quarters of the fiscal year. Using multiple reporting dates prevents one-time effects from distorting the calculation.
- Because Siemens reports material discontinued operations, Siemens also calculates ROCE on a "continuing operations" basis. For this purpose, Siemens uses "Income from continuing operations" rather than "Net income". The capital base is adjusted by the net figure for "assets classified as held for disposal" less "liabilities associated with assets classified as held for disposal" taken from the Consolidated Balance Sheets.

Past values

(in € millions; reporting in accordance with U.S. GAAP through 2004
and in accordance with IFRS from 2005 onward)

	2001	2002	2003	2004	2005	2006	2007 first six months
ROCE	5.7%	8.4%	9.1%	12.9%	9.8%	10.5%	11.8%
Net income (before interest) ⁽¹⁾	1,867	2,457	2,382	3,357	2,449	3,178	2,070
Average capital employed ⁽²⁾	32,989	29,096	26,131	25,955	25,005	30,319	17,482
ROCE Continuing operations	5.7%	8.4%	9.1%	12.9%	12.4%	10.0%	13.2%
Income from continuing operations (before interest) ⁽¹⁾	1,867	2,457	2,382	3,357	3,111	2,950	2,133
Average capital employed ^{(2)/(3)}	32,989	29,096	26,131	25,955	25,027	29,593	16,185

Presentation based on as-reported data, not adjusted for portfolio or currency effects (for illustration purposes only).

- (1) Includes minority interests (values presented comparably under U.S. GAAP; minority interests are also taken into account in capital employed).
- (2) Average ("five-point average") based on values published in financial reports. For years when no figures over the course of the year were either published or available, the average is calculated on the basis of the figures at the beginning and end of the fiscal year. For the first six months of fiscal year 2007 Siemens applied a "three-point average"; capital employed was divided by two in order to compare it with the ROCE figures on fiscal year basis.
- (3) The adjustment for "assets classified as held for disposal" and "liabilities associated with assets classified as held for disposal" applies to the values shown in the balance sheets. For fiscal 2005, this means that the adjustment includes the assets and liabilities of the Mobile Devices business only, shown as of the reporting date.

Cash Conversion Rate (CCR)

$$\text{CCR} = \frac{\text{Free cash flow}}{\text{Net income}}$$

Free cash flow = Net cash provided by (used in) operating activities
+ additions to intangible assets and property, plant and equipment

Because Siemens reports material discontinued operations, this metric is also shown on a continuing operations basis, so Siemens uses "Income from continuing operations" for the calculation. Free cash flow is included in the calculations also on the basis of continuing operations.

Past values

(in € millions; reporting in accordance with U.S. GAAP through 2004
and in accordance with IFRS from 2005 onward)

	2001	2002	2003	2004	2005	2006	2007 first six months
Cash conversion rate	-0.02	0.64	1.13	0.65	0.01	0.48	0.36
Free cash flow	-32	1,670	2,860	2,316	18	1,607	735
Net income ⁽¹⁾	1,897	2,626	2,541	3,571	2,660	3,335	2,047
Cash conversion rate Continuing operations	-0.02	0.64	1.13	0.65	0.25	0.64	1.11
Free cash flow	-32	1,670	2,860	2,316	834	1,983	2,350
Income from continuing operations ⁽¹⁾	1,897	2,626	2,541	3,571	3,322	3,107	2,110

Presentation based on as-reported data, not adjusted for portfolio or currency effects (for illustration purposes only).

(1) Includes minority interests (values presented comparably under U.S. GAAP).