Annual Report 2018

siemens-healthineers.com

SIEMENS Healthineers

Table of contents

"Thanks to the depth and breadth of its portfolio, Siemens Healthineers is ideally positioned to meet the challenges of worldwide population growth and increasing life expectancies."

Michael Sen
Chairman of the
Supervisory Board

Dear Shareholders,

Fiscal year 2018 represented a milestone in the corporate history of both, Siemens and Siemens Healthineers. For the first time since Siemens AG was established in 1966, Siemens took one of the original constituent companies public, placing Siemens Healthineers on the path toward greater entrepreneurial independence.

The rationale behind the IPO – the world's largest in the healthcare sector to date – has been to open up opportunities for a focused med-tech company that can compete effectively in the growing and constantly changing healthcare market. In doing so, Siemens AG chose to adequately balance business stability and entrepreneurial freedom by retaining an 85% stake in Siemens Healthineers. Siemens AG as an anchor shareholder can thus provide a long-term orientation to evolve the business and allow for sustainable value creation. This will ultimately serve all shareholders' interests.

„The rationale behind the IPO – the world's largest in the healthcare sector to date – has been to open up opportunities for a focused med-tech company that can compete effectively in the growing and constantly changing healthcare market."

Siemens Healthineers has the freedom to shape its own business structures and processes to meet the unique needs of their respective healthcare industry. With direct access to the capital markets, Siemens Healthineers is set to address the paradigm shift in healthcare and to shape the healthcare industry out of a position of strength and long-term profitability. Both the company's business performance and share price, which has increased significantly since it was first listed, validate the sound reasoning behind our milestone IPO.

Thanks to the depth and breadth of its portfolio, Siemens Healthineers is ideally positioned to meet the challenges of worldwide population growth and increasing life expectancies – along with the associated societal, technological and economic consequences. These challenges can only be addressed by innovations, many of which will be disruptive. Fundamental technologies of the 21st century, such as digitalization and artificial intelligence, will play prominent roles by enabling new developments in precision medicine and personalized therapies. At the same time, new digital technologies will transform patients from passive recipients of healthcare to active "managers" of their own health. Siemens Healthineers has captured its vision of 21st century healthcare in the form of Strategy 2025, which defines both a framework for action and a strategic approach to future development.

"Siemens Healthineers has captured its vision of 21st century healthcare in the form of Strategy 2025, which defines both a framework for action and a strategic approach to future development."

In the course of the IPO of Siemens Healthineers AG, the Supervisory Board held its constitutive meeting with its current composition of nine members on March 2, 2018. The nine members of the Supervisory Board have many years of experience in management and leadership, and possess a broad range of expertise. At the same time, the Board's composition ensures that independent shareholder representatives' voices are heard in the Supervisory Board of Siemens Healthineers AG. I myself as Chairman, Dr. Norbert Gaus as Deputy Chairman, Dr. Andreas C. Hoffmann, Dr. Nathalie von Siemens and Dr. Ralf P. Thomas joined the Supervisory Board as representatives of the company's majority shareholder, Siemens. Dr. Marion Helmes, Dr. Philipp Rösler, Dr. Gregory Sorensen and Karl-Heinz Streibich were elected as independent members. At the beginning of their terms, the members of the Supervisory Board were familiarized with Siemens Healthineers' fields of activity in a structured introduction process.

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

In the name of the Supervisory Board, I wish to thank all the employees of Siemens Healthineers for their commitment and hard work in the past year. I also wish to thank the members of the Managing Board, who have successfully guided the company through a demanding year.

And I especially wish to thank you, our shareholders, for the trust and confidence you placed in our company and its management, employees and technologies in the past year.

Topics at the plenary meetings of the Supervisory Board

Matters for the current Supervisory Board

The Supervisory Board, with its current nine-member composition, held three regular meetings in fiscal year 2018 and adopted one resolution by written circulation. Topics of discussion at our regular plenary meetings were revenue, profit and employment development at Siemens Healthineers, as well as the financial position and the results of its operations. We also concerned ourselves when required with certain risks to the company.

The constitutive meeting of the Supervisory Board was held on March 2, 2018. At this meeting, the Chairman and Deputy Chairman of the Supervisory Board were elected, and the Board's various committees were appointed. We addressed questions of the remuneration of members of the Managing Board and concerned ourselves with the German Corporate Governance Code; its recommendations and suggestions have become applicable to Siemens Healthineers AG as a result of the IPO.

At our meeting on May 2, 2018, the Managing Board reported to us on the Siemens Healthineers' current business and financial position following the conclusion of the second quarter, as well as the organizational refocusing of the company, which is structured in three segments (Imaging, Advanced Therapies, Diagnostics), three business horizontals (Digital Services, Enterprise Services, Customer Services) and three regions. We concerned ourselves with monitoring the company's compliance with the law, regulations and internal guidelines, and the related activities of the internal audit unit. We addressed questions of remuneration of the members of the Managing Board and discussed the targets for the share of women on the Managing Board and Supervisory Board.

At our meeting on July 27, 2018, the Managing Board reported to us on the company's business development during the third quarter of fiscal year 2018, and presented us with the Strategy 2025 corporate strategy. We concerned ourselves with the declaration of conformity with the German Corporate Governance Code and set the targets for the share of women on the Managing Board and Supervisory Board, as explained in further detail in chapter → ***C.3.2 Corporate Governance statement pursuant to Sections 289f and 315d of the German Commercial Code***. We furthermore agreed to order an external review of the appropriateness of remuneration for the Managing Board and of the system of remuneration for that Board.

On completion of an open bidding procedure for the auditing of the annual financial statements of Siemens Healthineers AG for fiscal year 2019, and on the basis of a recommendation of the Audit Committee we decided by written circulation to propose Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to the Shareholders' Meeting as the independent auditors.

Matters for the initial Supervisory Board

The initial Supervisory Board of Siemens Healthineers AG was formed at the time of the Company's foundation on December 1, 2017. During the preparatory phase of the IPO, it comprised three representatives of the then sole shareholder, Siemens AG. The initial Supervisory Board held five meetings. On the date of formation of the Company, the Chairman and Deputy Chairman of the Supervisory Board were elected at the Board's constitutive meeting. During that meeting, the Supervisory Board appointed the members of the first Managing Board.

At the meeting on February 2, 2018, the Supervisory Board dealt with and adopted the post-foundation reports concerning the contribution agreements with Siemens AG, Siemens Beteiligungsverwaltung GmbH & Co. OHG, and Siemens France Holding S.A.S. At the meetings on February 16 and 21, 2018, the Supervisory Board appointed Dr. Bernhard Montag President and Chief Executive Officer (CEO), and named Dr. Jochen Schmitz and Michael Reitermann members of the Managing Board, effective March 1, 2018. At these two meetings the Board furthermore concerned itself with the system for remuneration of the Managing Board and the appropriateness of that remuneration, and approved the service agreements with the new members of the Managing Board as well as the addenda to service agreements of the Managing Board members with additional companies.

At the meeting of February 26, 2018, the Supervisory Board adopted the bylaws for the Supervisory Board and Managing Board, along with the business responsibility allocation for the Managing Board. It consented to the resignations of the members of the initial Managing Board, effective at the end of the day on February 28, 2018.

Corporate Governance Code

We adopted a declaration of conformity under Section 161 of the German Stock Corporation Act ("Aktiengesetz") for the first time as of September 30, 2018. Information on corporate governance at Siemens Healthineers is available in chapter →***C.3 Corporate Governance***. The declaration of conformity has been made permanently available to our shareholders on the company's website. It is also available in chapter →***C.3.2 Corporate Governance statement pursuant to Sections 289f and 315d of the German Commercial Code***.

Work in the Supervisory Board committees

The Supervisory Board has established three standing committees, which prepare proposals and issues to be dealt with at its plenary meetings. Some of the Supervisory Board's decision-making powers have also been delegated to these committees within the permissible legal framework. The committee chairpersons report to the Supervisory Board on their committees' work at the subsequent Board meetings. A list of the members and a detailed explanation of the tasks of the individual Supervisory Board committees are contained in chapter →***C.3.1.2 Supervisory Board***.

The ***Chairman's Committee*** met three times during the reporting period after it was formed. Between meetings, I discussed topics of major importance with the members of the Chairman's Committee. The committee concerned itself, in particular, with personnel and remuneration topics of the Managing Board and corporate governance issues, and prepared the associated resolutions of the Supervisory Board.

The ***Innovation and Finance Committee*** met twice during the reporting period after it was formed. It also adopted one resolution by written circulation. Its deliberations focused on discussing strategy and the market launch of Atellica Solution in the Diagnostics segment. The Innovation and Finance Committee also approved a financing measure and the implementation of the design look for (the) Siemens Healthineers (brand).

The ***Audit Committee*** held two regular meetings during the reporting period after it was formed, and one extraordinary meeting. It also adopted three resolutions by written circulation. It discussed the half-year financial report and the quarterly statements with the Managing Board and the independent auditors. In the presence of the independent auditors, it also discussed the report on the auditors' review of the Groups's half-year consolidated financial statements and of its interim Group management report. The committee commissioned the independent auditors engagement for the annual and consolidated financial statements for fiscal year 2018 and for the auditors' review of the interim financial statements and financial information, defined the focal points for the audits, and determined the auditors' fee. The committee monitored the selection, independence, qualification, rotation and efficiency of the independent auditors. Furthermore, the Audit Committee dealt with the company's accounting and accounting process, the effectiveness of its internal control system, its risk management system and the effectiveness, resources, findings and audit plan for the internal audit as well as with reports concerning compliance, regulatory compliance, and potential and pending legal disputes.

Under the Audit Committee's responsibility, during the reporting period Siemens Healthineers AG conducted an open bidding procedure for the engagement to audit the annual and consolidated financial statements and for the auditor's review of the condensed interim consolidated financial statements for fiscal year 2019. The procedure for selecting the independent auditors was conducted in compliance with the EU Audit Regulation (Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC), and the national laws implementing that Regulation. Three audit firms participated in the selection procedure. At the extraordinary meeting of the Audit Committee on July 25, 2018, the bidders introduced themselves to the committee. Their written bids and presentations were assessed using an evaluation procedure. Based on that evaluation, the Audit Committee recommended two applicants to the Supervisory Board in August 2018 as potential future independent auditors, and stated a recommendation in favor of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The Audit Committee declared that its recommendation was free of undue influence of third parties, and in particular that it was not subject to any clause limiting its selection to particular auditors. The Audit Committee was consequently free to make its own decision.

Detailed discussion of the audit of the financial statements

The independent auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (Stuttgart, Germany), audited the annual financial statements of Siemens Healthineers AG, the consolidated financial statements of Siemens Healthineers and the combined management report for Siemens Healthineers AG and the Group for fiscal year 2018 and issued an unqualified opinion. The annual financial statements of Siemens Healthineers AG and the combined management report for Siemens Healthineers AG and the Group were prepared in accordance with the requirements of German law. The consolidated financial statements of the Group were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with the additional requirements of German law set out in Section 315e (1) of the German Commercial Code ("Handelsgesetzbuch"). The consolidated financial statements of Siemens Healthineers also comply with IFRS as issued by the International Accounting Standards Board (IASB). The independent auditors conducted their audit in accordance with Section 317 of the German Commercial Code, the EU Audit Regulation and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in supplementary compliance with the International Standards on Auditing (ISA). The aforementioned documents, as well as the Managing Board's proposal for the appropriation of net income, were submitted to us by the Managing Board in advance. The Audit Committee discussed the dividend proposal in detail at its meeting on November 2, 2018. It discussed the annual financial statements of Siemens Healthineers AG, the consolidated financial statements of the Group and the combined management Report in detail at its meeting on November 21, 2018. In this context, the Audit Committee concerned itself, in particular, with key audit matters as described in the independent auditors' report, including the audit procedures implemented. The audit reports prepared by the independent auditors were distributed to all members of the Supervisory Board and comprehensively reviewed at the Supervisory Board's meeting on November 21, 2018, in the presence of the independent auditors, who reported on the scope, focal points and main findings of their audit, addressing, in particular, key audit matters and the audit procedures implemented. Nomajor weaknesses in the internal control or risk management systems were reported. At this meeting, the Managing Board explained the financial statements of Siemens Healthineers AG and the Group as well as the risk management system. At its meeting on November 21, 2018, the Supervisory Board also approved the proposal to the annual Shareholders' Meeting, taking into account the Audit Committee's recommendation regarding the election of the independent auditors. This proposal was based on the Audit Committee's declaration that its recommendation was free of undue influence by third parties and that it had not entered into any contractual clause that could restrict this choice within the meaning of Art. 16 (6) of the EU Audit Regulation.

The Supervisory Board concurs with the results of the audit. Following the definitive findings of the Audit Committee's examination and our own examination, we have no objections. The Managing Board prepared the annual financial statements of Siemens Healthineers AG and the consolidated financial statements of the Group. We approved the annual financial statements and the consolidated financial statements. In view of our approval, the annual financial statements of Siemens Healthineers AG are adopted as submitted. We endorsed the Managing Board's proposal that the net income available for distribution be used to pay out a dividend of €0.70 per share entitled to a dividend and that the amount of net income attributable to shares of stock not entitled to receive a dividend for fiscal year 2018 be carried forward.

Review of the Managing Board's report on relationships with affiliated companies

At the end of the fiscal year, Siemens AG (directly and indirectly) held 85% of the issued capital of Siemens Healthineers AG. Siemens Healthineers AG is included as a fully consolidated subsidiary in the consolidated financial statements of Siemens AG.

For that reason, the Managing Board of Siemens Healthineers AG has prepared a report on relationships with affiliated companies (dependent company report) for the short fiscal year 2018 in accordance with Section 312 of the German Stock Corporation Act, and submitted it in good time to the Supervisory Board. The dependent company report was audited by the Company's independent auditors. Since pursuant to the final results of the audit no objections were raised, the independent auditor issued the following audit certificate in accordance with Section 313 (3) of the German Stock Corporation Act: "Based on our audit and assessment, which were carried out in accordance with professional standards, we confirm that (1.) the factual statements made in the report are correct, (2.) the payments made by the Company in connection with legal transactions detailed in the report were not unreasonably high, (3.) there are no circumstances that would require a materially different assessment of the measures listed in the report than that of the Managing Board."

The dependent company report and the independent auditors' audit report were submitted to the Audit Committee and the Supervisory Board and were reviewed by them. The review led to no objections. In accordance with the final results of the review by the Audit Committee and our own review, the Supervisory Board has raised no objections to the Managing Board's declaration on relationships with affiliated companies. The results of the independent auditors' audit of the dependent company report have been approved.

Changes in the composition of the Supervisory and Managing Boards

The initial Supervisory Board of Siemens Healthineers AG was appointed when the Company was founded on December 1, 2017, and as called for in the articles of association at that time, had three members: Peter Kastenmeier (Chairman), Steffen Grossberger (Deputy Chairman) and Martin Rohbogner. These three members' term of office ended at the end of the day on February 28, 2018. After a status assessment procedure, the Supervisory Board was expanded first to eight and then to nine members, to be elected by the shareholders. Three extraordinary Shareholders' Meetings were held in February 2018 at which Dr. Norbert Gaus, Dr. Marion Helmes, Dr. Andreas C. Hoffmann, Michael Sen, Dr. Nathalie von Siemens, Dr. Gregory Sorensen, Karl-Heinz Streibich and Dr. Ralf P. Thomas were elected to the Supervisory Board, effective March 1, 2018, and Dr. Philipp Rösler was elected to the Board, effective March 2, 2018. The Supervisory Board members' term of office ends at the conclusion of the annual Shareholders' Meeting in 2023.

On December 1, 2017, the foundation date of Siemens Healthineers AG, the initial Supervisory Board appointed Carina Schätzl and Wolfgang Seltmann as regular members of the Managing Board, with immediate effect and with a term until December 31, 2018. Both members of the Managing Board resigned from their positions with effect as of the end of the day on February 28, 2018. On February 16 and 21, 2018, respectively the initial Supervisory Board named Dr. Bernhard Montag a regular member of the Managing Board, effective March 1, 2018, and appointed him president and CEO, and appointed Dr. Jochen Schmitz and Michael Reitermann as regular members of the Managing Board, also effective March 1, 2018. Each of these appointments to the Managing Board ends at the end of the day on February 28, 2021.

Munich, November 21, 2018
For the Supervisory Board

Best,

Michael Sen
Chairman

“Siemens Healthineers, a leading partner for healthcare providers worldwide, has taken on the task of helping to shape the healthcare of the future.”

Dr. Bernhard Montag
Chief Executive Officer

Dear Shareholders,

For some time now, the healthcare sector has been undergoing profound changes. As the world's population continues to grow and life expectancy rises, chronic diseases have become more prevalent as well. As a result, cost pressure has increased, yielding a greater need for solutions to enhance efficiency. In addition to these challenges there is a shortage of healthcare professionals. Siemens Healthineers, a leading partner for healthcare providers worldwide, has taken on the task of helping to shape the healthcare of the future. Our goal is to contribute to providing more people with access to efficient, effective, affordable healthcare services. Now, as a listed company, we gained additional independence and flexibility to focus better on achieving this goal and to sustainably grow our company's value.

"March 16, 2018, marked the beginning of Siemens Healthineers' history as a new company. Despite temporarily volatile stock markets, our share has performed well."

Fiscal year 2018: Targets achieved

March 16, 2018, marked the beginning of Siemens Healthineers' history as a new company. Despite temporarily volatile stock markets, our share has performed well – this is also due to our success in achieving all the goals we had set ourselves for fiscal year 2018. We generated total revenue of €13.4 billion, equivalent to a 4% gain after adjustment for portfolio and currency effects; here we had targeted an increase of 3% to 4% for the year under review. The adjusted profit for the year was €2.3 billion – representing a profit margin of 17.2%; the target range we had set ourselves was 17% to 18%. Based on our very positive business performance, the Managing Board recommends a dividend of €0.70 per share. This means that for our very first year of operation, we'll be able to pay out a dividend equal to 55% of net income – some €700 million in all.

4%

We generated **total revenue of €13.4 billion,** equivalent to a 4% gain after adjustment for portfolio and currency effects.

A market with bright prospects

The healthcare sector has seen above-average growth in comparison to other industries for a good many years now. In addition to the fundamental trends already addressed above, the most significant developments are taking place in five strategic growth areas, which we address as key thrusts of our Strategy 2025:

- First, we will take advantage of our unique position in the in-vivo and in-vitro markets to make medicine more precise.
- Second, we're at work on the therapies of tomorrow, which will be better targeted and more patient-friendly.
- Third, we're developing applications for coordinating and optimizing patients' journey through the healthcare systems.
- Fourth, we're developing a range of technology-enabled services intended to make customers' in-house processes more efficient and more patient-friendly.
- Fifth, we're expanding our capabilities and applications in digitalization and artificial intelligence so we can strengthen our position in all the above areas.

We're constantly investing in refining and expanding our business portfolio within these growth areas. In fiscal year 2018 alone, we set aside €1.3 billion for our research and development activities. Our sound capital structure gives us the head room we need for strategic takeovers.

€ 1.3 billion

In fiscal year 2018 alone, we set aside **€1.3 billion for our research and development activities.**

A still-growing market share

We also made use of the past fiscal year to reorganize and prepare better for the challenges that lie ahead. By expanding our global presence, we strengthened our market position and further enhanced customer proximity. This past summer, we opened our new software development center with 1,800 employees in Bangalore, India. In early October, we celebrated the inauguration of our new headquarters in Erlangen, Germany, and two weeks later laid the cornerstone for our new diagnostics plant in Shanghai. In early December 2018, we will inaugurate the capacity expansion at our laboratory diagnostics reagent production facility in Walpole, Massachusetts, USA.

Advancing digitalization through partnerships

Our very large installed base of more than 600,000 devices worldwide enables us – through our partnerships with clinics – to draw upon a massive pool of data to further enhance medical care. Digitalization, in particular, is a field that offers vast opportunities to provide patients with better, more individualized treatment. No single organization can develop such solutions all by itself – which is why we have relied for years on building partnerships with universities, research institutes, and especially our customers. Today, Siemens Healthineers has partnerships with 90 of the world's top 100 healthcare providers.

"Today, Siemens Healthineers has partnerships with 90 of the world's top 100 healthcare providers."

A network of competence made up of 50,000 employees in 75 countries

With their ideas and their passion, our employees are shaping the healthcare systems of tomorrow. We're dedicated to working both with the customer and for the customer. At the same time, increasing numbers of Siemens Healthineers employees are coming to feel ties with our company that go beyond mere employment. Today, almost one out of every two company employees worldwide is already a shareholder of the company as well. We expect that figure to grow further with the launch of our new employee share program in fiscal year 2019.

"A network of competence made up of 50,000 employees in 75 countries."

Looking forward to a successful fiscal year 2019

Our very successful fiscal year 2018 has encouraged us to set more ambitious goals for fiscal year 2019. On a comparable basis, we have set a growth target of 4% to 5% for revenue, and a target of between 17.5% and 18.5% for profit margin, adjusted for severance charges. We are thus aiming for earnings per share 20% to 30% above the level from fiscal year 2018. In this first year since our IPO, we are also doing very well on the operations front, and our pipeline of new products is well-filled. Siemens Healthineers is an attractive company, and we will continue to justify the trust that our shareholders have placed in us.

Best,
B. Montag

Dr. Bernd Montag,
Chief Executive Officer

A.

Combined management report

A.1 Business environment

A.1.1 Organization and business description

Organization

We are a global provider of healthcare solutions and services, with activities in numerous countries around the world. Siemens Healthineers Group (hereinafter referred to as "Siemens Healthineers" or the "Group") comprises the parent company Siemens Healthineers AG, a stock corporation under the laws of the Federal Republic of Germany, and its subsidiaries. Siemens Healthineers AG was founded and entered in the commercial register in Munich, Germany, in December 2017. The Group's business operations are conducted by Siemens Healthcare GmbH and Siemens Healthineers Beteiligungen GmbH & Co. KG as well as their direct and indirect subsidiaries. As of September 30, 2018, Siemens Healthineers had about 50,000 employees.

Our corporate structure changed substantially in the first half of fiscal year 2018 and prior periods in the course of the separation from Siemens AG and its subsidiaries (hereinafter referred to as the "Siemens Group"). For further information on the separation from the Siemens Group, please refer to → ***Note 1 Basis of presentation*** in the notes to the consolidated financial statements.

IPO

On March 16, 2018, Siemens Healthineers AG successfully performed its stock market debut by trading its shares for the first time on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange. In total, 150,000,000 ordinary registered shares (including over-allotments), representing a free float of 15 %, were placed at the IPO by the Siemens Group, which received the resulting proceeds. The Siemens Group owns 85 % in Siemens Healthineers AG.

On June 18, 2018, the newly listed company, trading under the ticker symbol SHL, entered the TecDAX via the fast-entry rule. On September 24, 2018, with the beginning of the new indices structure at Deutsche Börse, it also became part of the MDAX. On September 28, 2018, Siemens Healthineers AG's share closed on the Frankfurt Stock Exchange at € 37.88, which was well above the placement price of € 28.00.

Business description

Siemens Healthineers is a global provider of healthcare solutions and services with a unique presence and scale in an attractive market. With our three leading businesses and holistic system competence, we develop, manufacture and sell a diverse range of market-leading and innovative imaging, diagnostic and advanced therapies products and services to healthcare providers around the world. We also provide clinical consulting services, supported by an extensive range of trainings and service offerings. This comprehensive portfolio supports customers all along the care continuum, from prevention and early detection to diagnosis, treatment and follow-up care.

Because large portions of our revenue stems from recurring business, our business activities are resilient to a certain extent against short-term economic trends. However, we are dependent on regulatory and policy developments around the world.

The global healthcare market served by Siemens Healthineers is undergoing a process of transformation that puts healthcare providers under pressure for better outcomes at lower cost. This transformation is driven partly by society's increasing resistance to healthcare costs, payers' increasing professionalization, a shift to value-based reimbursement, a burden from chronic disease and rapid scientific progress. As a result, healthcare providers are consolidating into networked structures, resulting in larger clinic and laboratory chains, often based internationally, which act increasingly like large corporations. Applying this industrial logic to the healthcare market can lead to systematic improvements in quality, while at the same time reducing costs. To capture these benefits, regulatory schemes around the world increasingly seek to shift healthcare reimbursement systems away from a pay-per-procedure model towards an outcome-based model.

Delivering quality and affordable healthcare requires scalable solutions to meet the needs of a spectrum of healthcare providers in more than 180 countries worldwide. This spectrum ranges from public and private healthcare providers, including hospitals and hospital systems, public and private clinics and laboratories, universities, physicians/physician groups, public health agencies, state-run and private health insurers, to pharmaceutical companies and clinical research institutes. We offer different solutions tailored to the customers' needs for all market segments.

Our business operations are divided into three segments: Imaging, Diagnostics and Advanced Therapies.

Our Imaging segment is a leading global provider of imaging products, services and solutions. Our most important products within this segment are modalities including magnetic resonance, computed tomography, X-ray systems, molecular imaging and ultrasound. All our imaging and therapy systems are driven by software platforms that are in common use. We provide a broad and scalable range of software applications to support multi-modality reading and structured reporting. We generate significant periodic revenues from our customer services business (services and spare parts) due to our strong and growing installed base and long-term service relationships. These provide a stable foundation for profits. The Imaging market is currently benefiting from a paradigm shift towards precision medicine and an increasing utilization of imaging devices in therapy, screening and intervention. A moderate level of consolidation is one of the key characteristics of the global Imaging market. The top three players (Siemens Healthineers, GE Healthcare and Philips) account for approximately 68% of the market (excluding ultrasound).

Our Diagnostics segment is a leading global provider of diagnostic products and services that we offer to healthcare providers in laboratory, molecular and point-of-care diagnostics, including critical and chronic care. The large share of revenues that we generate from reagents, consumables and services strengthens our relationship with our customers and provides a predictable and resilient revenue stream. The Diagnostics market is fragmented with a variety of global players that compete internationally across market segments, but that also face competition from several regional players and specialized companies in niche technologies. Factors that generate negative pricing pressure are scheduled reimbursement cuts in key regions, as well as ongoing consolidation among laboratory chains and hospitals, placing them in a position to demand more favorable pricing. As testing volume has increased over the years, hospitals and diagnostic laboratories who are the primary end-user groups have been pushed to control expenditures on diagnostic products. This trend has been particularly notable in developed regions such as the United States and Western Europe, where price reductions have taken place in previous years.

Our Advanced Therapies segment is a leading global player in the production of highly integrated products, solutions and services across multiple clinical fields. We provide these to therapy departments of healthcare providers. Our Advanced Therapies products facilitate minimally invasive treatment through the use of image-guided therapy, which has seen growth in recent years in areas such as cardiology, interventional radiology, surgery and radiation oncology. Our most important products in this segment are angiography systems and mobile C-arms. Our integrated business model provides a solid foundation for our business activities in this field. A number of fundamental trends are expected to define growth in the Advanced Therapies market, including minimally invasive procedures, which are emerging as the new standard in precision medicine, as well as the growing complexity of procedures that require complex technological devices. The global Advanced Therapies market can be described as consolidated; the top three players (Siemens Healthineers, GE Healthcare and Philips) account for approximately 80% of the total market.

Within these three segments we provide comprehensive services all along the customer value chain, including consulting, design, maintenance, operational management, training and education services. Our services also include such options as equipment performance management, clinical education and e-learning, asset management, managed departmental services, consulting, Digital Ecosystem and Population Health Management.

A.1.2 Research and development

Our research and development (R&D) activities are ultimately geared towards developing innovative, sustainable solutions for our customers while simultaneously safeguarding our competitiveness. Consequently, we focus these activities on a number of selected technologies and innovation fields. Siemens Healthineers' R&D activities include developing of innovative product lines that apply new technologies such as digitalization and artificial intelligence. Among other results, we expect these developments to speed up how medical information is processed and thus lead to more precise, more personalized clinical decisions. It also promises added value: new computer algorithms can detect hidden patterns in the data and give physicians valuable support in making diagnostic and therapeutic decisions.

In addition to constant innovation of our portfolio, Siemens Healthineers continually adds improvements to existing products and solutions. Systems like the recently launched Atellica Solution enhance our customers' performance. This laboratory diagnostics platform transports samples ten times faster than previous systems and is also more flexible.

The services business is expanding beyond product-related services by adding a portfolio of digital services and increasing enterprise transformation services to support customers in their transition to outcome-focused care. A major step forward in this connection is the Digital Ecosystem platform, which connects healthcare providers and solution providers and also brings together their data, applications and services. Data analytics provide users with new insights, which they can use in networking with their peers.

Our own R&D workforce operates at a variety of R&D sites around the world. The distribution of our development workforce across an internationally balanced network of sites enables us to better meet the needs of local markets and gives us access to local talent pools, allowing us to hire the best people available for the job. We supplement our internal capabilities through our relationships with strategic partners.

In fiscal year 2018, we reported R&D expenses of €1,281 million, compared to €1,253 million in fiscal year 2017. The resulting R&D intensity, defined as the ratio of R&D expenses to revenue, was 9.5% in fiscal year 2018, compared to 9.2% in fiscal year 2017. Additions to capitalized development expenses amounted to €127 million in fiscal year 2018, compared to €189 million in fiscal year 2017. Amortization of capitalized development expenses amounted to €83 million in fiscal year 2018, compared to €61 million in fiscal year 2017.

As of September 30, 2018, we had more than 18,500 granted patents, patent applications, and utility models. This is slightly above the level of fiscal year 2017.

A.2 Economic environment

A.2.1 Worldwide economic environment

After 3.2% growth in gross domestic product (GDP) in 2017, the global economy continued its acceleration at the beginning of fiscal year 2018. Then disturbing developments began to adversely affect sentiment and, thereafter, economic activity. As a result, GDP growth for calendar year 2018 is expected to remain at the 3.2% level (based on market exchange rates).

In advanced countries, 2018 GDP growth is estimated at 2.3%, unchanged from the year earlier, driven by the U.S. economy which benefited from substantial tax cuts. In contrast, emerging countries experienced a slight decline in GDP growth compared to 2017, from 4.7% to 4.6%. However, this rather small difference masks significant divergent developments. International capital flows reversed out of emerging markets, which had to deal with depreciating currencies and tightening credit conditions, especially in Argentina and Turkey, putting a significant drag on their economies. This was, along with various country-specific effects, exacerbated by monetary policy in the United States where the central bank continued on its path of monetary tightening more strictly than expected. In addition, the announcement and implementation of new and increased tariffs led to a fear of a global trade war and added significant uncertainty. In the Middle East political tensions increased with the U.S. reactivating sanctions on Iran.

In Europe, negotiations over the U.K. leaving the European Union remained complicated. Clarity on future arrangements was not forthcoming, which negatively impacted investment sentiment. Additionally, fears of a comeback of the Euro crisis came up as the new Italian government and the European Commission strongly disagreed about an Italian budget proposal and financial markets showed increasing concern.

All in all, the economic acceleration at the beginning of 2018 lost steam towards the end of the year due to these adverse effects.

The partly estimated figures presented here for GDP are based on an IHS Markit report dated October 15, 2018.

A.2.2 Market development

In addition to the global economic developments discussed above, our addressable markets are affected by four major trends. Our business is driven by various demographic trends, especially the world's growing and aging population. This increase poses major challenges for global healthcare systems but, at the same time, offers opportunities for us as demand for cost-efficient healthcare solutions continues to intensify. The second trend is the economic development in emerging countries which opens up improved access to healthcare for many people. As the middle class continues to grow, significant investment in the expansion of private and public healthcare systems will keep expanding, driving overall growth. The third trend is the increase in chronic diseases as the consequence of an aging population and environmental and lifestyle-related changes. The fourth global trend with considerable effect on our business development is the transformation of healthcare providers. Increasing cost pressure on the healthcare sector is prompting the introduction of new remuneration models for healthcare services. Digitalization and artificial intelligence are likely to be key enablers for healthcare providers as they increasingly focus on enhancing the overall patient experience, with better outcomes and an overall reduction in cost of care.

In general, our addressed markets performed well in fiscal year 2018. While demand for our products continued to grow, this growth was partially offset by price pressure on new purchases and increased utilization rates for installed systems. All our major markets are currently in a healthy state, which contributed to a slightly higher market growth in Europe, C.I.S., Africa, Middle East (EMEA) and Americas, compared to average previous years, most notably in the Imaging and Advanced Therapies markets. The Asia and Australia markets grew moderately, but at a slower pace than in previous years. U.S. Imaging markets developed incrementally more positively, whereas market growth in Diagnostics remained in mid-single digits. Still, the U.S. market environment remained challenging, as pressure on reimbursement systems and the focus on more extended utilization persisted. Government initiatives and programs, together with a strongly growing private market segment, contributed to the expected restabilization and growth of markets in China, though growth rates did not return to the levels experienced in the early 2010s.

For the healthcare industry as a whole, the trend towards consolidation continues. Competition among the leading companies is intense, especially with regard to price.

Development in the Imaging segment benefits from a wider range of applications and increasing patient access to imaging technology. The two fundamental trends in the Imaging market (shift towards precision medicine and increased utilization of imaging devices across clinical disciplines) will continue to drive demand for a broader application of imaging procedures and digitalization. Furthermore, as developments in artificial intelligence, big data and deep machine learning continue to define the future of Population Health Management, highly intelligent imaging systems will remain critical to care management and delivery. The addressable global Imaging equipment market in fiscal year 2017 amounted to approximately €17.7 billion and is expected to grow mid- to long-term at a compound annual growth rate (CAGR) of around 3%. The global market is expected to be driven by long-lasting underlying trends in all imaging modalities and all regions.

The Diagnostics market is subject to a number of fundamental factors that are expected to keep driving the industry in the years ahead, among them the population and income growth in emerging markets and the rising importance of diagnostics in improving healthcare quality. Growth in the area of molecular diagnostics was particularly strong, driven by technological advances and a broader spectrum of applications. Increased awareness of wellness testing, along with a rise in non-communicable diseases, is pushing a broader segment of the population to participate more regularly in preventive testing. In addition, increased demand from emerging markets as a result of economic growth, a broader addressable market and the expansion of universal health and primary care models in those same markets open up growth opportunities for our company. Those opportunities will be further supported by governments' rising investment in extending healthcare infrastructure in the rural communities of developing countries. Finally, the improvement of diagnostics techniques, potential for new tests and an increased focus on precision medicine are expected to drive an incremental market expansion. The global Diagnostics market amounted to approximately €31.9 billion in fiscal year 2017 with an expected mid- to long-term CAGR of around 5%.

The Advanced Therapies market is largely influenced by developments in medical procedures. It is estimated that approximately half of the growth in the number of procedures will be reflected in demand for equipment. For example, open surgery as a standard procedure for operations is accompanied by long recovery time, high risk of complications and high costs for hospitals. Driven by technological innovations in imaging, robotics, medical devices and IT, minimally invasive procedures are emerging as the new standard, as they counteract the disadvantages and result in, among other things, lower risks of complications, smaller scars, faster recovery time, less post-operative pain, shorter hospital stays and lower costs. Additionally, new and more complex procedures across all interventional clinical disciplines require complex technological devices to support these procedures. The addressable equipment market for our Advanced Therapies segment in fiscal year 2017 (excluding radiation oncology) amounted to approximately €2.9 billion and is expected to grow mid- to long-term at a CAGR of around 4%. Market growth is primarily driven by sustainable growth trends across all clinical fields, and particularly in minimally invasive procedures.

A.3 Financial performance system

Key performance indicators (KPIs)

Our KPI for managing and monitoring revenue growth is comparable revenue growth, because it shows the development in our business net of currency translation effects, which arise from the external environment outside of our control, and portfolio effects, which involve business activities that are either new to our business or no longer a part of it. For Siemens Healthineers, revenue is defined as consolidated Siemens Healthineers' revenue as reported in the consolidated statements of income. At the segment level, revenue is defined as total revenue and corresponds to the sum of external and intersegment revenue.

We use the profit margin as the KPI in evaluating our operating performance. Profit is defined as income before income taxes, financing interest, centrally carried pension service and administration expenses (only excluded from segment profit) and amortization of intangible assets acquired in business combinations. Profit margin is defined as the profit of Siemens Healthineers, or of the particular segment concerned, divided by its (total) revenue. In fiscal year 2018, Siemens Healthineers incurred one-time external costs directly linked to the IPO, which are primarily recognized in corporate items. In addition, expenses for severance charges mainly related to personnel restructuring programs have been incurred. Both IPO and severance charges were items that did not reflect the underlying performance of the business and therefore adversely affected the comparability of the profit. Therefore, we adjusted the profit and the profit margin figures, as defined above, for these effects (adjusted profit and adjusted profit margin). The calculation of the adjusted profit margin employed the same revenue definitions as described above. A reconciliation of profit and profit margin to adjusted profit and adjusted profit margin for the reporting period is presented in the tables in chapter →***A.4.2 Income***. A reconciliation of profit of the segments to the income before income taxes is presented in →***Note 29 Segment information*** in the notes to the consolidated financial statements.

Our midterm target for the comparable revenue growth of Siemens Healthineers is 4% to 6%. For our segments we defined the following midterm targets for the profit margin (adjusted for severance charges):

- Imaging: 20% to 22%
- Advanced Therapies: 20% to 22%
- Diagnostics: 16% to 19%

Both KPIs, comparable revenue growth and (adjusted) profit margin, are measured and used for management and controlling and for the evaluation of the operating performance of each segment and of Siemens Healthineers as a group.

An important KPI for measuring and communicating performance at the Group level is basic earnings per share (EPS) growth. The operational driver for this is net income.

Dividend

We aim to provide an attractive return to our shareholders. Therefore, we intend to pay an annual dividend in the amount of 50% to 60% of the net income of the respective prior fiscal year. For this purpose, net income may be adjusted for selected exceptional non-cash effects.

A.4 Results of operations

A.4.1 Revenue by region and segment

Revenue decreased by €248 million, or 2%, from €13,677 million in fiscal year 2017 to €13,429 million in fiscal year 2018. On a comparable basis, revenue increased in fiscal year 2018 by 4% driven by the segments Imaging and Advanced Therapies.

	Fiscal year		% Change	
(in millions of €)	2018	2017	Act.	Comp.
Europe, C.I.S., Africa, Middle East (EMEA)	4,409	4,340	2%	4%
Therein: Germany	856	883	–3%	–2%
Americas	5,290	5,570	–5%	3%
Therein: United States	4,458	4,667	–4%	2%
Asia, Australia	3,730	3,767	–1%	4%
Therein: China	1,681	1,616	4%	6%
Siemens Healthineers	**13,429**	**13,677**	**–2%**	**4%**

	Fiscal year		% Change	
(in millions of €)	2018	2017	Act.	Comp.
Siemens Healthineers	**13,429**	**13,677**	**–2%**	**4%**
Therein:				
Imaging	8,153	8,113	0%	6%
Diagnostics	3,962	4,164	–5%	1%
Advanced Therapies	1,479	1,503	–2%	4%

Revenue decreased slightly on a global basis, a consequence of strong foreign exchange headwinds. On a comparable basis, revenue grew moderately in all regions, headed by a strong increase in the Imaging segment.

The solid comparable revenue growth in the EMEA region was supported by all segments including a very strong performance of Advanced Therapies and a strong increase in Imaging. Germany was down slightly on a comparable basis in all segments.

Nominal growth in the Americas region was affected by very strong foreign exchange headwinds. Growth was moderate on a comparable basis, and was driven by a strong increase in Imaging.

The Asia and Australia region faced severe negative foreign exchange effects, but was solidly up year-over-year on a comparable basis in all segments, including especially strong growth in Imaging. China showed strong performance on a comparable basis throughout all segments. Imaging grew very strongly.

The total revenue generated by our Imaging segment increased by 6% on a comparable basis, with contributions from all businesses. Magnetic resonance, maintaining its leadership in innovation, showed particularly strong growth. Due to negative currency translation effects, total revenue of the Imaging segment increased by only €40 million, or 0%, from €8,113 million in fiscal year 2017 to €8,153 million in fiscal year 2018. Geographically speaking, all three regions contributed to revenue growth on a comparable basis. Asia and Australia was boosted by the fast growing market in China. The Americas showed strong growth while EMEA showed a mixed picture with some countries, such as Germany, coming under pressure.

The total revenue generated by the Diagnostics segment increased by 1% on a comparable basis. Total revenue decreased by €201 million, or 5%, from €4,164 million in fiscal year 2017 to €3,962 million in fiscal year 2018. This decrease was driven by negative currency translation effects. On a geographical basis, comparable revenue growth in EMEA and Asia and Australia was partly offset by a decrease in the Americas.

The total revenue generated by the Advanced Therapies segment decreased by €23 million, or 2%, from €1,503 million in fiscal year 2017 to €1,479 million in fiscal year 2018. On a comparable basis total revenue increased by 4%, driven by EMEA and China. This revenue growth in the Advanced Therapies segment has primarily been influenced by the structural shift from open surgeries to minimally invasive procedures in which our products (and related services) play an integral role.

A.4.2 Income

The reconciliation from profit to adjusted profit, adjusted profit margin and net income is shown in the following table:

(in millions of €)	Fiscal year 2018	2017
Profit	**2,110**	2,401
Therein:		
Imaging	1,533	1,567
Diagnostics	455	561
Advanced Therapies	275	325
Severance charges and IPO costs	**199**	57
Adjusted profit	**2,309**	2,458
Therein:		
Imaging	1,585	1,590
Diagnostics	480	582
Advanced Therapies	290	328
Adjusted profit margin	**17.2%**	18.0%
Therein:		
Imaging	19.4%	19.6%
Diagnostics	12.1%	14.0%
Advanced Therapies	19.6%	21.8%

(in millions of €)	Fiscal year 2018	2017
Profit	**2,110**	2,401
Financing interest	−181	−277
Amortization of intangible assets acquired in business combinations	−131	−147
Income tax expenses	−515	−581
Net Income	**1,284**	1,396

Profit decreased by €291 million, or 12%, from €2,401 million in fiscal year 2017 to €2,110 million in fiscal year 2018. The decrease was primarily due to negative currency effects. Additionally, in fiscal year 2018 Siemens Healthineers encountered effects amounting to €199 million from costs for the IPO as well as severance charges. Severance charges were €96 million (fiscal year 2017: €57 million).

Excluding IPO costs and severance charges, the adjusted profit was less than in the prior year. The adjusted profit margin decreased from 18.0% in fiscal year 2017 to 17.2% in fiscal year 2018.

Research and development expenses increased by €28 million, or 2%, from €1,253 million in fiscal year 2017 to €1,281 million in fiscal year 2018.

Selling and general administrative expenses decreased by €68 million, or 3%, from €2,222 million in fiscal year 2017 to €2,153 million in fiscal year 2018. The decrease was primarily due to positive currency translation effects; on a comparable basis, these expenses increased modestly.

Financing interest decreased by €96 million, from €277 million for fiscal year 2017 to €181 million in fiscal year 2018. This decrease was due primarily to the redemption of loans at their fair value during the legal reorganization of Siemens Healthineers, resulting in a gain of €27 million.

Income tax expenses decreased by €67 million, or 11%, from €581 million in fiscal year 2017 to €515 million in fiscal year 2018. The decrease was primarily due to effects from the completion of tax audits, together with a lower income before income taxes. Our effective income tax rate decreased from 29.4% in fiscal year 2017 to 28.6% in fiscal year 2018.

Based on the effects described above, net income decreased by €112 million, or 8%, from €1,396 million in fiscal year 2017 to €1,284 million in fiscal year 2018 and resulted in basic earnings per share of €1.26.

Profit of total segments (i.e., the sum of profit for each of the segments excluding reconciliation to consolidated financial statements) decreased by €191 million, or 8% from €2,453 million for fiscal year 2017 to €2,263 million for fiscal year 2018.

The profit generated by the Imaging segment was negatively impacted by currency effects and decreased by €34 million, or 2%, from €1,567 million in fiscal year 2017 to €1,533 million in fiscal year 2018. In fiscal year 2018, €52 million in severance charges and IPO costs was excluded from profit in order to obtain the adjusted profit. This resulted in an adjusted profit margin of 19.4%. Overall, profitability in fiscal year 2018 was supported by strong comparable revenue growth, operational improvements and productivity gains.

The profit generated by the Diagnostics segment decreased by €106 million, or 19%, from €561 million in fiscal year 2017 to €455 million in fiscal year 2018. In fiscal year 2018, €25 million in severance charges and IPO costs was excluded from profit in order to obtain the adjusted profit. The adjusted profit margin was 12.1%, compared to 14.0% in fiscal year 2017. The decrease was primarily related to costs due to the transition to Atellica Solution.

The profit generated by the Advanced Therapies segment decreased by €50 million, or 15%, from €325 million in fiscal year 2017 to €275 million in fiscal year 2018. In fiscal year 2018, €14 million in severance charges and IPO costs was excluded from profit in order to obtain the adjusted profit. The adjusted profit margin was 19.6%, compared to 21.8% in fiscal year 2017. The decrease was due primarily to adverse currency effects, which more than offset the improved operational performance, productivity gains as well as positive volume effects.

A.5 Assets position

(in millions of €)	Sept 30, 2018	2017
Cash and cash equivalents	519	184
Trade and other receivables	2,419	2,308
Other current financial assets	77	57
Receivables from Siemens Group	1,396	2,991
Contract assets	600	294
Inventories	1,829	1,605
Current income tax assets	56	79
Other current assets	303	276
Total current assets	**7,199**	**7,794**
Goodwill	8,176	7,992
Other intangible assets	1,571	1,525
Property, plant and equipment	1,919	1,566
Investments accounted for using the equity method	38	33
Other financial assets	174	162
Other receivables from Siemens Group	–	1,365
Deferred tax assets	394	408
Other assets	287	268
Total non-current assets	**12,559**	**13,319**
Total assets	**19,758**	**21,113**

Current assets

The bundling of Siemens Healthineers' cash management activities with the Siemens Group led to a reduction of receivables from and liabilities to the Siemens Group. Receivables from Siemens Group decreased from €2,991 million as of September 30, 2017, to €1,396 million as of September 30, 2018.

This effect was partly offset by an increase in operating working capital, mainly in inventories and contract assets. The increase in operating working capital served to ensure the delivery capability of all segments and also resulted from sales growth in the fourth quarter and the ramp-up of the Atellica business.

Cash and cash equivalents increased from €184 million as of September 30, 2017, to €519 million as of September 30, 2018. This increase mainly resulted from a shift from the balance sheet position receivables from Siemens Group to cash and cash equivalents.

Non-current assets

Non-current assets decreased by €760 million, or 6%, primarily driven by a decrease in other receivables from Siemens Group in the course of the legal separation of Siemens Healthineers prior to the IPO, from €1,365 million as of September 30, 2017, to €0 as of September 30, 2018.

Property, plant and equipment increased primarily as a result of additions to equipment leased to Diagnostics' customers as well as advances to suppliers and construction in progress, in particular related to the expansion of our manufacturing capabilities.

A.6 Financial position

A.6.1 Capital structure

(in millions of €)	Sept 30, 2018	2017
Short-term debt and current maturities of long-term debt	57	55
Trade payables	1,278	1,120
Other current financial liabilities	82	72
Payables to Siemens Group	639	5,795
Contract liabilities	1,524	1,406
Current provisions	295	290
Current income tax liabilities	206	122
Other current liabilities	1,223	1,250
Total current liabilities	**5,303**	**10,110**
Long-term debt	17	15
Provisions for pensions and similar obligations	845	1,732
Deferred tax liabilities	348	259
Provisions	157	153
Other financial liabilities	26	23
Other liabilities	386	365
Other liabilities to Siemens Group	4,002	5,167
Total non-current liabilities	**5,780**	**7,714**
Total liabilities	**11,083**	**17,824**
Issued capital	1,000	–
Capital reserve	11,174	–
Retained earnings/Net assets	–3,019	4,045
Other components of equity	–500	–764
Total equity attributable to shareholders of Siemens Healthineers AG	**8,656**	**3,281**
Non-controlling interests	20	8
Total equity	**8,675**	**3,289**
Total liabilities and equity	**19,758**	**21,113**

Current liabilities

The decrease in current liabilities was due primarily to the decline of payables to Siemens Group from €5,795 million as of September 30, 2017, to €639 million as of September 30, 2018. The decline is primarily related to the early retirement of payables to Siemens Group in connection with the legal separation of Siemens Healthineers. Further details are explained in → ***Note 16 Debt*** in the notes to the consolidated financial statements.

Non-current liabilities

Non-current liabilities decreased from €7,714 million as of September 30, 2017, to €5,780 million as of September 30, 2018, mainly due to the decline of other liabilities to Siemens Group. The decrease is primarily related to the early retirement of several loans in connection with the legal separation of Siemens Healthineers. Please also refer to → ***Note 16 Debt*** in the notes to the consolidated financial statements for further information.

Provisions for pensions and similar obligations also decreased from €1,732 million as of September 30, 2017, to €845 million as of September 30, 2018. The decrease resulted mainly from the transfer of plan assets from the Siemens Group to Siemens Healthineers in Germany as part of the legal separation in the second quarter of fiscal year 2018. For further details, please refer to → ***Note 21 Provisions for pensions and similar obligations*** in the notes to the consolidated financial statements.

Equity

Equity increased from €3,289 million as of September 30, 2017, to €8,675 million as of September 30, 2018, as a result of the completion of the legal reorganization in advance of the IPO and the net income of fiscal year 2018. The increase was partly offset by a profit transfer in the amount of €778 million and dividends in the amount of €230 million, both paid to the Siemens Group. Please see → ***Note 23 Equity*** in the notes to the consolidated financial statements for further information.

Debt and credit facilities

Under a facilities agreement entered into between the Siemens Group and Siemens Healthineers before the IPO in fiscal year 2018, two credit facilities have been made available to Siemens Healthineers. A multicurrency revolving credit facility in an amount of up to €1.1 billion, available until January 31, 2020, serves as a working capital and as a short-term loan facility. This multicurrency revolving credit facility had been partially utilized as of September 30, 2018. However, positive account balances and deposits with the Siemens Group exceeded the amount of this utilization as of the same date. Additionally, a multicurrency revolving credit facility in an amount of €1.0 billion, available until January 31, 2023, provides funding for backup purposes. As of September 30, 2018, the backup facility has not been drawn on.

Term loans with an aggregate volume of equivalent to €3.8 billion carrying amount as of September 30, 2018, and maturities ranging from 2021 to 2046 remain outstanding between the Siemens Group and Siemens Healthineers. Those loans are denominated predominantly in U.S. dollars and are covered by separate agreements.

In addition, local bank facilities are in place to cover funding needs of some Siemens Healthineers entities to which Siemens Healthineers is not able to provide direct funding.

For further information about our debt as well as the functions and objectives of our financial risk management, please refer to →***Note 16 Debt*** and →***Note 26 Financial risk management***, respectively, in the notes to the consolidated financial statements.

A.6.2 Cash flows

	Fiscal year	
(in millions of €)	**2018**	**2017**
Cash flows from:		
Operating activities	1,595	1,975
Investing activities	−743	−453
Financing activities	−489	−1,532

We report free cash flow as a supplemental liquidity measure:

	Fiscal year	
(in millions of €)	**2018**	**2017**
Operating activities	**1,595**	**1,975**
Additions to intangible assets and property, plant and equipment	−530	−466
Free cash flow	**1,065**	**1,509**

Operating activities

The cash flow provided by operating activities decreased by €380 million to €1,595 million in fiscal year 2018, due to a buildup of operating working capital driven mainly by an increase in contract assets and inventories in all segments. Further reasons for the decrease were an increase in operating leases with customers in the Diagnostics segment, as well as additional cash outflows for IPO costs and U.S. pension funds.

Investing activities

Cash outflows used in investing activities increased by €290 million in fiscal year 2018 to €743 million. Most of this increase resulted from cash outflows related to acquisitions of businesses, net of cash acquired, which increased from €6 million in fiscal year 2017 to €226 million in fiscal year 2018 and related to our acquisitions of EPOCAL INC. and FAST TRACK DIAGNOSTICS LUXEMBOURG S.à r.l.

Our investments mainly aimed at enhancing competitiveness and innovation. Our main capital expenditures were for additions to intangible assets, including capitalized development expenses for projects such as a new integrated worldwide enterprise resource planning solution, as well as replacements and enhancements in the ordinary course of business. Additions to property, plant and equipment have grown faster than revenue and have derived primarily from investments needed to expand our manufacturing and technical capabilities and facilities. For the fiscal year ending September 30, 2018, cash outflow for additions to intangible assets and property, plant and equipment increased by €64 million, to €530 million.

Our segments' investing activities especially had the following focuses:

Imaging: Additions to property, plant and equipment in fiscal year 2018 mainly included the acquisition of new and specialized tooling, equipment and machinery as well as the expansion and reorganization of production facilities and processes.

Diagnostics: Additions to property, plant and equipment increased mainly as a result of higher investments in production facilities. Capital expenditures in intangible assets decreased, primarily because of the commercial launch of Atellica Solution in September 2017. All the same, the expansion of the Atellica assay menu and the development of further products within the Atellica product family represented a major investment in fiscal year 2018.

Advanced Therapies: In fiscal year 2018, other than the usual replacement purchases for machinery, specialized tools and equipment, no major new investments were performed in this segment.

Financing activities

Cash flows provided by financing activities changed by €1.043 million from a cash outflow of €1,532 million in fiscal year 2017 to a cash outflow of €489 million in fiscal year 2018.

This development was primarily due to other transactions/financing with the Siemens Group resulting in a cash inflow of €740 million in fiscal year 2018 compared to a cash outflow of €118 million in fiscal year 2017 and was primarily related to capitalization measures in the context of the legal separation of Siemens Healthineers prior to the IPO and changes in the financing structure of the Group.

For further information, please refer to →***Note 16 Debt*** in the notes to the consolidated financial statements.

Cash pooling

As of September 30, 2018, Siemens Healthineers was still participating in the Siemens Group's cash pooling arrangements, including investing excess short term liquidity within the Siemens Group. However, we expect to set up our own cash pooling structure in the medium term to (partially) replace participation in the Siemens Group's cash pools.

A.7 Overall assessment of the economic position

In fiscal year 2018, we continued to grow as expected. Our comparable revenue growth as well as our adjusted profit margin were in line with our outlook. We reached significant milestones for the strategic development of Siemens Healthineers and initiated important measures to further strengthen our portfolio.

Regarding our financial performance system, we attained all the targets set for our primary measures for fiscal year 2018. We achieved comparable revenue growth of 4% net of currency translation and portfolio effects. For fiscal year 2018 our outlook had been comparable revenue growth of 3% to 4%.

All segments contributed to comparable revenue growth. Comparable revenue growth was led by a higher volume in the Imaging segment, where magnetic resonance showed significant growth based on its continued innovation lead as well as by the Advanced Therapies segment. The Diagnostics segment grew modestly on a comparable basis.

The adjusted profit margin, adjusted for severance charges and IPO costs, decreased to 17.2% from the prior fiscal year's 18.0%. The decrease was primarily due to significant negative currency effects. Despite this headwind we reached our target, which had been in the range of 17% to 18%. In fiscal year 2018, we encountered effects of €199 million due to IPO costs and severance charges. Severance charges represented €96 million of this total (fiscal year 2017: €57 million). Profit development benefited from our continuous efforts to increase productivity.

Excluding currency effects, both the Imaging and the Advanced Therapies segments improved their adjusted profit margins year-over-year. The adjusted profit margin of the Diagnostics segment in fiscal year 2018 was mainly negatively impacted by costs due to transition to Atellica Solution.

Net income in fiscal year 2018 decreased by 8% compared to the prior fiscal year, to €1,284 million, driven mainly by lower profit which was partly offset by lower financing interests resulting from implementation of post-IPO capital structure and lower income taxes. The net income resulted in basic earnings per share of €1.26.

The Managing Board and the Supervisory Board propose to the Shareholders' Meeting to distribute a dividend of €0.70 per share entitled to the dividend, in total representing approximately €700 million in expected payments. Based on net income of €1,284 million for fiscal year 2018, the dividend payout percentage is around 55%.

A.8 Nonfinancial matters

Siemens Healthineers is exempted from submitting the non-financial group declaration pursuant to Section 315b (2) of the German Commercial Code ("Handelsgesetzbuch") and refers to the combined non-financial group declaration within the combined management report in the annual report of Siemens Group for fiscal year 2018. Siemens Group's annual report will be available on the Internet at → ***www.siemens.com/investor/en/publications_calendar.php***.

A.9 Report on expected developments

A.9.1 Worldwide economy

In fiscal year 2019, the world economy is expected to develop on a solid growth path with some deceleration compared to fiscal year 2018. Global GDP is projected to expand by 3.1% in calendar year 2019. Fixed investments are anticipated to grow by 4.0%, after 4.2% in 2018.

The U.S. economy is expected to be a main pillar of global growth, with GDP expanding by 2.8% supported by strong domestic demand, low unemployment and reduced corporate taxes following the 2017 tax reform. New trade tariffs are expected to have only small negative effects on GDP growth and inflation. Effects from new tariffs are projected to be more severe for China with its more trade-dependent economy. Significant deceleration from 6.7% GDP growth in 2018 to 6.1% in 2019 is forecasted, although the Chinese government began addressing slowing growth with policy measures before the end of 2018. GDP in emerging countries in general is expected to increase by 4.4%, after 4.6% in 2018, assuming that problems related to currency depreciation and U.S. dollar-denominated foreign debt will be contained. Europe is also expected to expand much more slowly in 2019 than in 2018, with GDP growth 0.5 percentage points lower at 1.6%. In particular, uncertainty regarding the Brexit and the new actions of the Italian government are taking a toll.

All in all, the macroeconomic development in fiscal year 2019 might largely depend on governmental and political decisions. Uncertainty from governmental policies already slowed the acceleration of global growth in the second half of 2018. Quick resolution of key issues could remove this impediment and give economic activity a new impulse.

The forecasts presented here for GDP and fixed investments are based on a report from IHS Markit dated October 15, 2018.

A.9.2 Business development

Market development

The above described development of the world economy is only to a certain extent a valid indicator for our short-term growth expectations. Large portions of our revenue stem from recurring business and therefore our business activities are to some degree resilient against short-term economic trends. However, we are dependent on regulatory and policy developments around the world.

Our markets continue to benefit from the long-term trends described in chapter →***A.2.2 Market development***, but these positive effects are countered by public spending constraints and by consolidation among healthcare providers. The Imaging and Advanced Therapies equipment markets and the Diagnostics market are expected to stay on a moderate growth path for fiscal year 2019. On a geographic basis, we expect slight growth in the United States held back by continued pressure to increase utilization of existing equipment, reduced reimbursement rates and uncertainty about policies. For Europe, we also expect slight growth with a likely increased emphasis on equipment replacement and business with large customers such as hospital chains. For China, we expect strong growth due to steadily rising government spending on healthcare, promotion of the private sector and wider access to healthcare services nationwide, pronounced effects of an aging population and a growing incidence of chronic diseases. These effects will be partly countered by governmental restrictions such as centralized public bidding and regulatory oversight of the allocation and use of large-scale equipment. Governments in a number of countries are showing an inclination to establish protectionist initiatives and policies that support local suppliers.

We are exposed to currency translation effects, particularly involving the U.S. dollar and the currencies of emerging markets such as the Chinese yuan. We expect volatility in global currency markets to continue in fiscal year 2019. Siemens Healthineers is still a net exporter from the Eurozone to the rest of the world, which means that a weak euro is generally favorable for our business and a strong euro is in principle unfavorable. We use derivative financial instruments to hedge currency risks in our export business. We expect this measure to help us limit effects on income related to currency fluctuations in fiscal year 2019.

Segment development

The Imaging segment will primarily be driven by recent and planned launches of new products and platforms and by sales of imaging products and services from our existing portfolio. In fiscal year 2019, we expect comparable revenue growth in the Imaging segment to stay within our midterm target range from 4% to 6% and profit margin (adjusted for severance charges) to increase to a level within our midterm target range.

The Diagnostics segment is expected to benefit from new products and from fundamental drivers such as increased demand from emerging markets, an expected rise in awareness of wellness testing and the improvements in diagnostic techniques. In fiscal year 2019, we expect comparable revenue growth to increase in the Diagnostics segment up to the lower end of our midterm target range from 4% to 6%. We also expect an increase of profit margin (adjusted for severance charges). However, profit margin (adjusted for severance charges) is expected to still be below the midterm target.

The Advanced Therapies segment is positively influenced by sustainable developments of the business environment in all the clinical areas it serves, such as increasingly complex interventional surgical procedures and a rise in minimally invasive procedures. These market drivers are expected to increase demands for the segment's products and solutions, thus supporting our growth expectations. In fiscal year 2019, we expect comparable revenue growth in the Advanced Therapies segment to reach our midterm target range from 4% to 6%, as in fiscal year 2018. We expect a profit margin (adjusted for severance charges) at prior-year level, which is close to the midterm target.

A.9.3 Overall assessment of the expected development

For fiscal year 2019, we expect comparable revenue growth to be in the range of 4% to 5% compared to fiscal year 2018. We expect our profit margin (adjusted for severance charges) for fiscal year 2019 to be in the range of 17.5% to 18.5%. Earnings per share are expected to be 20% to 30% above the level of fiscal year 2018. The outlook assumes that current foreign exchange rates persist for all of fiscal year 2019.

The actual development for Siemens Healthineers and its segments may vary, positively or negatively, from our outlook due to the risks and opportunities described below or if our expectations and assumptions do not materialize.

A.10 Report on material risks and opportunities

A.10.1 Risk management

Our risk management policy stems from a philosophy of pursuing sustainable growth and creating economic value while managing appropriate risks and opportunities. Risk management is an integral part of how we plan and execute our business strategies, and our risk management policy is set by the Managing Board. Our organizational and accountability structure requires each of the respective managements of our Siemens Healthineers business, regional levels and Siemens Healthineers functions to implement risk management programs that are tailored to their specific business and responsibilities, while maintaining consistency with the overall policy.

We make use of a coordinated set of risk management and control systems which support us with the early detection of developments that could jeopardize the continuity of our business. The most important of these systems include our Group-wide procedures for strategic planning and management reporting. Strategic planning is intended to support us in assessing potential risks well in advance of major business decisions, while management reporting is intended to enable us to monitor such risks more closely as our business progresses. Our internal auditors review the adequacy and effectiveness of our risk management system at the request of the Audit Committee. Accordingly, if deficiencies are detected, it is possible to adopt appropriate measures to eliminate them. This coordination of processes and procedures is intended to help ensure that the Managing Board and the Supervisory Board are fully informed about significant risks in a timely manner.

Risk management at Siemens Healthineers builds on a comprehensive, interactive and management-oriented Enterprise Risk Management (ERM) approach that is integrated into the organization and that addresses both risks and opportunities. Our ERM approach is based on the globally accepted Committee of Sponsoring Organizations of the Treadway Commission (COSO) "Enterprise Risk Management – Integrated Framework" (2004) and is adapted to Siemens Healthineers requirements. It additionally conforms to International Organization for Standardization (ISO) Standard 31000 (2009).

Our ERM process aims to early identify, evaluate, and respond to risks and opportunities that could materially affect the achievement of our strategic, operational, financial and compliance objectives. The time horizon covered by ERM is typically three years. Our ERM is based on a net risk approach, addressing risks and opportunities that remain after the existing control measures have been taken. If risks have already been considered in plans, budgets, forecasts or the financial statements (e.g., as a provision or risk contingency), they are supposed to be incorporated, along with their financial impact, in the entity's business objectives. As a consequence, only additional risks arising from the same subject (e.g., deviations from business objectives, different impact perspectives) should be considered for the ERM. In order to provide a comprehensive view of our business activities, risks and opportunities are identified in a structured procedure that combines elements of both top-down and bottom-up approaches. Reporting generally follows a quarterly cycle, while this regular reporting process is complemented by an ad hoc reporting process that aims to escalate critical issues in a timely manner. Relevant risks and opportunities are prioritized in terms of impact and likelihood, considering different perspectives, including business objectives, reputation and regulatory matters. The bottom-up identification and prioritization process is supplemented by workshops with the respective managements of the Siemens Healthineers business, regional levels and central functions. This top-down element ensures that potential new risks and opportunities are discussed at the management level and are included in the subsequent reporting process, if found to be relevant. Reported risks and opportunities are analyzed for their potential cumulative effects and are aggregated within and for each of the organizations mentioned above.

Responsibilities are assigned for all relevant risks and opportunities, with the hierarchical level of responsibility depending on the significance of the respective risk or opportunity. In a first step, assuming responsibility for a specific risk or opportunity involves choosing one of our general response strategies. Our general response strategies with respect to risks are to avoid, transfer, reduce or accept the relevant risk. Our general response strategy for opportunities is to "seize" the opportunity concerned. In a second step, responsibility for a risk or opportunity also involves developing, initiating and monitoring appropriate response measures according to the chosen response strategy, within an appropriate time frame. To allow for effective risk management, these response measures must be specifically tailored. Accordingly, we have developed a variety of response measures with different characteristics.

In order to allow for a meaningful discussion at the Group level, individual risks and opportunities of similar cause-and-effect nature are aggregated into risk and opportunity themes. This aggregation naturally results in a mixture of risks, including those with a primarily qualitative assessment and those with a primarily quantitative risk assessment. Accordingly, we do not foresee for a purely quantitative assessment of risk themes.

Below we describe the risks that could have a material adverse effect on our business, financial condition (including effects on assets, liabilities and cash flows), results of operations and reputation. The order in which the risks are presented in each of the four categories reflects the currently estimated exposure for Siemens Healthineers associated with these risks and thus provides an indication of the risks' current importance to us. Additional risks not known to us or that we currently consider immaterial may also negatively impact our business objectives and operations. Unless otherwise stated, the risks described below relate to all of our segments.

A.10.2 Risks

A.10.2.1 Strategic risks

Increasing governmental protectionism

Protectionist trade policies and changes in the political and regulatory environment in the markets in which we operate, such as import and export controls, tariffs and other trade barriers including debarment from certain markets and price or exchange controls, could affect our business in several national markets and could impact our business, financial position and results of operations; they may also expose us to penalties, other sanctions and reputational damage. In particular the current protectionist developments enforced by the U.S. Government and looming punitive trade tariffs on various goods pose a threat not only to free access to the North American markets, which are of great importance to our business, but may also lead to an increasing spiral of retaliatory counter measures across the globe. The imposition of import customs duties and non-refundable taxes on foreign value added may result in a need to reduce our transfer prices, owing to the inability to pass them on to customers. In addition, the uncertainty of the legal environment in some regions could limit our ability to enforce our rights and subject us to increasing costs for appropriate compliance programs. To counter these risks we closely observe the political situation and its indicators in order to identify critical cases, with the objective of adapting our processes and business model to any changes due to protectionism and educate the organization about these changes.

Competitive environment

The worldwide markets for our products, solutions and services are highly competitive in terms of pricing, product and service quality, product development and introduction time, customer service, financing terms and shifts in market demands. We face strong existing competitors and also competitors from emerging markets, who may have a better cost structure. Next to these existing competitors there is a risk that new competitors may enter our markets. Such new competitors might be healthcare providers in the low-price segment or in niche markets, independent service organizations, or global players that plan to expand their business portfolio. This might lead to price reductions or a loss of market share. We address this risk by monitoring existing competitors and known potential competitors, by observing barriers to market entry, and finally by sharing information with industrial associations.

Some sectors in which we operate are undergoing consolidation, which may result in stronger competition, a change in our relative market position, or unexpected price erosion (e.g., competitors' reaction to our new diagnostics platform). Furthermore, there is a risk that crucial suppliers may be taken over by competitors and that competitors may increasingly offer services for our installed base. We address these risks with various measures, for example benchmarking, strategic initiatives, sales push initiatives, implementing productivity measures and projects to achieve target costs, rightsizing of our footprint, outsourcing, mergers and joint ventures, exporting from low-cost countries to price-sensitive markets, and optimizing our product portfolio. We continually monitor and analyze competitive and market information in order to be able to anticipate unfavorable changes in the competitive environment rather than merely reacting to them.

Product mix shift

We design, manufacture and sell a diverse portfolio of Imaging, Diagnostics and Advanced Therapies products, systems and services (including accessories and software products) to a wide range of healthcare providers. Many of our products, systems and services are at the cutting edge of existing technologies and medical advances. Our products, systems, services and their enhancements often have long development and government approval cycles, which require us, as a result, to accurately and early anticipate changes in the marketplace, in technology and in customer demands. On the one hand, developing new technologies and enhancing existing technologies may require significant investment in R&D, clinical trials and numerous country-specific regulatory approvals. On the other hand, such cutting-edge technology products typically have a higher profit margin. However, the demand for standard and basic products, rendering lower margins, has increased, particularly in emerging markets. If we cannot adapt our product mix and production capabilities quickly enough to changes in the marketplace, in technology and in customer expectations for high-end, standard and basic products, especially in emerging markets, this could result in negative effects on our profit. As a countermeasure we closely monitor how the market develops in order to better anticipate future development, adapt our product roadmap to future demands and determine how to lower operating expenses to increase competitiveness for basic and standard products.

Economic, political and geopolitical conditions (macroeconomic environment)

We see a high level of uncertainty about the global economic outlook. Such factors as an increasing trend towards populism and the consequences of the Brexit negotiations pose significant risk. The U.K. exit process could heighten business and consumer uncertainty, reduce investment in the U.K., pose risks to financial markets and increase uncertainty about the future of European Union (EU) in general. A further, massive loss of economic confidence and a prolonged period of wariness in deciding on investments and placing new orders would impact our businesses. We continually monitor the exit process and, for example, have established a task force to coordinate our local and global mitigation measures. Both global and the regional investment climate could deteriorate strongly due to political upheavals, further efforts from member states to leave the EU, or a persistent success of protectionist, anti-EU and anti-business parties and policies. An abrupt weakening of Chinese economic growth would pose a significant business risk. A rapid tightening of monetary policy by the U.S. Federal Reserve could cause a depreciation spiral in emerging markets' currencies. This could lead to a renewed crisis in emerging market because their businesses' debt levels have risen, making them dependent on favorable global financial conditions to service debts denominated in foreign currencies. Emerging-market operations involve various additional risks, including civil unrest, health concerns – for employees, for instance – cultural differences such as in employment and business practices, volatility in GDP, economic and governmental instability, the potential for nationalization of private assets and the imposition of exchange controls. A terrorist mega-attack or significant cybercrime incident in a major economy, or a series of such attacks or incidents, could depress economic activity globally and undermine consumer and business confidence. Further risks stem from geopolitical tensions, (such as in Syria, Ukraine, Russia, Turkey and North Korea) and from an increasing vulnerability to natural disasters. If the moderate recovery of macroeconomic growth stalls again and we cannot successfully adapt our production and cost structure to subsequent changes in conditions in the markets where we operate, there can be no assurance that we will not experience adverse effects. For example, it may become more difficult for our customers to obtain financing. As a result, they may modify, postpone or cancel plans to purchase our products, solutions and services, or fail to follow through on purchases or contracts that they have already made. Furthermore, the prices for our products, solutions and services may decline, as a result of adverse market conditions, to a greater extent than we currently anticipate. Siemens Healthineers' global setup, with operations in almost all relevant economies, together with the variety of our products and services, helps us to absorb the impact of an adverse development in a single market. We also try to focus on and prioritize certain markets, services or products that will minimize the risks mentioned above. Moreover, we hedge transactions in foreign currencies in order to mitigate exchange rate risks.

Development and competitive position of products

The markets in which our businesses operate are subject to rapid and significant changes due to the introduction of innovative and disruptive technologies. In the field of digitalization, there are risks of new competitors, substitutions of existing products, solutions and services, niche players, new business models and finally the risk that our competitors may have faster time-to-market strategies and may introduce their digital products and solutions faster than we can. Our operating results depend to a significant extent on our technological leadership, and on our ability to anticipate and adapt to changes in our markets and to reduce the costs of producing our products. Introducing new products and technologies requires a significant commitment to R&D, which in turn requires expenditure of considerable financial resources that may not always result in success. Our results of operations may suffer if we invest in technologies that do not operate as expected or cannot be integrated as planned, or that are not accepted in the marketplace as anticipated, or if our products, solutions or systems are not introduced to the market in a timely manner, particularly compared to our competitors, or even become obsolete. We constantly apply for new patents and actively manage our intellectual property portfolio to safeguard our technological position. However, our patents and other intellectual property rights may not prevent competitors from independently developing or selling products and services that resemble or replicate our owns.

A.10.2.2 Operational risks

Operational failures and quality problems in our value chain processes

Our value chain comprises all steps, from R&D to supply chain management, production, marketing, sales and services. Operational failures in our value chain processes could result in quality problems or potential product, labor safety, regulatory or environmental risks. Innovative products may rely on cutting-edge technology like high-end tubes, which from time to time might have quality issues resulting from the design or manufacture of these products or the process of commissioning these products or the software integrated into them. But problems may also arise from (single source) suppliers and partners for certain products and services, who often cannot be replaced on short notice, thus leading to the above risks. This can result in higher costs to correct such problems, as well as guarantee or warranty claims. Moreover, this could also harm our reputation. We constantly take measures for quality improvement and claim prevention that contribute to the mitigation of existing risks. Especially within sales and services departments the use of quality management tools is improving visibility and enables us to strengthen our root cause and prevention processes.

Breach of protected health information

Our products, solutions and services receive, generate and store significant and increasing volumes of personal and sensitive information and are therefore subject to stringent privacy and information security regulations concerning the use and disclosure of protected health information and the confidentiality, integrity and availability of such information. In addition to general regulatory requirements for data protection, the healthcare sector is subject to specific privacy directives with regard to a wide range of health information. This data protection legislation is comprehensive and complex particularly within the European Economic Area (EEA), Switzerland and the U.S. Despite security measures, it cannot be ruled out that confidentiality of such data and information may be breached, as a result of a failure to anonymize shared health data, data leaks or otherwise. Doubts may likewise arise regarding the security of the data and information that are collected and managed by or for us. A breach of these regulations could lead to litigation costs, compensation payments, penalties, blacklisting in certain markets or criminal sanctions as well as result in a loss of reputation. The realization of any of these risks could have an adverse effect on our business, assets, financial condition and results of operations, reputation and future prospects. We address this risk by managing and improving our IT security and the respective systems (e.g., by ongoing analyses of IT-data security, reduction of vulnerable systems and by training our staff).

A.10.2.3 Financial risks

Risks from pension obligations

Siemens Healthineers provides post-employment benefits for the majority of its employees, partly resulting in provisions for pensions. An increase of provisions for pensions due to adverse developments of plan assets and/or defined benefit obligations resulting from changing parameters is considered as a significant risk. The funded status of our pension plans may be affected by changes in actuarial assumptions, including discount rates, as well as movements in financial markets or a change in the mix of assets in our investment portfolio. In order to comply with local pension regulations in selected foreign countries, we may face a risk of increasing cash outflows to reduce an underfunding of our pension plans in these countries.

Tax risk

Siemens Healthineers has global operations in almost all countries and is thus subject to multiple tax regimes. Changes in tax laws and uncertainties in the interpretation or application of tax rules in some regions could result in higher tax expense and additional tax payments, as they influence our tax risk position regarding such matters as Group-internal transfer pricing, reorganizations, permanent establishments, tax losses, interest and tax credits carried forward, as well as other tax aspects. This could result in additional financial charges such as double taxation, penalties and interest payments as well as corrections of the Group's current or deferred tax receivables and liabilities. Siemens Healthineers entities are regularly audited by tax authorities in various jurisdictions. Tax-related risks are continually monitored, identified and assessed.

Market price risks

We are exposed to fluctuations in exchange rates, especially between the U.S. dollar (and other currencies whose movements are positively correlated with the U.S. dollar) and the euro. As a result, depending on our hedging program, devaluation of the U.S. dollar against the euro may result in material adverse effects on our profit. Other currencies of significance from the viewpoint of foreign currency effects include the Chinese yuan, Japanese yen, Korean won and British pound. A strengthening of the euro could change our competitive position. We are also exposed to fluctuations in interest rates.

Increasing market fluctuations may result in a significant earnings and cash flow volatility risk for us. Our worldwide business operations and our investment and financing activities are affected particularly by changes in foreign exchange rates and interest rates.

In order to optimize the allocation of financial resources across our segments and entities, as well as to achieve our objectives, we identify, analyze and manage the associated market risks. We seek to manage and control these risks primarily through our regular operating and financing activities, and use derivative financial instruments when deemed appropriate.

Liquidity and financing risk

Our treasury and financing activities could face negative developments related to financial markets, such as limited availability of funds (particularly U.S. dollar funds) and hedging instruments, a change in assessment of our solvency, particularly from rating agencies, impacts arising from more restrictive regulation of the financial sector, central bank policy, or financial instruments, termination of financing from Siemens AG or other Siemens Group entities or a deterioration in the financial situation of our main financial provider, Siemens AG. Widening credit spreads due to uncertainty and risk aversion in the financial markets might lead to adverse changes in the fair values of our financial assets, particularly our derivative financial instruments.

For further information related to the financial risks described above, especially derivative financial instruments and hedging activities, financial risk management, provisions for pensions and similar obligations and income taxes, please see →***Note 25 Financial instruments and hedging activities, Note 26 Financial risk management, Note 21 Provisions for pensions and similar obligations*** and ***Note 5 Income taxes*** in the notes to the consolidated financial statements.

A.10.2.4 Compliance risks

Cybersecurity

Our business portfolio is dependent on digital technologies. We observe a global increase of IT security threats and higher levels of professionalism in cybercrime, which pose a risk to the security of products, systems and networks and the confidentiality, availability and integrity of data. Similarly to other large multinational companies, we are facing active cyber threats from sophisticated adversaries that are supported by organized crime and nation-states engaged in economic espionage or even sabotage. In order to cope with this risk, several national authorities like the US Food and Drug Administration (FDA) have set up rules for cybersecurity measures to be integrated into healthcare equipment, software and services in order to reasonably ensure the benefits to patients outweigh the risks.

Noncompliance with these rules could lead to compensation payments, penalties, blacklisting in certain markets, and loss of reputation. We minimize this risk by committing to several measures, such as training of staff and device operators and a comprehensive monitoring of our networks and systems by a cybersecurity operation center. This center applies protective systems like firewalls and ongoing detection and removal of loopholes by a specialized workforce. Moreover, we implement these cybersecurity requirements in our development of new products and services, and we upgrade existing systems.

Changes of regulations, laws and policies

As a diversified medical technology company with global businesses, we are exposed to various increasingly complex product and country-related regulations, laws and policies that influence our business activities and processes. Changes in current regulations, increased regulatory requirements or increased regulatory enforcement activities could lead to unforeseen expenses and adversely impact our financial situation as well as our time to market for certain products or product life cycles. We operate, for example, under the regulatory supervision of the FDA and the Health and Consumer Policy Department of the European Commission. Therefore, we need to comply with and safeguard requirements that will ensure product safety. In addition to internal and external audits of compliance with laws and regulations, we also monitor the political and regulatory landscape in all our key markets to anticipate potential problem areas with the aim of quickly adjusting our business activities and processes to changed conditions.

Violations of anti-corruption or antitrust legislation or other violations of law

If proceedings are brought against us regarding allegations of corruption, antitrust violations and or other violations of law, these could lead to criminal and civil fines as well as penalties, sanctions, injunctions against future conduct, profit disgorgements, disqualifications from directly and indirectly engaging in certain types of business, the loss of business licenses or permits or other restrictions and legal consequences. These consequences could indirectly affect us if they relate to violations committed by one of our indirect sales channels or business partners. Accordingly, we may, among other things, be required to comply with potential obligations and liabilities arising in connection with such investigations and proceedings, including potential tax penalties. A considerable part of our business activities involves governments and companies with public shareholders. We also participate in a number of projects funded by government agencies and intergovernmental and supranational organizations, such as multilateral development banks. Potential future investigations into allegations of corruption, antitrust violations or other violations of law could impair relationships with such business partners or could result in the exclusion of public contracts. Such investigations may also adversely affect existing private business relationships and our ability to pursue potentially important strategic projects and transactions, such as strategic alliances, joint ventures or other business cooperations, or could result in the cancellation of certain of our existing contracts. Moreover, third parties, including our competitors, could initiate litigation against us. In addition, future developments in current or potential future investigations, such as responding to the requests of governmental authorities and cooperating with them, could divert management's attention and resources from other issues facing our business. Furthermore, we might be exposed to compliance risks in connection with recently acquired operations that are still in the process of integration. Besides other measures like general antitrust training, Siemens Healthineers has established a global compliance organization that conducts, among others, compliance risk mitigation processes, such as compliance risk assessments, which have been reviewed by external compliance experts. In regard to its business partners, Siemens Healthineers has established a global business partner management. This includes, among other measures, a careful selection process, a structured onboarding process and trainings, close monitoring and dialogue during on-site visits as well as regular audits with consistent implementation and monitoring of any measures taken.

A.10.2.5 Assessment of the overall risk situation

The most significant challenges have been mentioned first in each of the four categories above – strategic, operational, financial and compliance risks. The most significant risks we are currently exposed to are those that arise from medical device cybersecurity, changes of regulations, laws and policies and increased governmental protectionism. Successful continuation of dedicated quality measures allowed downgrading the major risk "Quality problems and operational failures in our value chain." We consider our exposure to all remaining risks described above on a constant lower level than the three major risks mentioned. At present, no risks have been identified that either individually or in combination could endanger our ability to continue as a going concern.

A.10.3 Opportunities

Below we describe our most significant opportunities. Unless indicated otherwise, the opportunities described below relate to all of our segments.

New business models and services from digitalization

Innovation is a central part of the entrepreneurial concept of Siemens Healthineers. We do this by investing significantly in R&D in order to develop innovative, sustainable solutions for our customers in the area of digitalization and at the same time safeguarding our competitiveness. We are an innovative company and invent new technologies that we expect will meet future demands arising from such megatrends as a growing and aging global population, economic development in emerging countries, an increase in chronic diseases and the transformation of healthcare providers. We try to generate additional volume and profit from new and innovative digital products, services and solutions, including cybersecurity for our customers, preventive maintenance and data analytics, among others. Future progress in digitalization will introduce a wide range of new digital solutions for services and products for our customers. For this purpose, we have entered into alliances with developers and providers who will seek new revenue streams based on digitalization. This approach will allow us to strengthen our position along the value chain of digitalization and automation to provide new and more products and services and increase market penetration.

Synergies and cross-selling

We strive to further strengthen our cross-selling activities for Diagnostics products, such as Laboratory Diagnostics, to our existing Imaging and Advanced Therapies customers. This increases our win rate in sales while at the same time reducing customer acquisition time and costs.

Growth into adjacent markets

Our activities currently concentrate on healthcare solutions and services in the human medicine sector. Our Healthcare-specific and technological know-how in this area could also be applied to other adjacent markets, such as veterinary medicine or further surgery-specific equipment and services, leading to an increase in revenue and supporting our overall growth. Through sales initiatives and master plans, we continually strive to grow and expand our business in established markets, open up new markets for existing and new elements in the portfolio, and strengthen our installed base in order to gain a higher market share and increased profits.

International funding and national programs

We expect that (inter)national funding from aid organizations such as the World Health Organization (WHO) or the EU and governmental funding or subsidies will further increase in the near future. This will expand investment and spending in private hospitals, particularly in Central Europe, the Middle East and Africa. That will in turn generate additional growth in these markets, especially for standard and basic products and services.

Licensing of our intellectual property

Intellectual property rights, such as patents, for outdated technology or for discontinued products, might be licensed to third parties in order to generate further revenues and increase profits. In this context, we are constantly analyzing our portfolio of intellectual property for unexploited licensing potential and at the same time seeking out and negotiating with potential third-party companies.

Assessment of the overall opportunities situation

The order in which they are presented reflects the currently estimated exposure for Siemens Healthineers associated with these opportunities. The described opportunities are not necessarily the only ones we encounter. In addition, our assessment of opportunities is subject to change, as Siemens Healthineers, our markets and technologies are constantly developing. It is also possible that opportunities we foresee today will never materialize.

A.10.4 Significant characteristics of the accounting-related internal control and risk management system

The overarching objective of our accounting-related internal control and risk management system is to ensure that financial reporting is conducted in a proper manner, such that the consolidated financial statements and the (interim) management report of Siemens Healthineers are prepared in accordance with all relevant regulations.

Our ERM approach is based on COSO's Enterprise Risk Management – Integrated Framework. As one of the objectives of this framework is reliability of a company's financial reporting, it includes an accounting-related perspective. Our accounting-related internal control system (control system) is based on the internationally recognized Internal Control – Integrated Framework also developed by COSO. The two systems are complementary.

At the end of each fiscal year, our management performs an evaluation of the effectiveness of the design and operating effectiveness of the implemented control system. We have a standardized procedure under which necessary controls are defined, documented in accordance with uniform standards, and tested regularly for their effectiveness. Nevertheless, there are inherent limitations on the effectiveness of any control system, and no system, including one determined to be effective, can prevent or detect all misstatements.

Our consolidated financial statements are prepared on the basis of a centrally provided conceptual framework which primarily consists of uniform financial reporting guidelines and a chart of accounts. It is issued centrally by the Siemens Group and complemented by additional Siemens Healthineers guidelines for business-specific financial reporting topics. Siemens Healthineers AG and other companies within Siemens Healthineers are required to prepare financial statements in accordance with the German Commercial Code; the conceptual framework is complemented by mandatory regulations specific to the German Commercial Code. The need for adjustments in the conceptual framework due to regulatory changes is analyzed on an ongoing basis. Accounting departments are informed quarterly about current topics and deadlines from an accounting and closing process perspective.

The base data used in preparing our financial statements consists of the closing data reported by Siemens Healthineers AG and its subsidiaries. The preparation of the closing data of most of our entities is supported by an internal shared services organization. Since Siemens Healthineers is part of the Siemens Group and is included in its financial reporting, a close coordination within the general closing process with Siemens Group reporting department is needed in order to ensure a Siemens Group-wide consistent communication. Furthermore, other accounting activities, such as activities related to governance and monitoring, are usually bundled on a regional level. In particular cases, such as valuations relating to post-employment benefits, external experts are used. The reported closing data is used to prepare the financial statements in the consolidation system. The steps necessary to prepare the financial statements are subject to both manual and automated controls.

Qualification of employees involved in the accounting process is ensured through appropriate selection processes and regular training. As a fundamental principle, based on materiality considerations, the "four eyes" principle applies and specific procedures must be adhered to for data authorization. Additional control mechanisms include target-performance comparisons and analyses of the composition of and changes in individual line items, both in the closing data submitted by reporting units and in the consolidated financial statements. In line with our information security requirements, accounting-related IT systems include defined access rules protecting them from unauthorized access. An internal certification process is executed on a quarterly basis. Management at different levels of our organization, supported by confirmations from the management of entities under their responsibility, confirms the accuracy of the financial data that has been reported to Siemens Healthineers headquarters and reports on the effectiveness of the related control systems.

Our internal audit function evaluates our financial reporting integrity, the effectiveness of the control system and the risk management system, and adherence to our compliance policies. In addition, the Audit Committee is integrated into our control system. In particular, it oversees the accounting, and the accounting process and the effectiveness of the internal control system, the risk management system and the internal audit system. Furthermore, we have set up a disclosure committee which is responsible for reviewing certain financial and nonfinancial information prior to publication. Moreover, we have rules for accounting-related complaints.

A.11 Siemens Healthineers AG

The annual financial statements of Siemens Healthineers AG were prepared in accordance with the rules set out in the German Commercial Code.

Siemens Healthineers AG is the parent company of Siemens Healthineers, acts as a management holding company and provides central administration services. Results for Siemens Healthineers AG are significantly influenced by directly or indirectly owned subsidiaries. The business development of Siemens Healthineers AG is fundamentally subject to the same risks and opportunities as the Siemens Healthineers. Due to the interrelations between Siemens Healthineers AG and its subsidiaries, the outlook of the Group also reflects our expectations for Siemens Healthineers AG. Therefore, the foregoing explanations for Siemens Healthineers also apply for Siemens Healthineers AG with an additional risk of impairment of investments in subsidiaries. The impairment test for investments in subsidiaries is based on a discounted cash flow model and influenced by the development and success of the subsidiaries and their investments. Consequently, adverse effects on subsidiaries or indirect investments may lead to an impairment of the investment in subsidiaries in Siemens Healthineers AG's annual financial statements. Impairments would reduce the potential net income that can be distributed to owners. As investments in subsidiaries represent nearly 100% of total assets this risk is of high importance for Siemens Healthineers AG. Income from investments influences the net income of the Siemens Healthineers AG.

We intend to provide an attractive return to our shareholders. Therefore, we intend to pay out a dividend of around €700 million. This equals to a dividend per share of €0.70. Beside the net income of the short fiscal year 2018, Siemens Healthineers AG transferred a portion of its free capital reserve to unappropriated net income to pay out this dividend.

Siemens Healthineers AG was founded and entered in the Commercial Register in December 2017. Therefore the reporting period ending September 30, 2018, is a short fiscal year from December 1, 2017 to September 30, 2018, while all group disclosures are based on the full fiscal year 2018. As of September 30, 2018, Siemens Healthineers AG had 48 employees.

A.11.1 Result of operations

(in millions of €)	Short fiscal year 2018
Revenue	7
Cost of sales	−7
Gross profit	**–**
General administrative expenses	−9
Other operating income/expenses, net	1
Financial income/expenses, net	467
Therein: Income from investments, net	472
Income from business activity	**459**
Income taxes	−126
Net income	**333**
Transfer from capital reserves	390
Unappropriated net income	**723**

The revenue of €7 million resulted only from providing management services for affiliates.

Financial income of €467 million was mainly driven by income from investments which resulted only from the profit transfer agreement with Siemens Healthcare GmbH and thus only from affiliated companies.

The income taxes include only current income taxes from corporation tax or trade tax, as the excess of deferred tax assets was not recognized due to the exercise of the option under Section 274 (1) sentence 2 German Commercial Code.

A.11.2 Asset and financial position

(in millions of €)	Sept 30, 2018
Non-current assets	
Financial assets	14,399
Current assets	
Receivables and other assets	566
Cash and cash equivalents	–
Prepaid expenses	–
Total assets	**14,965**
Shareholders 'equity	**12,493**
Provisions	
Provisions for pensions and similar commitments	16
Other provisions	38
Liabilities	
Trade payables, liabilities to affiliated companies and other liabilities	2,418
Total liabilities and equity	**14,965**

Non-current assets

The Group's business is managed by Siemens Healthcare GmbH and Siemens Healthineers Beteiligungen GmbH & Co. KG and by their direct and indirect subsidiaries. The shares in Siemens Healthcare GmbH as well as the sole limited partnership and the shares in the general partner of Siemens Healthineers Beteiligungen GmbH & Co. KG were contributed to Siemens Healthineers AG by Siemens AG and affiliated companies of Siemens AG in return for the issuance of new shares. In addition a contribution in cash of €2,230 million was made to Siemens Healthineers Beteiligungen GmbH & Co. KG and a contribution in kind of trust assets in the amount of €766 million in Siemens Healthcare GmbH. As a result, additions of €14,399 million were recognized in financial assets (shares in affiliated companies).

Current assets

All receivables and other assets had a remaining term of less than one year as of the end of the fiscal year. Receivables and other assets included mainly receivables from affiliated companies from profit transfer and current tax claims.

Equity

The share capital of the company at the time of incorporation amounted to €50,000. In the course of the implementation of the group structure, the issued capital was increased by contributions in kind to €1,000 million. The value of the contributions in kind, which exceeded the increase in the issued capital (€10,403 million), was appropriated to the capital reserve. The capital reserve was further increased by €766 million resulting from a contribution of trust assets for pension obligations by Siemens AG. Since this capital reserve in accordance with Section 272 (2) number 4 of the German Commercial Code was the only free reserve in the short fiscal year, it was used for the acquisition of treasury shares, of which 247,763 were still held as of September 30, 2018. For the information about the acquisition of treasury shares pursuant to Section 160 (1) number 2 of the German Stock Corporation Act ("Aktiengesetz"), please see → ***Note 23 Equity*** in the notes to the consolidated financial statements. In addition, €390 million were withdrawn from the capital reserve and allocated to unappropriated net income. Before consideration of amounts subject to dividend payout restrictions, as of September 30, 2018, €367 million of the capital reserve could be distributed.

Liabilities

Trade payables, liabilities to affiliated companies and other liabilities mainly included liabilities to affiliated companies to Siemens Healthcare GmbH related to Siemens Healthineers' cash pooling in an amount of €2,323 million. These liabilities resulted mainly from a cash contribution to Siemens Healthineers Beteiligungen GmbH & Co. KG in the amount of €2,230 million and other liabilities of €91 million arising from the value-added tax group with several subsidiaries and amounts received on behalf of subsidiaries.

A.11.3 Corporate Governance statement

The Corporate Governance statement pursuant to Sections 289f and 315d of the German Commercial Code is an integral part of the combined management report and is presented in chapter → ***C.3.2 Corporate Governance statement pursuant to Sections 289f and 315d of the German Commercial Code***.

A.11.4 Report on relationships with affiliated companies

The Managing Board of Siemens Healthineers AG has submitted to the Supervisory Board the report required by Section 312 of the German Stock Corporation Act for the short fiscal year 2018 and issued the following concluding declaration:

"We declare that, in the legal transactions and measures outlined in the report on relationships with affiliated companies, based on the circumstances which we knew at the point in time at which the legal transactions were entered into, or the measures were taken or refrained from, Siemens Healthineers AG received adequate consideration in each legal transaction and did not suffer any disadvantage by taking or refraining from taking the measures."

A.12 Remuneration report

This report is based on the recommendations of the German Corporate Governance Code (hereinafter the "Code") and the requirements of the German Commercial Code ("Handelsgesetzbuch"), the German Accounting Standards ("Deutsche Rechnungslegungs Standards") and the International Financial Reporting Standards (IFRS). It details the remuneration of the Managing Board and Supervisory Board members of Siemens Healthineers AG (hereinafter referred to as the "Company") for the period from December 1, 2017, to September 30, 2018 (period of consideration). For the Managing Board and Supervisory Board members in office as of September 30, 2018, it details the remuneration for the period from March 1, 2018, until September 30, 2018 (term of office).

A.12.1 Remuneration of Managing Board members

Members of the Managing Board of the Company in office from December 1, 2017, to February 28, 2018, did not receive any remuneration. The Managing Board members in office as of September 30, 2018, were appointed effective March 1, 2018. They were managing directors of Siemens Healthcare GmbH before the IPO and still hold that position in addition to being Managing Board members of Siemens Healthineers AG, without receiving remuneration as managing directors since March 1, 2018.

A.12.1.1 Remuneration system

Principles and objectives

The Supervisory Board decides on the remuneration system, based on proposals by the Chairman's Committee. It regularly evaluates the appropriateness of the remuneration system and determines the total remuneration paid to members of the Managing Board, taking into account statutory requirements and the recommendations of the Code. If necessary, it adjusts the remuneration system.

The following principles in particular guide the Supervisory Board with regard to the design of the remuneration system and the determination of the remuneration:

The company's economic situation, performance and outlook: For both the design and the implementation of the remuneration system, the Supervisory Board takes the company's size as well as current and future economic position into account.

Sustainable growth of the company: The remuneration system is intended to provide an incentive for successful corporate management and sustainable growth of the company. The performance-based components take account of both positive and negative developments in the future. Managing Board members are expected to make a long-term commitment to the company and are discouraged from taking unreasonable risks. A substantial portion of their total remuneration is linked to the long-term performance of the Siemens Healthineers stock.

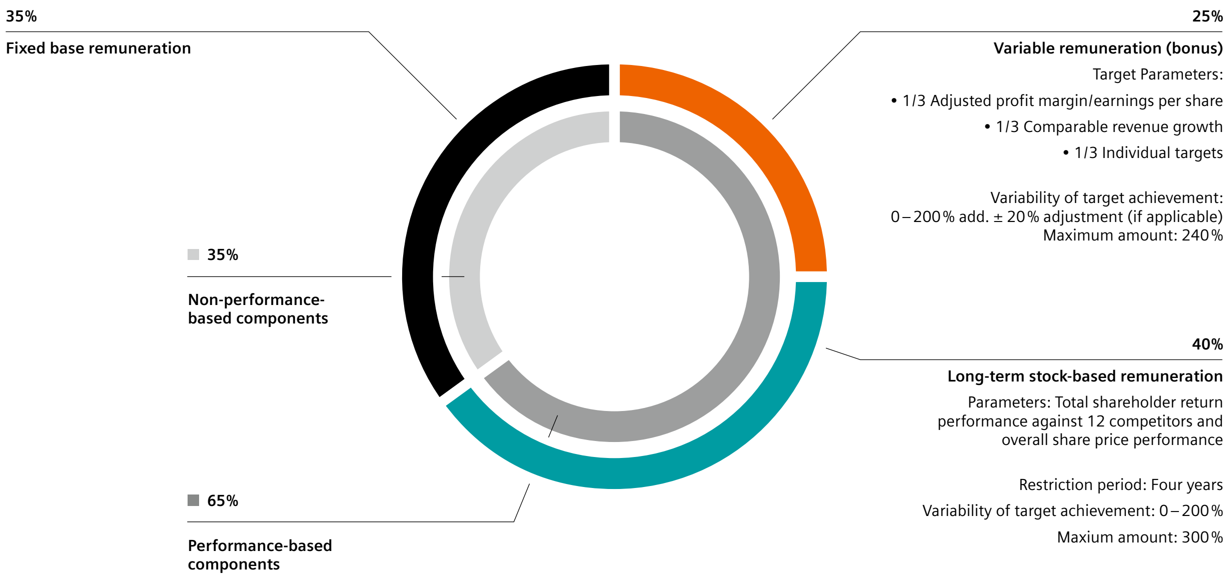
Strategic company targets: The remuneration system mirrors the long-term strategic objectives of Siemens Healthineers.

Remuneration linked to duties and performance: The remuneration depends on the duties, responsibilities and performance of each Managing Board member. The achievement of demanding targets agreed in advance determines the amount of performance-based remuneration. The performance-based remuneration accounts for a significant portion of the total remuneration.

Customary level of remuneration: During the development of the remuneration system, special focus was placed on the creation of an independent incentive system for Siemens Healthineers. It was particularly important to develop a remuneration system that is in line with market practice and at the same time reflects the tension between international competition in the healthcare market, German market practice and Siemens as a strong anchor shareholder. The Supervisory Board takes into consideration the remuneration system at Siemens AG and also of Siemens Healthineers AG being a consolidated company of Siemens AG. It further considers the customary level of Managing Board remuneration at peer companies. For this, the Supervisory Board also obtains recommendations from an independent external remuneration expert. Remuneration should be attractive in comparison to competitors and thus incentivize qualified executives to join and remain with the company in the long term. Furthermore, the Supervisory Board considers the remuneration structure in place in other areas of the company. It also takes due account of the relationship between the Managing Board's remuneration and that of senior management and staff including development over time whereby the Supervisory Board determines how senior management and the relevant staff are to be differentiated.

The following components form the remuneration system in effect since March 1, 2018:

Remuneration



Share ownership guidelines
Requirement to hold Siemens Healthineers stocks as a multiple of base remuneration throughout the term of office.

Pension benefit commitments
The amount of the annual contributions is based on a percentage related to each Managing Board member's base remuneration and the bonus target amount.

Fringe benefits
E.g., provision of a company car, contributions to costs of insurance policies, accommodation and moving expenses.

The maximum amount for total remuneration is 1.7 times the target remuneration (plus the IPO Incentive, fringe benefits and pension benefit commitments).

Non-performance-based components

Fixed base remuneration

The fixed base remuneration is paid as monthly salary. From March 1, 2018, it amounts to € 1,050,000 p.a. for the Chief Executive Officer and to € 645,000 and € 735,000 p.a., respectively, for the other Managing Board members. At its meeting on November 2, 2018, the Supervisory Board resolved to align the fixed base remuneration of the other Managing Board members. From October 1, 2018, it will amount to € 735,000 p.a.

Fringe benefits

Fringe benefits which the Managing Board members receive include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of a company car, reimbursement of certain tax advisory expenses, contributions to insurance policies, accommodation and moving expenses, including taxes incurred on these, and costs related to preventive medical examinations.

Performance-based components

Performance-based components consist of the variable remuneration (bonus) and the long-term stock-based remuneration.

Variable remuneration (bonus)

The bonus depends on the Company's business performance in the past fiscal year and the achievement of individual targets. The bonus is paid entirely in cash and consists of the following components each accounting for 1/3 of the bonus:

- Achievement of the target parameter ***earnings per share*** during the past fiscal year (to be applied from fiscal year 2019 onwards; replaced by adjusted profit margin for the term of office),
- Achievement of the target parameter ***comparable revenue growth*** in percent year-over-year,
- Achievement of individual targets.

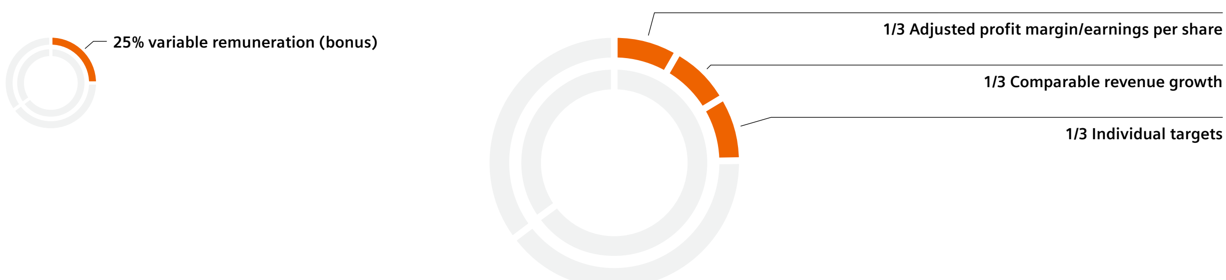
The Supervisory Board has defined the bonus target amount for 100 % overall target achievement as

- €750,000 for the Chief Executive Officer (for the term of office: €437,500),
- €470,000 (for the term of office: €274,166.67) and €525,000 (for the term of office: €306,250), respectively, for the other Managing Board members. At its meeting on November 2, 2018, the Supervisory Board resolved to align the bonus target amounts of the other Managing Board members and set them at €525,000 from October 1, 2018.

The bonus is not paid if target achievement is 0 % and is capped at 200 % of the above target amount. For some or all of the Managing Board members, the Supervisory Board may increase or decrease the amount of the bonus by up to 20 %. It hereby takes into account the previous year, growth, market and the results of a customer satisfaction survey, (from fiscal year 2019 onwards also the results of an employee survey if conducted) and also individual contribution. The maximum adjusted bonus amount is 240 % of the target amount.

According to a malus/clawback clause, the Supervisory Board can reduce the payout amount (down to zero) in case of severe breaches of duty, severe compliance violations and/or severe unethical behavior of a Managing Board member.

Calculation of variable remuneration (bonus)



In case of an adjustment the following additional calculation takes place:

Target amount x Weighted target achievement (in %) = **Target achievement** (0 – 200 % of target amount)

Target achievement x Adjustment (0.8 – 1.2) = **Total target achievement** (0 – 240 % of target amount)

Long-term stock-based remuneration

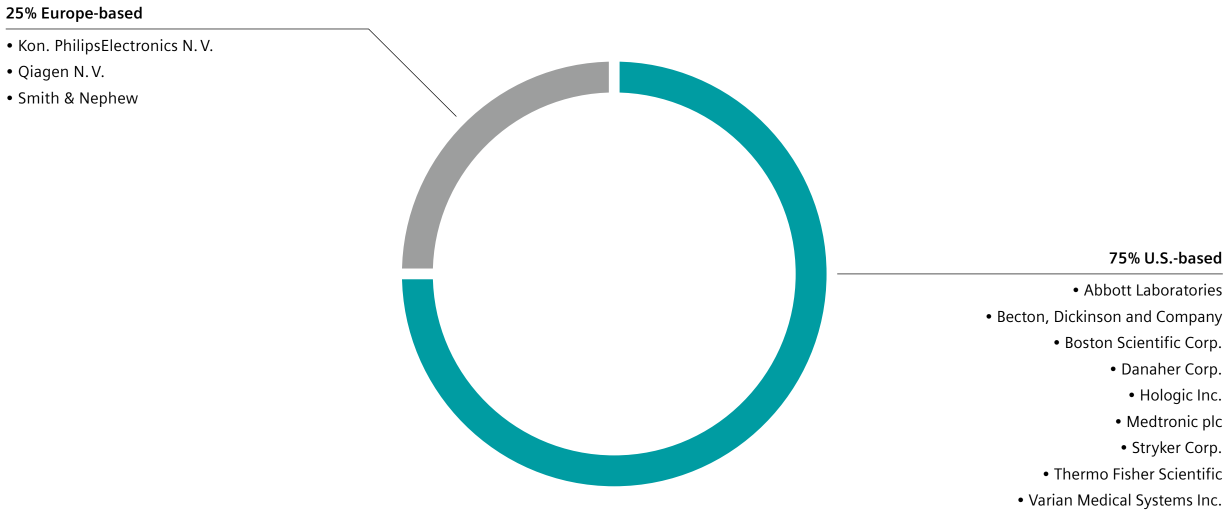
The long-term stock-based remuneration consists of a grant of forfeitable stock commitments (stock awards) at the beginning of a fiscal year. At 100 % target achievement, the annual target's monetary value of the stock awards commitment is:

- €1,200,000 for the Chief Executive Officer and
- €735,000 and €840,000, respectively, for the other Managing Board members. At its meeting on November 2, 2018, the Supervisory Board resolved to align the annual target amounts of the other Managing Board members. As of October 1, 2018, the annual target amount will be €840,000.

On an individual basis, the Supervisory Board may increase this amount by up to 75 % per fiscal year. This allows the Supervisory Board to acknowledge each Managing Board member's individual accomplishments and experience as well as the scope and demands of his or her position and the target of a long-term, sustainable development of the Company as well as to secure the international competitiveness of the remuneration system.

After a four-year restriction period, beneficiaries receive one free Siemens Healthineers stock per stock award subject to target achievement. The total value of these awards depends on both the total shareholder return performance against selected competitors and the overall stock price performance. At the beginning of each fiscal year (for the term of office: shortly after the IPO), the Supervisory Board decides on the target system and the relevant competitors (currently the following twelve):

Competitors



The Supervisory Board may make adjustments in case of significant changes among the relevant competitors and/or extraordinary unforeseen developments impacting the stock price.

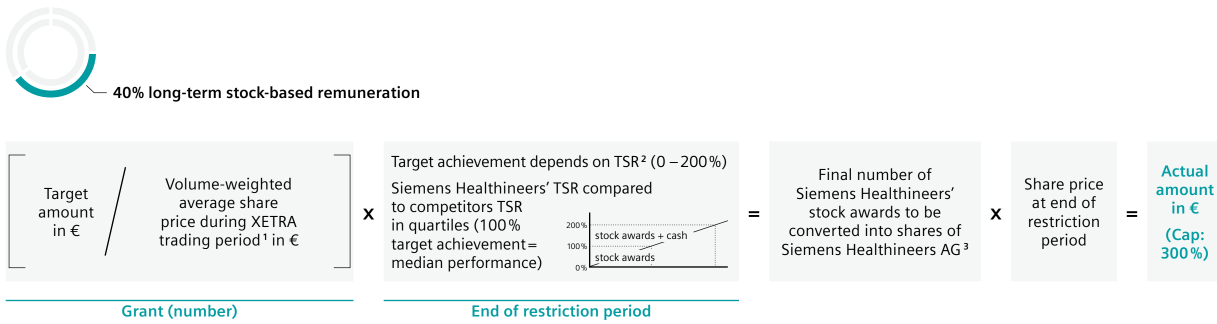
Over three years, the development of the stock price is measured on the basis of a twelve-month reference period (for the term of office: from the commencement of trading on the regulated market at the Frankfurt Stock Exchange until October 31, 2018) so the total shareholder return can be calculated for Siemens Healthineers AG and the relevant competitors. After the four-year restriction period, the Supervisory Board determines how Siemens Healthineers' total shareholder return has developed in relation to that of its competitors. This determination yields a target achievement of minimum 0% and is capped at 200%.

If target achievement is above 100%, the Managing Board members will receive, in addition to the stocks, a cash payment corresponding to the outperformance with the total of both being capped at 300% of the target amount. At its meeting on November 2, 2018, the Supervisory Board resolved that, as of fiscal year 2019, the Managing Board members will also receive stocks for the achievement of targets exceeding 100%. If the cap is exceeded or if target achievement is below 100%, the corresponding number of stock awards will be forfeited without replacement.

The Supervisory Board can revoke all or some of the stock awards without replacement in case of compliance violations by a Managing Board member, depending on the seriousness of the violation.

Generally, the same principles on the further terms of the stock awards apply to the Managing Board and to senior managers. These principles are discussed in → ***Note 27 Share-based payment*** in the notes to the consolidated financial statements.

Calculation of long-term stock-based remuneration



¹ Less the discounted estimated dividends during the restriction period.

² Total Shareholder Return (TSR) = $\frac{\text{(Performance price – reference price) + dividends}}{\text{reference price}}$

³ If target achievement is above 100%, the Managing Board members receive a cash payment in addition to the transfer of shares with the total of both being capped at 300% of the relevant target amount. At its meeting on November 2, 2018, the Supervisory Board resolved that, as of fiscal year 2019, the Managing Board members will also receive stocks for the achievement of targets exceeding 100%.

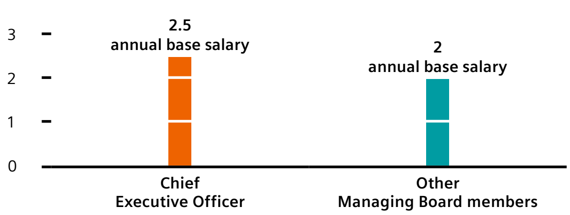
Maximum amount of total remuneration

In addition to the caps on performance-based remuneration, the maximum amount for total remuneration is 1.7 times the target remuneration (i.e., the fixed base remuneration, the target amounts for the variable remuneration (bonus) and the long-term stock-based remuneration; excluding the IPO Incentive, fringe benefits and pension benefit commitments). If the IPO Incentive, fringe benefits and pension benefit commitments are included, the maximum amount of total remuneration will increase accordingly by these amounts.

Share ownership guidelines

The share ownership guidelines form an integral part of the remuneration system for the Managing Board. Their contracts require the Managing Board members to continually hold a percentage of their average annual base remuneration paid in the last four years in Siemens Healthineers stocks during their term of office on the Managing Board, that is, for the Chief Executive Officer 250% and for the other Managing Board members 200%. Each Managing Board member must provide evidence of having met this requirement after a buildup phase of at least four years (i.e., for the first time in March 2022) and then annually. The Managing Board member must acquire additional stocks if the value of his or her stocks falls below the required minimum level due to a declining Siemens Healthineers stock price.

Share ownership target
Annual base salary



Pension benefit commitments

The Managing Board members participate in the Company's defined contribution plan ("Beitragsorientierte Siemens Healthineers Altersversorgung", BSHAV). Under this plan, Managing Board members receive contributions that are credited to their personal pension account. Each year, the Supervisory Board determines whether a contribution will be made and in which percentage of the sum of the base remuneration plus the target amount for the bonus (currently 28%). It may also decide on special contributions and special provisions for individual members. In making its decisions, the Supervisory Board takes account of the intended level of provision for each Managing Board member and the length of time he or she has been a member as well as the annual and long-term expense resulting from that provision. Managing Board members are eligible to receive benefits under the plan at the age of 60 or of 62 if the commitments were made on or after January 2012. As a rule, the accrued pension benefit balance is paid out in twelve annual installments. The Managing Board member or his or her surviving dependents may choose a different payment option, subject to the Company's consent.

Pension benefit commitments or entitlements lapse if a recipient jeopardizes or harms important interests of Siemens or acts in a way that would allow the Company to terminate his or her contract for cause.

Other remuneration system rules

Commitments in connection with the termination of Managing Board membership

The following provisions apply in case of a termination of Managing Board membership:

- ***Premature termination by mutual agreement without serious cause:*** The Managing Board contracts provide for compensatory payment in this case (severance payment). The severance payment must not exceed two years' remuneration and compensate no more than the remaining term of contract (cap). It is payable in the month the member leaves the Managing Board. The fixed base remuneration, the bonus and the stock awards actually received in the last fiscal year before termination form the basis for its calculation. If the remaining term is more than six months, the severance payment is reduced by 10% as a lump sum allowance for discounted values and for income earned elsewhere. This reduction applies only to the portion of the severance payment calculated without taking into account the first six months of the remaining contractual term. To cover non-monetary benefits, a flat rate of 5% of the severance payment is paid.
  A one-time contribution is made to the BSHAV. The amount is based on the plan contribution from the previous year and on the remaining term of appointment with a cap of two years' contribution.
- ***Premature termination upon the Managing Board member's request/serious cause for the Company to terminate:*** None of the above benefits are paid.
- ***Serious breach of fundamental contractual duties by Managing Board member:*** None of the above benefits are paid. The Company reserves the right to claim damages.
- ***Change of control***: If a change of control (controlling influence as a result of a majority voting interest, intercompany agreement or merger with a shareholder outside the Siemens group) occurs leading to a material change in the Managing Board member's position, the Managing Board member has a termination right. This right is excluded if the change of control occurs in the twelve-month period before retirement. If the Managing Board member exercises this right, he or she receives a severance payment for the remaining term capped at two years' remuneration. The fixed base remuneration, the target amount for both the bonus and the stock awards (each for the last fiscal year completed prior to the termination) form the basis for the calculation. The entitlement to the severance payment lapses insofar as the Managing Board member receives benefits from third parties on the occasion of or in connection with the change of control. The 10% reduction and the 5% increase outlined above apply correspondingly.

The following further provisions apply to stock awards:

- Stock commitments for which the restriction period has not yet expired will be forfeited without replacement if the employment contract is not extended after the appointment period at the Managing Board member's request or if a serious cause would have entitled the Company to revoke the appointment or terminate the contract.
- Once granted, they will not be forfeited if the contract is terminated by mutual agreement at the Company's request or in the case of retirement, disability, death, a spinoff, the transfer of an operation, or a change of activity within the group.

Secondary activities of Managing Board members

Managing Board members require the approval of the Chairman's Committee of the Supervisory Board for secondary activities, in particular Supervisory Board memberships outside Siemens Healthineers. The Supervisory Board remains responsible for resolving any adjustments to remuneration to take account of remuneration for secondary activities.

The Managing Board's remuneration is considered to cover the holding of positions in Siemens Healthineers companies. Generally, Managing Board members are obliged to waive any remuneration due for these positions. If this is not possible, the remuneration paid by the group company will be set off against the Managing Board's remuneration.

Memberships in Supervisory Boards or in comparable domestic or foreign controlling bodies of business enterprises are listed in chapter →***C.3.1.1 Managing Board*** within the additional information.

A.12.1.2 Remuneration of Managing Board members for the period of consideration

The following describes the remuneration the Managing Board members received from Siemens Healthineers AG during the period of consideration. The Managing Board members in office from December 1, 2017, to February 28, 2018, did not receive any remuneration.

After the Supervisory Board had assessed the achievement of the targets it set in February 2018 and an independent external advisor had reviewed the remuneration system, the Supervisory Board established the amounts of the variable remuneration, long-term stock-based remuneration as well as pension benefit commitments for the Managing Board members in office as of September 30, 2018, as follows:

Variable remuneration (bonus)

In February 2018, the Supervisory Board set the target parameters adjusted profit margin and comparable revenue growth (proportionate for the term of office) for all Managing Board members. In order to take comprehensive account of the individual performance of each member, it also set individual targets, each consisting of three subtargets. The following targets were set and achieved:

Target parameter (each weighing 1/3)	Target value for 100 %	Actual figure for the initial time in office
Adjusted profit margin	17.6 %	17.2 %
Comparable revenue growth	3.5 %	3.7 %
Individual targets	2018 focus topics: Strategy 2025, lean organizational set-up, leadership	

During the term of office, target achievement was between 88.78 % and 92.11 %. In its overall assessment, the Supervisory Board decided not to make any adjustments to the bonus payout amounts.

Long-term stock-based remuneration

The number of stock commitments granted was based on the volume-weighted average price of the Siemens Healthineers stock in Xetra trading during the 20 trading days following the first trading day of Siemens Healthineers AG stocks on the Frankfurt Stock Exchange, less the discounted estimated dividends during the restriction period. The stock price used to determine this number was €30.19.

Total remuneration

Based on the Supervisory Board's decisions described above, Managing Board's remuneration for the period of consideration totaled €5,895,071. Of this total, €2,482,723 was attributable to cash remuneration and €3,412,348 to stock-based remuneration. The remuneration presented in the following was granted to the Managing Board members for the term of office.

Managing Board members in office as of September 30, 2018

(amounts in thousands of €)

Non-performance-based components	Fixed base remuneration	
	Fringe benefits [1]	
	Total	
Performance-based components	Without long-term incentive effect, non-stock-based	One-year variable remuneration (bonus) – target amount
	With long-term incentive effect, stock-based	Multiyear variable remuneration [2,3] stock awards [4] (restriction period: four years)
		IPO Incentive [3,10] (restriction period: three years)
	Total [5]	
	Service cost	
	Total (Code) [6]	
	Total remuneration of all Managing Board members for the term of office, in accordance with the applicable reporting standards, amounted to €5.90 million. The payout amount presented below is to be used instead of the target value according to the Code for one-year variable remuneration. Service costs for pension benefits are not included.	
Performance-based components	Without long-term incentive effect, non-stock-based	One-year variable remuneration (bonus) – payout amount
Total remuneration		

[1] Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of a company car, reimbursement of certain tax advisory expenses, contributions to insurance policies, accommodation and moving expenses, including taxes incurred on these, and costs related to preventive medical examinations.

[2] The figures for individual maximums for multi-year variable remuneration reflect the possible maximum value in accordance with the maximum amount agreed upon for the term of office, that is, 300% of the applicable target amount.

[3] The expenses recognized for stock-based remuneration for Managing Board members in accordance with IFRS in the term of office amounted to €876,845. The following amounts pertained to the Managing Board members during the period of consideration: Dr. Bernhard Montag €365,112, Dr. Jochen Schmitz €261,114 and Michael Reitermann €250,619. If the plan conditions are met, Managing Board members are entitled to 6,480 Siemens shares from participation in share programs, which are transferred after expiry of the respective holding or vesting period.

[4] The stock awards were initially granted in November 2017 as Siemens stock awards but were replaced by Siemens Healthineers stock awards. The amounts include the phantom stock awards granted to Dr. Bernhard Montag and Michael Reitermann.The stock awards depend on both the total shareholder return performance against the selected competitors and the overall stock price performance. The monetary values relating to 100% target achievement were €2,397,388. The amounts for individual Managing Board members were as follows: Dr. Bernhard Montag €997,538, Dr. Jochen Schmitz €684,739 and Michael Reitermann €715,111.

[5] The total maximum remuneration represents the contractual maximum amount for total remuneration, excluding fringe benefits and pension benefit commitments for the respective part of the term of office. At 1.7 times target remuneration (base remuneration, target amount for the bonus and for the long-term stock-based remuneration) plus the amounts resulting from the IPO Incentive, the maximum amount is less than the total of the individual contractual caps for performance-based components.

Dr. Bernhard Montag[7] Chief Executive Officer			Dr. Jochen Schmitz[7] Chief Financial Officer			Michael Reitermann[7, 8] Managing Board member		
2018	2018 (Min)	2018 (Max)	2018	2018 (Min)	2018 (Max)	2018	2018 (Min)	2018 (Max)
613	613	613	376	376	376	429	429	429
38	38	38	17	17	17	90	90	90
650	**650**	**650**	**393**	**393**	**393**	**519**	**519**	**519**
438	0	1,050	274	0	658	306	0	735
901[9]	0[9]	2,993[9]	618	0	2,054	646[9]	0[9]	2,145[9]
550	550	550	371	371	371	327	327	327
2,538	**1,200**	**4,030**	**1,657**	**764**	**2,641**	**1,798**	**846**	**2,792**
182	182	182	103	103	103	0[11]	0[11]	0[11]
2,720	**1,382**	**4,212**	**1,760**	**868**	**2,744**	**1,798**	**846**	**2,792**
396			253			272		
2,496			**1,635**			**1,764**		

[6] The total remuneration reflects the current fair value of stock-based remuneration components on the grant date. On the basis of the current monetary value of stock-based remuneration components, the total remuneration amounted to €6,072,239.

[7] Dr. Bernhard Montag, Dr. Jochen Schmitz and Michael Reitermann were appointed Managing Board members of Siemens Healthineers AG effective March 1, 2018. The amounts shown here refer to the period from the effectiveness of their appointment until September 30, 2018. The Managing Board members in office until February 28, 2018, did not receive any remuneration.

[8] Michael Reitermann is also Head of Diagnostics and, in this role, receives remuneration from Siemens Medical Solutions USA, Inc. Of the fixed remuneration and one-year variable remuneration (payout amount) reported here, an amount of €432,765 (including a bonus payment of US$268,781 converted into euros as of September 30, 2018) was granted and paid by Siemens Medical Solutions USA, Inc. and set off against the remuneration for Michael Reitermann's Managing Board activities at Siemens Healthineers AG. Of the fringe benefits reported here, an amount of €84,683 was granted and paid by Siemens Medical Solutions USA, Inc. In addition, it has been agreed that Siemens Healthineers AG will offset, as a net amount, any personal tax burden on the remuneration and fringe benefits (excluding deferred compensation) according to the contract with Siemens Healthineers AG that exceeds the burden Michael Reitermann would incur if he paid tax solely in the United States.

[9] This includes an amount of €255,970 granted as Siemens Healthineers phantom stock awards to Dr. Bernhard Montag and an amount of €157,900 to Michael Reitermann, respectively. In lieu of a transfer of stocks, a cash equivalent will be paid for these awards at the end of the restriction period. Otherwise, the same provisions as for the stock awards apply.

[10] Further details for the IPO Incentive can be found in chapter → ***A.12.1.3 Additional information on stock-based remuneration instruments***.

[11] Due to the fact that the BSHAV was joined during the year, no amount was recognized as an expense.

Allocations

The following table shows allocations for the term of office for fixed base remuneration, fringe benefits, and one-year and multi-year variable remuneration as well as the expense of pension benefits.

Managing Board members in office as of September 30, 2018

(amounts in thousands of €)			Dr. Bernhard Montag[3] Chief Executive Officer 2018	Dr. Jochen Schmitz[3] Chief Financial Officer 2018	Michael Reitermann[3,4] Managing Board member 2018
Non-performance-based components	Fixed base remuneration		613	376	429
	Fringe benefits[1]		38	17	90
	Total		**650**	**393**	**519**
Performance-based components	Without long-term incentive effect, non-stock-based	One-year variable remuneration (bonus) – payout amount[2]	396	253	272
	With long-term incentive effect, stock-based	Multi-year variable remuneration	0	0	0
	Total		**1,046**	**646**	**791**
	Service cost		182	103	0
	Total (Code)		**1,228**	**749**	**791**

[1] Fringe benefits include the costs, or the cash equivalent, of non-monetary benefits and other perquisites, such as the provision of a company car, reimbursement of certain tax advisory expenses, contributions to insurance policies, accommodation and moving expenses, including taxes incurred on these, and costs related to preventive medical examinations.

[2] The payout amount of one-year variable remuneration (bonus) presented above therefore represents the amount awarded for the term of office, which will be paid out in January 2019.

[3] Dr. Bernhard Montag, Dr. Jochen Schmitz and Michael Reitermann were appointed Managing Board members of Siemens Healthineers AG effective March 1, 2018. The amounts shown here refer to the period from the effectiveness of their appointment until September 30, 2018. The Managing Board members in office until February 28, 2018 did not receive any remuneration.

[4] Michael Reitermann is also Head of Diagnostics and, in this role, receives remuneration from Siemens Medical Solutions USA, Inc. Of the fixed remuneration and one-year variable remuneration (payout amount) reported here, an amount of €432,765 (including a bonus payment of US$268,781 converted into euros as of September 30, 2018) was granted and paid by Siemens Medical Solutions USA, Inc. and set off against the remuneration for Michael Reitermann's Managing Board activities at Siemens Healthineers AG. Of the fringe benefits reported here, an amount of €84,683 was granted and paid by Siemens Medical Solutions USA, Inc. In addition, it has been agreed that Siemens Healthineers AG will offset, as a net amount, any personal tax burden on the remuneration and fringe benefits (excluding deferred compensation) according to the contract with Siemens Healthineers AG that exceeds the burden Michael Reitermann would incur if he paid tax solely in the U.S.

Pension benefit commitments

In the term of office, the Managing Board members were granted contributions by Siemens Healthineers AG under the BSHAV totaling €681,917 based on a resolution by the Supervisory Board on November 2, 2018.

The entitlements to company pension benefits acquired at former employers within the Siemens group were transferred to Siemens Healthineers AG, which discharged the respective entity from its obligations in this respect. Of the above amount, €7,239 related to the funding of pension commitments earned prior to transfer to the BSHAV.

The contributions are added to the personal pension accounts each January, following the end of the fiscal year. Until the beneficiary's date of retirement, his pension account is credited with an annual interest payment (guaranteed interest) on January 1 of each year. The interest rate is currently 0.9%.

The following table shows individualized details of the contributions (allocations) in the term of office as well as the defined benefit obligations for pension commitments.

Managing Board members in office as of September 30, 2018

(amounts in thousands of €)	Total contributions in the term of office[2]	Defined benefit obligations for all pension commitments excluding deferred compensation[3]
Dr. Bernhard Montag	294	2,725
Dr. Jochen Schmitz	182	2,056
Michael Reitermann[1]	206	206
Total	**682**	**4,987**

[1] Michael Reitermann's pension benefit commitments are non-forfeitable after two years of service but will be forfeited in any case of termination of the employment contract before February 29, 2020. In accordance with the provisions of the BSHAV, benefits to be paid to Michael Reitermann are in no way secured or financed by the trust associated with the BSHAV or any other trust. They are merely an unsecured, unfunded commitment by the Company to pay these benefits in the future under certain applicable terms and conditions and will only be paid out of the Company's general assets. Michael Reitermann is entitled to a gross-up for certain taxes.

[2] The expenses (service cost) recognized in accordance with IFRS in the term of office for Managing Board members' entitlement under the BSHAV amounted to €284,678.

[3] There was no contribution to deferred compensation from March 1, 2018, to September 30, 2018.

Other

No loans or advances from the Company were provided to members of the Managing Board.

A.12.1.3 Additional information on stock-based remuneration instruments

Replacement of Siemens stock awards (tranche 2018)

In November 2017, their respective employing entity at that time granted Siemens performance-oriented stock awards (tranche 2018) to the three Managing Board members in office as of September 30, 2018. With the Managing Board members' consent, Siemens Healthineers AG replaced these awards by Siemens Healthineers stock awards. It thereby discharged the granting entities from their obligation to transfer stocks after the restriction period and bears the resulting costs. Siemens Healthineers stocks instead of Siemens stocks will be awarded after the restriction period ending in 2021.

Grant of phantom stock awards

In addition to the replacement of Siemens stock awards, the Supervisory Board granted Siemens Healthineers phantom stock awards to Dr. Bernhard Montag and Michael Reitermann for the term of office. The phantom stock awards cover the gap between the pro rata target amount for stock awards that applied at Siemens Healthcare GmbH and the one at Siemens Healthineers AG. After the restriction period ending in 2021, Dr. Bernhard Montag and Michael Reitermann will receive corresponding cash payments.

Payout and reinvestment of Siemens stock awards granted in fiscal years 2015, 2016 and 2017

The members of the Managing Board agreed that any unvested long-term stock-based remuneration tranches under which Siemens stock awards were granted in the fiscal years 2015, 2016 and 2017 were paid out in cash based on the pro rata target achievement at the end of February 2018. The payout amounted to €2,968,380.93 for Dr. Bernhard Montag, €1,927,286.86 for Dr. Jochen Schmitz and €2,399,547.02 for Michael Reitermann. The company which had granted these stock awards bore the costs for the payout. The net proceeds were used to purchase Siemens Healthineers stocks to build up the Managing Board members' share ownership according to the share ownership guidelines.

Grant of IPO Incentive

The Company granted a one-time conditional equity incentive (IPO Incentive) to the three Managing Board members in office as of September 30, 2018, in two tranches:

- 50% following the closing of the IPO and
- 50% one year later.

The condition – the IPO of Siemens Healthineers by June 30, 2018 – has been met. The total target amount for both tranches (at 100% target achievement) equals one-year base remuneration. Target achievement can vary between 50% (floor) and 150% (cap). The grant is in forfeitable stock commitments with a restriction period of three years starting at the grant of each tranche. The beneficiaries receive one Siemens Healthineers stock or an equivalent cash payment for each stock commitment. The actual target amount divided by the fair market value of Siemens Healthineers stocks[1] equals the number of IPO stock awards.

Based on the evaluation criteria of market capitalization, personal contribution and individual assessment, the Supervisory Board has determined the following target achievement for the first tranche granted on May 17, 2018, resulting in the following amounts and numbers:

Managing Board members in office as of September 30, 2018

	Target amount in €	Actual target amount in €	Number of IPO Incentive stock awards[1]
Monetary value and number of IPO Incentive stock awards			
Dr. Bernhard Montag	525,000	525,000	17,918
Dr. Jochen Schmitz	322,500	354,750	12,108
Michael Reitermann	367,500	312,375	10,661
Total	1,215,000	**1,192,125**	**40,687**

[1] Fair market value of Siemens Healthineers stock: €29.30. The fair market value is the volume-weighted average stock price of the Siemens Healthineers stock in Xetra trading during the first twenty trading days, less discounted estimated dividends during the restriction period. For the second tranche, the fair market value will refer to the first twenty trading days after the first anniversary of the initial public offering.

For the second tranche, the Supervisory Board will evaluate the criteria of stock performance within the first year post listing compared to key competitors and international stock markets and the personal contribution to the performance of the Company. This evaluation will take place within 40 working days one year post listing.

If the Managing Board member terminates the employment contract, he will not receive any further stock commitments. The forfeiture rules, including the malus/clawback clause outlined above for the stock awards, apply correspondingly.

[1] Fair market value of Siemens Healthineers stock: €29.30. The fair market value is the volume-weighted average stock price of the Siemens Healthineers stock in Xetra trading during the first 20 trading days, less discounted estimated dividends during the restriction period. For the second tranche, the fair market value will refer to the first 20 trading days after the first anniversary of the initial public offering.

Overview of stock commitments

The following table shows the changes in stock commitments held by Managing Board members during the term of office. Any unvested Siemens stock awards which were granted in fiscal years 2015, 2016 and 2017 were paid out in cash based on the pro rata target achievement at the end of February 2018 and are therefore not contained in the table below. The resulting net proceeds were invested into Siemens Healthineers stocks.

Managing Board members in office as of September 30, 2018

(amounts in number of units of Siemens Healthineers stock awards)	Balance at beginning of the term of office	Granted during the term of office		Balance at the end of the term of office
	Forfeitable commitments of stock awards	Forfeitable commitments of stock awards[1]	Forfeitable commitments of IPO Incentive (first tranche)[2]	Total forfeitable commitments of stock awards
Dr. Bernhard Montag	0	33,042	17,918	50,960
Dr. Jochen Schmitz	0	22,681	12,108	34,789
Michael Reitermann	0	23,687	10,661	34,348
Total	**0**	**79,410**	**40,687**	**120,097**

[1] These stock awards were initially granted in November 2017 as Siemens stock awards but were replaced by Siemens Healthineers stock awards and are hence shown as Siemens Healthineers stock awards. The amounts include the phantom stock awards granted to Dr. Bernhard Montag (9,391) and Michael Reitermann (5,793). In lieu of a transfer of stocks, a cash equivalent will be paid for these awards at the end of the restriction period. Otherwise, the same provisions as for the stock awards apply. The weighted average fair value was €27.26 per granted stock.

[2] Fair market value of the Siemens Healthineers stock of €29.30. Stock awards from the second tranche of the IPO Incentive are not included as these stock awards will be granted only upon issuance of a separate grant letter in fiscal year 2019. The target amount for the second tranche is €525,000 for Dr. Bernhard Montag, €322,500 for Dr. Jochen Schmitz and €367,500 for Michael Reitermann at a target achievement of 100%.

A.12.2 Remuneration of Supervisory Board members

Section 12 of the articles of association of Siemens Healthineers AG governs the remuneration of the Supervisory Board members and stipulates the following fixed remuneration for each fiscal year:

- €220,000 for the Supervisory Board Chairman,
- €110,000 for Supervisory Board members;

Additionally, for service in the Supervisory Board committees:

- €80,000 for the Chairman of the Audit Committee,
- €40,000 for each other member of the Audit Committee,
- €40,000 for the Chairman of the Chairman's Committee,
- €20,000 for each other member of the Chairman's Committee,
- €60,000 for the Chairman of the Innovation and Finance Committee,
- €30,000 for each other member of the Innovation and Finance Committee.

Supervisory Board members who did not serve as member or chairman of the Supervisory Board or of a committee for the full fiscal year receive a pro rata remuneration with rounding up to full months. If a Supervisory Board member fails to attend a Supervisory Board meeting, one-third of the total remuneration described above is reduced by a percentage equal to the percentage of the meetings which the relevant Supervisory Board member did not attend in relation to the total number of Supervisory Board meetings held during the relevant fiscal year.

In addition to the above, members receive €1,500 for each attendance at meetings of the Supervisory Board or its committees. The Company reimburses all Supervisory Board members for their expenses and value-added tax levied on their salaries.

No loans or advances from the Company were provided to Supervisory Board members.

According to Section 12 (6) of the articles of association, the above rules do not apply to the interim Supervisory Board. Its three members in office until February 28, 2018, did not receive any remuneration. The Supervisory Board members in office as of September 30, 2018 were appointed with effect as of March 1, 2018 (in case of Dr. Philipp Rösler March 2, 2018).

Based on these provisions, the remuneration in the term of office was as follows:

Supervisory Board members in office as of September 30, 2018

	Term of office			
(amounts in €)	Base remuneration	Additional remuneration for committee work	Meeting attendance fee	Total
Michael Sen [1]	0	0	0	0
Dr. Norbert Gaus	64,167	29,167	12,000	105,333
Dr. Marion Helmes	54,444	23,333	6,000	83,778
Dr. Andreas C. Hoffmann	64,167	35,000	13,500	112,667
Dr. Philipp Rösler	57,037	0	3,000	60,037
Dr. Nathalie von Siemens	64,167	0	4,500	68,667
Dr. Gregory Sorensen	64,167	17,500	7,500	89,167
Karl-Heinz Streibich	64,167	17,500	7,500	89,167
Dr. Ralf P. Thomas [1]	0	0	0	0
Total	**432,315**	**122,500**	**54,000**	**608,815**

[1] The Managing Board members of Siemens AG, Michael Sen and Dr. Ralf P. Thomas, have waived their remuneration for their Supervisory Board membership at Siemens Healthineers AG.

A.12.3 Other

The Siemens AG provides a group insurance policy for Supervisory and Managing Board members of Siemens AG and certain other board members and employees of the Siemens group including Siemens Healthineers AG and its group companies. The policy is taken out for one year at a time or renewed annually. The related costs are charged by Siemens Group to Siemens Healthineers. It covers the personal liability of the insured in cases of financial loss associated with their activities on behalf of the Siemens Group. The insurance policy for the period of consideration includes a deductible for the members of the Managing Board and the Supervisory Board that complies with the requirements of the German Stock Corporation Act and the Code.

A.13 Takeover-relevant information and explanatory report (pursuant to Sections 289a (1) and 315a (1) German Commercial Code)

A.13.1 Composition of issued capital

As of September 30, 2018, the Company's issued capital totaled €1 billion. The issued capital is divided into 1,000,000,000 ordinary registered shares with no par value ("auf den Namen lautende Stückaktien"). The shares are fully paid in. All shares confer the same rights and obligations. The shareholders' rights and obligations are governed in detail by the provisions of the German Stock Corporation Act, in particular by Sections 12, 53a et seq., 118 et seq. and 186 of that Act.

A.13.2 Restrictions on voting rights or transfer of shares

At the Shareholders' Meeting, each ordinary registered share with no par value has one vote and reflects the shareholders' proportionate share in the Company's net income. An exception to this rule applies to treasury shares held by the Company, which do not entitle the Company to any rights. Pursuant to Section 136 of the German Stock Corporation Act, voting rights of these shares are excluded by law.

The My IPO Shares employee share program was implemented on the occasion of the IPO of Siemens Healthineers AG in the fiscal year 2018. Under the My IPO Shares program, employees other than members of the Managing Board or Supervisory Board of Siemens Healthineers AG had the right to purchase shares of Siemens Healthineers AG. The participants received a certain ration of bonus shares of Siemens Healthineers AG free of charge, in addition to the purchased shares. Participants in the program are obligated to hold the purchased shares and bonus shares for a six-month period after the acquisition date. If the participant leaves the Siemens Group before the end of the six-month period, this blocking period ends early upon the participant's departure.

A.13.3 Legislation and provisions of the articles of association applicable to the appointment and removal of members of the Managing Board and governing the amendment to the articles of association

The appointment and removal of members of the Managing Board is subject to the provisions of Sections 84 and 85 of the German Stock Corporation Act. According to Section 5 (1) of the articles of association, the Managing Board is composed of several members, the number of which is determined by the Supervisory Board.

According to Section 179 of the German Stock Corporation Act, any amendment to the articles of association is subject to a resolution of the Shareholders' Meeting. The authority to adopt non-substantive editorial amendments to the articles of association was transferred to the Supervisory Board under Section 9 (4) of the articles of association. In addition, by resolutions of the Shareholders' Meeting, the Supervisory Board has been authorized to amend Section 4 of the articles of association accordingly as the authorized and conditional capitals are utilized, and also after the expiration of the authorization and utilization period that applies to each.

Resolutions of the Shareholders' Meeting require a simple majority vote, unless a larger majority is required by law. Pursuant to Section 179 (2) of the German Stock Corporation Act, amendments to the articles of association require a majority of at least three quarters of the capital stock represented at the time of the vote at the Shareholders' Meeting, unless another capital majority is prescribed by the articles of association.

A.13.4 Powers of the Managing Board to issue and repurchase shares

Based on a resolution of the Company's extraordinary Shareholders' Meeting held on February 19, 2018, the Managing Board is authorized, subject to the Supervisory Board's prior consent, to increase the Company's issued capital on one or more occasions until February 18, 2023, by up to €500 million by issuing up to 500,000,000 new ordinary registered shares with no par value against cash and/or contributions in kind (Authorized Capital 2018).

As of September 30, 2018, the Company had not made use of the Authorized Capital 2018. As of September 30, 2018, the unissued Authorized Capital 2018, which also equals the total unissued authorized capital of Siemens Healthineers AG, therefore had a nominal value of €500 million.

On February 19, 2018, Siemens Healthineers AG's extraordinary Shareholders' Meeting resolved to create a conditional capital. Siemens Healthineers AG's issued capital was conditionally increased by up to €100 million by issuance of up to 100,000,000 new ordinary registered shares with no par value (Conditional Capital 2018). A capital increase from the Conditiona Capital 2018 may only be implemented to grant shares when holders and/or creditors of convertible bonds or of option warrants from option bonds issued by Siemens Healthineers AG or a controlled entity, until February 18, 2023, exercise their conversion/option rights, perform their conversion/option obligations or if shares are delivered, and only if other forms of performance are not used.

The Managing Board is authorized to issue bearer or registered bonds in an aggregate principal amount of up to €6.0 billion with conversion rights or warrants attached, or a combination of these instruments, entitling the holders/creditors to subscribe to up to 100,000,000 new ordinary registered shares with no par value of Siemens Healthineers AG.

As of September 30, 2018, the Company had not made use of the ability to issue bonds under this authorization. Accordingly, as of September 30, 2018, the Conditional Capital 2018 still amounted to €100 million.

The new shares under the Authorized Capital 2018 and the bonds under the aforementioned authorization are to be issued against contributions in cash or in kind. They are, as a matter of principle, to be offered to shareholders for subscription. Subject to the approval of the Supervisory Board, the Managing Board is authorized to exclude subscription rights of shareholders in the event of capital increases against contributions in kind. In the event of capital increases against contributions in cash, the Managing Board is authorized, subject to the approval of the Supervisory Board, to exclude the shareholders' subscription rights in the following cases:

- The issue price of the new shares/bonds is not significantly lower than the stock market price of the Company's shares already listed or the theoretical market price of the bonds computed in accordance with generally accepted actuarial methods (exclusion of subscription rights, limited to 10% of the issued capital in accordance with or by respective application of Section 186 (3) sentence 4 German Stock Corporation Act).
- The exclusion is necessary for fractional amounts resulting from the subscription ratio.
- The exclusion is necessary in order to compensate holders of conversion or option rights or conversion or option obligations for the effects of dilution.

In the event of a capital increase against contribution in cash from the Authorized Capital 2018, the subscription right may be excluded with the approval of the Supervisory Board if the new shares are offered exclusively to employees of the Company and any of its affiliated companies (employee shares). To the extent legally feasible, such employee shares may also be issued by effecting the contribution with such parts of the annual profit that the Managing Board and the Supervisory Board could transfer to surplus reserves in accordance with Section 58 (2) of the German Stock Corporation Act.

The Company cannot repurchase its own shares unless so authorized by a resolution duly adopted by the shareholders at a Shareholders' Meeting or under other very limited circumstances set forth in the German Stock Corporation Act. On February 19, 2018, the extraordinary Shareholders' Meeting authorized the Managing Board to repurchase shares of Siemens Healthineers AG until February 18, 2023, for any permissible purpose, up to a limit of 10% of its issued capital as of the date of the resolution or as of the date on which the authorization is exercised if the latter value is lower. The aggregate of shares of Siemens Healthineers AG repurchased under this authorization and any other of the Company's shares previously acquired and still held in treasury by the Company or attributable to the Company pursuant to Sections 71d and 71e of the German Stock Corporation Act may at no time exceed 10% of the then existing issued capital. Any repurchase of the Company's shares is to be accomplished at the discretion of the Managing Board, either by acquisition in the stock market or through a public share repurchase offer.

In addition to selling them on the stock exchange or through a public sales offer to all shareholders, the Managing Board was also authorized by resolution of the extraordinary Shareholders' Meeting on February 19, 2018, to use the Company's shares repurchased on the basis of this authorization for any permissible purpose. Such shares of the Company may in particular be

- cancelled,
- used in connection with share-based payment programs and/or employee share programs of the Company or any of its affiliated companies and issued to individuals currently or formerly employed by the Company or any of its affiliated companies as well as to board members of any of the Company's affiliated companies,
- offered and transferred, subject to the approval of the Supervisory Board, to third parties against contributions in kind,
- sold, subject to the approval of the Supervisory Board, against payment in cash if the price at which such shares of the Company are sold is not significantly lower than the market price of the Company's shares (exclusion of subscription rights, limited to 10% of the issued capital, by respective application of Section 186 (3) sentence 4 German Stock Corporation Act) or
- used to service or secure obligations or rights to acquire shares of the Company arising particularly from or in connection with convertible bonds or warrant bonds issued by the Company or any of its affiliated companies (exclusion of subscription rights, limited to 10% of the issued capital, by respective application of Section 186 (3) sentence 4 German Stock Corporation Act).

Furthermore, the Supervisory Board is authorized to use shares acquired on the basis of this authorization to meet obligations or rights to acquire shares of the Company that were or will be agreed with members of the Managing Board under the rules governing Managing Board remuneration.

In August 2018, the Company announced that it would carry out a share buyback with a volume of up to €55 million in the time period up to September 12, 2018. The buyback commenced on August 3, 2018, exercising the authorization given by the extraordinary Shareholders' Meeting on February 19, 2018. Under this share buyback, the Company repurchased 1,440,861 shares by the end of the fiscal year on September 30, 2018. The total consideration paid for these shares amounted to €55 million (excluding incidental transaction charges). The buyback had the purpose of issuing shares to employees and board members of affiliated companies, in particular under the My IPO Shares program. To the extent that the repurchased shares are not required for such purpose, they may be used for other legally permissible purposes. As of September 30, 2018, the Company held 247,763 shares in treasury.

A.13.5 Significant agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid

Various agreements have been entered into between the Siemens Group on the one hand and Siemens Healthineers on the other hand, most of which include change of control clauses.

Treasury and financing agreements

With regard to treasury and financing, these agreements particularly include the following:

In 2016, with amendments in 2018, a subsidiary of Siemens Healthineers AG as borrower entered into a bilateral framework loan agreement with a subsidiary of Siemens AG as lender for the amount of US$ 6.0 billion, under which four individual loan agreements amounting to US$ 4.3 billion are still drawn. Each agreement provides the lender with a right of termination in the event that the borrower ceases to be an affiliate of the lender. Furthermore, Siemens Healthcare GmbH as borrower maintains a multicurrency revolving credit facility with Siemens AG as lender in the amount of €1.1 billion to serve as working capital and as a short term loan facility, as well as a multicurrency revolving loan facility in the amount of €1.0 billion which provides funding for backup purposes. The agreement covering the aforementioned two facilities provides the lender with a right of termination in the event that Siemens AG ceases to control Siemens Healthineers AG.

Framework agreements based on the International Swaps and Derivatives Association Inc. documentation (ISDA agreements) entered into between Siemens Healthineers AG or numerous subsidiaries of Siemens Healthineers AG on the one hand and Siemens AG or Siemens Capital Company LLC on the other hand grant Siemens AG and Siemens Capital Company LLC a right of termination if Siemens AG either directly or indirectly ceases to directly or indirectly hold the majority of the shares or voting rights in the relevant counterparty or if the relevant counterparty ceases to be a fully consolidated subsidiary of Siemens AG. Such agreements also grant a right of termination if Siemens Healthineers AG or its respective subsidiary as the counterparty consolidates with, merges into, or transfers substantially all of its assets to a third party. However, the latter right of termination exists only if the resulting entity's creditworthiness is materially weaker than the relevant counterparty's creditworthiness immediately prior to such an event or the resulting entity does not simultaneously assume the relevant counterparty's obligations under the ISDA agreement.

Siemens Healthcare GmbH entered into an agreement with Siemens AG under which Siemens AG continues to provide certain cash management services to Siemens Healthcare GmbH, and via Siemens Healthcare GmbH also to Siemens Healthineers. Among such services are the provision of payment infrastructure including the use of Siemens bank accounts for external incoming and outgoing payment transactions, provision of internal accounts with credit lines (the latter only under separate agreements), the participation in Siemens cash pools, and internal settlement of intra-group transactions between the Siemens Group on the one hand and Siemens Healthineers on the other hand. The agreement may be terminated by Siemens AG in the event that Siemens AG ceases to control Siemens Healthineers AG where control is defined as the majority ownership of shares and/or voting rights. Furthermore, Siemens Healthcare GmbH agreed with Siemens Treasury GmbH that Siemens Healthineers AG and all of its subsidiaries, as well as any non-subsidiaries accepted by Siemens Treasury GmbH, may use a certain central treasury IT application for group finance management. The agreement may be terminated by Siemens Treasury GmbH in the event of an actual or imminent loss of control by Siemens AG over Siemens Healthcare GmbH where control is defined as the (direct or indirect) majority ownership of shares and/or voting rights.

Further agreements

Further, Siemens Healthineers AG or some of its subsidiaries have entered into various long-term service agreements with companies of the Siemens Group. Services covered by such agreements include, but are not limited to, IT, human resources, procurement, accounting, legal and compliance, as well as tax-related services. In the event of any direct or indirect change of control in Siemens Healthineers AG or a subsidiary that is a service recipient (i.e., in the event that Siemens AG no longer directly or indirectly holds a majority of the voting rights in the Company or the subsidiary, or loses the right to appoint the majority of the members of the Managing Board or to exercise comparable control rights), the service provider may terminate the respective agreement so far as the provided services are affected, for example, if rendering such services has become impossible for legal, technical or organizational reasons.

Several lease and rental agreements and real estate-related service agreements exist between Siemens Healthineers as the lessee and entities of the Siemens Group as the lessor. In the event that Siemens AG no longer directly or indirectly holds a majority of the voting rights in the Company, or loses the right to appoint the majority of the members of the managing board or to exercise comparable control rights, several legal consequences may occur, including, among others, the obligation to vacate premises, the termination of the lease for premises, or a physical separation in cases where premises are shared between entities of the Siemens Group on the one hand and entities of Siemens Healthineers on the other hand.

Siemens AG has entered into trademark and name use licensing agreements with Siemens Healthineers AG and some of its subsidiaries. Under such agreements, Siemens AG grants the licensee the right to use the designation "Siemens" and "Siemens Healthineers", among other purposes, as a product brand, corporate brand and part of the company name, business designation and domain. The agreements will automatically expire after a transitional period if the licensee ceases to be a company over which Siemens AG has direct or indirect management power by contract or otherwise, or through ownership of voting rights entitling Siemens AG to directly or indirectly appoint the majority of the members of the managing body.

A.13.6 Compensation agreements with members of the Managing Board or employees in the event of a takeover bid

If a change of control (controlling influence as a result of a majority voting interest, intercompany agreement or merger with a shareholder outside the Siemens Group) occurs leading to a material change in the Managing Board member's position, the Managing Board member has a termination right. This right is excluded if the change of control occurs in the twelve-month period before retirement. If the Managing Board member exercises this right, he or she receives a severance payment for the remaining term capped at two years' remuneration. The fixed base remuneration, the target amount for both the bonus and the stock awards (each for the last fiscal year completed prior to the termination) form the basis for the calculation. The entitlement to the severance payment lapses insofar as the Managing Board member receives benefits from third parties on the occasion of or in connection with the change of control. If the remaining term is more than six months, the severance payment is reduced by 10 % as a lump sum allowance for discounted values and for income earned elsewhere. This reduction applies only to the portion of the severance payment calculated without taking into account the first six months of the remaining contractual term. To cover non-monetary benefits, a flat rate of 5 % of the severance payment is paid.

A.13.7 Other takeover-relevant information

We are not aware of, nor have we during the last fiscal year been notified of, any shareholder directly or indirectly holding 10 % or more of the voting rights except for Siemens AG, which directly and indirectly held 850,000,000 shares (equaling 85 % of all shares), carrying 850,000,000 voting rights. There are no shares with special rights conferring powers of control. Shares granted by Siemens Healthineers AG or its subsidiaries to employees under their employee share programs and/or as share-based remuneration are transferred directly to the employees. The beneficiary employees who hold shares of employee stock may exercise their shareholder rights in the same way as any other shareholder directly in accordance with applicable laws and the articles of association.

B.

Consolidated financial statements

B.1 Consolidated statements of income

(in millions of €, earnings per share in €)	Note	Fiscal year 2018	Fiscal year 2017
Revenue	30	13,429	13,677
Cost of sales		−7,961	−7,982
Gross profit		**5,468**	**5,695**
Research and development expenses		−1,281	−1,253
Selling and general administrative expenses		−2,153	−2,222
Other operating income	4	48	22
Other operating expenses	31	−121	−19
Income from investments accounted for using the equity method, net		7	9
Interest income	16	41	12
Interest expenses	16	−205	−267
Other financial income, net		−5	–
Income before income taxes		**1,799**	**1,977**
Income tax expenses	5	−515	−581
Net income		**1,284**	**1,396**
Thereof attributable to:			
Non-controlling interests		19	17
Shareholders of Siemens Healthineers AG [1]		1,265	1,379
Basic earnings per share	6	**1.26**	**1.38**
Diluted earnings per share	6	**1.26**	**1.38**

[1] Siemens Group in fiscal year 2017.

B.2 Consolidated statements of comprehensive income

(in millions of €)	Note	Fiscal year 2018	2017
Net income		**1,284**	1,396
Remeasurements of defined benefit plans	21	19	277
Therein: Income tax effects		−57	−119
Other comprehensive income that will not be reclassified to profit or loss		**19**	277
Currency translation differences		265	6
Available-for-sale financial assets	25	1	–
Therein: Income tax effects		–	–
Cash flow hedges	25	4	−2
Therein: Income tax effects		−3	–
Other comprehensive income that may be reclassified subsequently to profit or loss		**270**	4
Other comprehensive income, net of taxes		**289**	281
Comprehensive income		**1,573**	1,677
Thereof attributable to:			
Non-controlling interests		15	18
Shareholders of Siemens Healthineers AG [1]		1,558	1,659

[1] Siemens Group in fiscal year 2017.

B.3 Consolidated statements of financial position

(in millions of €)	Note	Sept 30, 2018	Sept 30, 2017	Oct 1, 2016
Cash and cash equivalents	25	519	184	206
Trade and other receivables	7, 25	2,419	2,308	2,257
Other current financial assets	8, 25	77	57	70
Receivables from Siemens Group	25, 31	1,396	2,991	3,952
Contract assets	9	600	294	339
Inventories	10	1,829	1,605	1,577
Current income tax assets	5	56	79	70
Other current assets	11	303	276	236
Total current assets		**7,199**	**7,794**	**8,707**
Goodwill	12	8,176	7,992	8,301
Other intangible assets	13	1,571	1,525	1,585
Property, plant and equipment	13	1,919	1,566	1,524
Investments accounted for using the equity method		38	33	35
Other financial assets	14, 25	174	162	151
Other receivables from Siemens Group	25, 31	–	1,365	–
Deferred tax assets	5	394	408	491
Other assets	15	287	268	253
Total non-current assets		**12,559**	**13,319**	**12,340**
Total assets		**19,758**	**21,113**	**21,047**
Short-term debt and current maturities of long-term debt	16, 25	57	55	45
Trade payables	25	1,278	1,120	1,000
Other current financial liabilities	25	82	72	105
Payables to Siemens Group	25, 31	639	5,795	5,982
Contract liabilities	18	1,524	1,406	1,415
Current provisions	19	295	290	317
Current income tax liabilities	5	206	122	112
Other current liabilities	20	1,223	1,250	1,187
Total current liabilities		**5,303**	**10,110**	**10,163**
Long-term debt	16, 25	17	15	14
Provisions for pensions and similar obligations	21	845	1,732	2,132
Deferred tax liabilities	5	348	259	212
Provisions	19	157	153	148
Other financial liabilities	25	26	23	17
Other liabilities	22	386	365	371
Other liabilities to Siemens Group	25, 31	4,002	5,167	5,485
Total non-current liabilities		**5,780**	**7,714**	**8,379**
Total liabilities		**11,083**	**17,824**	**18,542**
Issued capital		1,000	–	–
Capital reserve		11,174	–	–
Retained earnings/Net assets[1]		–3,019	4,045	3,239
Other components of equity		–500	–764	–767
Total equity attributable to shareholders of Siemens Healthineers AG[2]	**23**	**8,656**	**3,281**	**2,472**
Non-controlling interests		20	8	33
Total equity		**8,675**	**3,289**	**2,505**
Total liabilities and equity		**19,758**	**21,113**	**21,047**

[1] As of September 30, 2017, and October 1, 2016, Siemens Healthineers was no legally separable subgroup for which consolidated financial statements had to be prepared according to IFRS 10, Consolidated Financial Statements. Therefore, combined financial statements were prepared in which net assets attributable to the Siemens Group were presented. For further information, please refer to → ***Note 1 Basis of presentation***.

[2] As of September 30, 2017, and October 1, 2016: Siemens Group.

B.4 Consolidated statements of cash flows

(in millions of €)	Fiscal year 2018	2017
Net income	**1,284**	1,396
Adjustments to reconcile net income to cash flows from operating activities:		
Amortization, depreciation and impairments	530	572
Income tax expenses	515	581
Interest income/expenses, net	164	255
Income related to investing activities	−1	−12
Other income from investments, net	−6	−9
Other non-cash income/expenses, net	35	45
Change in operating net working capital		
Contract assets	−307	29
Inventories	−194	−86
Trade and other receivables	14	−199
Trade payables	168	167
Contract liabilities	105	27
Change in other assets and liabilities	−190	−28
Additions to assets leased to others in operating leases	−276	−220
Income taxes paid	−144	−192
Income taxes paid by Siemens Group on behalf of Siemens Healthineers	−122	−375
Dividends received	6	9
Interest received	13	15
Cash flows from operating activities	**1,595**	1,975
Additions to intangible assets and property, plant and equipment	−530	−466
Purchase of investments	−2	–
Acquisitions of businesses, net of cash acquired	−226	−6
Disposal of investments, intangible assets and property, plant and equipment	14	19
Cash flows from investing activities	**−743**	−453
Purchase of treasury shares	−55	–
Change in short-term debt and other financing activities	−1	6
Interest paid	−6	−5
Profit and loss transfers with Siemens Group	−778	−815
Dividends paid to Siemens Group	−230	−352
Dividends paid to non-controlling interests	−9	−3
Interest paid to Siemens Group	−149	−245
Other transactions/financing with Siemens Group	740	−118
Cash flows from financing activities	**−489**	−1,532
Effect of changes in exchange rates on cash and cash equivalents	−28	−12
Change in cash and cash equivalents	335	−22
Cash and cash equivalents at beginning of period	**184**	206
Cash and cash equivalents at end of period	**519**	184

B.5 Consolidated statements of changes in equity

(in millions of €)	Issued capital	Capital reserve	Retained earnings/ Net assets[1]	Other components of equity: Currency translation differences	Other components of equity: Treasury shares at cost	Other components of equity: Other	Total equity attributable to shareholders of Siemens Healthineers AG[2]	Non-controlling interests	Total equity
Balance as of October 1, 2016	**–**	**–**	**3,239**	**−767**	**–**	**–**	**2,472**	**33**	**2,505**
Net income	–	–	1,379	–	–	–	1,379	17	1,396
Other comprehensive income, net of taxes	–	–	277	5	–	−2	280	1	281
Profit and loss transfer with Siemens Group	–	–	−815	–	–	–	−815	–	−815
Dividends	–	–	−352	–	–	–	−352	−3	−355
Other changes in equity	–	–	317	–	–	–	317	−40	277
Balance as of September 30, 2017	**–**	**–**	**4,045**	**−762**	**–**	**−2**	**3,281**	**8**	**3,289**
Balance as of October 1, 2017	**–**	**–**	**4,045**	**−762**	**–**	**−2**	**3,281**	**8**	**3,289**
Net income	–	–	1,265	–	–	–	1,265	19	1,284
Other comprehensive income, net of taxes	–	–	19	269	–	5	293	−4	289
Profit and loss transfer with Siemens Group	–	–	−778	–	–	–	−778	–	−778
Dividends	–	–	−230	–	–	–	−230	−9	−239
Share-based payment	–	5	–	–	–	–	5	–	5
Purchase of treasury shares	–	–	–	–	−55	–	−55	–	−55
Reissuance of treasury shares	–	–	–	–	45	–	45	–	45
Other changes in equity	–	–	4,829	–	–	–	4,829	6	4,835
Allocation of net assets according to legal structure	1,000	11,169	−12,169	–	–	–	–	–	–
Balance as of September 30, 2018	**1,000**	**11,174**	**−3,019**	**−493**	**−10**	**3**	**8,656**	**20**	**8,675**

[1] As of October 1, 2017, September 30, 2017, and October 1, 2016, Siemens Healthineers was no legally separable subgroup for which consolidated financial statements had to be prepared according to IFRS 10, Consolidated Financial Statements. Therefore, combined financial statements were prepared in which net assets attributable to the Siemens Group were presented. For further information, please refer to → ***Note 1 Basis of presentation***.

[2] Siemens Group in fiscal years 2017 and 2016.

B.6 Notes to consolidated financial statements

Note 1 Basis of presentation

The accompanying consolidated financial statements present the operations of Siemens Healthineers AG, registered in Munich (commercial register number HRB 237558), Germany, and its subsidiaries (collectively, the "Group" or "Siemens Healthineers").

First-time consolidated financial statements

On August 3, 2017, Siemens AG announced its plans to publicly list Siemens Healthineers' business in the form of an initial public offering (IPO). Siemens Healthineers' business was separated from Siemens AG and its subsidiaries (collectively, the "Siemens Group") in two steps. In an initial step, activities that had not been conducted by separate companies were transferred to separate legal entities. In a second step, Siemens Healthineers AG was established in a notarial deed of incorporation on December 1, 2017, and all companies composing Siemens Healthineers' business were bundled under Siemens Healthineers AG and its subsidiaries.

The Group's business is conducted by Siemens Healthcare GmbH and Siemens Healthineers Beteiligungen GmbH & Co. KG as well as their direct and indirect subsidiaries. The shares of Siemens Healthcare GmbH as well as the sole limited partner's interest and the shares of the general partner in Siemens Healthineers Beteiligungen GmbH & Co. KG were contributed to Siemens Healthineers AG by the Siemens Group in return for the issuance of new shares. The former domination and profit and loss transfer agreement between Siemens AG and Siemens Healthcare GmbH was terminated by way of a mutual termination agreement with effect as of March 31, 2018.

Combined financial statements were prepared for Siemens Healthineers' business in line with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) for the fiscal years ended September 30, 2017, September 30, 2016, and September 30, 2015. Condensed combined interim financial statements were prepared for the three months ended December 31, 2017, in accordance with the requirements of the International Accounting Standard (IAS) 34, Interim Financial Reporting. As part of the IPO of Siemens Healthineers AG, these combined financial statements were published in a listing prospectus, which is available on Siemens Healthineers' website.

The legal separation of Siemens Healthineers was completed during the second quarter of fiscal year 2018. Until this separation, the accounting principles as described in the combined financial statements were applied.

Upon the termination of the domination and profit and loss transfer agreement between Siemens AG and Siemens Healthcare GmbH, all net assets of Siemens Healthineers' business have been controlled by Siemens Healthineers AG within the meaning of IFRS 10, Consolidated Financial Statements. Therefore, first-time consolidated financial statements have been prepared in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards, for the reporting period ended September 30, 2018, including an additional opening balance sheet as of October 1, 2016. As consolidated financial statements previously were not prepared for the combined Siemens Healthineers' business, no reconciliation for consolidated equity and for consolidated total comprehensive income is required pursuant to IFRS 1.

In accordance with IFRS 1.18 in conjunction with IFRS 1.D16(a), Siemens Healthineers applied the predecessor accounting approach by using the carrying amounts (including goodwill) recognized in the IFRS consolidated financial statements of Siemens AG. No other exemptions permitted under IFRS 1 were used in the consolidated financial statements presented here.

Legal transfers of the business activities of Siemens Group to Siemens Healthineers were presented as transactions under common control using the book value method. In addition, prior-year comparative information required by IFRS was presented as if the legal structure of Siemens Healthineers, after taking into account the legal transfers of the business activities, had already existed in the past. Accordingly, disclosures in the published combined financial statements can be consulted for comparative information as of October 1, 2016.

Information on the consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and as adopted by the EU as well as with the additional requirements set forth in Section 315e (1) of the German Commercial Code ("Handelsgesetzbuch"). The consolidated financial statements were authorized for issue by the Managing Board of Siemens Healthineers AG on November 19, 2018.

The consolidated financial statements have been prepared and published in millions of euros (€ million). Due to rounding, numbers presented may not add up precisely to totals provided.

The comparative information presented in the consolidated financial statements is labelled as "consolidated" and derived from the combined financial statements.

Note 2 Accounting policies

The accounting policies set out below, unless stated otherwise, have been applied consistently for all periods presented in these consolidated financial statements.

Accounting estimates and judgments

In certain cases, accounting estimates and judgments are necessary. These involve complex and subjective assessments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. Accounting estimates and judgments could change from period to period and have a material impact on the results of operations as well as on the assets and financial positions of Siemens Healthineers. In addition, Siemens Healthineers could reasonably have made estimates differently in the current accounting period. Siemens Healthineers cautions that future events often vary from forecasts and that estimates routinely require adjustments. Estimates and assumptions are reviewed on an ongoing basis, and changes in estimates and assumptions are recognized in the period in which the changes occur and in future periods impacted by the changes.

Basis of consolidation

The consolidated financial statements include the accounts of Siemens Healthineers AG and the subsidiaries which are controlled. The Group controls an investee if it has power over the investee. In addition, Siemens Healthineers must be exposed, or must have rights, to variable returns from the involvement with the investee and must have the ability to use its power over the investee to affect the amount of Siemens Healthineers' returns.

Business combinations

The cost of an acquisition is measured at the fair value of the assets given and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities assumed in a business combination (including contingent liabilities) are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Non-controlling interests are measured at the proportional fair value of assets acquired and liabilities assumed (partial goodwill method). The accounting for business combinations requires estimates and judgments, for example when estimating the fair values of identifiable assets acquired and liabilities assumed or when determining whether an intangible asset is identifiable and should therefore be recognized separately from goodwill.

The non-controlling interests participate in comprehensive income. Transactions that result in changes in the proportion of equity held by non-controlling interests that do not result in the loss of control by the Group are accounted for as equity transactions not affecting profit or loss. At the date control is lost, the entity concerned is deconsolidated and any remaining equity interests of the Group are remeasured to fair value through profit or loss.

Foreign currency translation

Assets and liabilities of foreign subsidiaries, where the functional currency is other than the euro, are translated using the spot exchange rate at the end of the reporting period, while income and expenses are translated using monthly average exchange rates. Differences arising from such translations are recognized within equity and reclassified to net income when the gain or loss on disposal of the foreign operation is recognized. The items of the consolidated statements of cash flows are translated at monthly average exchange rates, while cash and cash equivalents are translated at the spot exchange rate at the end of the reporting period.

Foreign currency transactions

Transactions in a currency other than the functional currency of an entity are recorded on initial recognition in that functional currency by applying the spot exchange rate at the date of the transaction. At the end of each reporting period, foreign currency-denominated monetary items are translated applying the spot exchange rate prevailing at that date. Gains and losses arising from these foreign currency revaluations are recognized in net income. Foreign currency-denominated non-monetary items are subsequently translated using the historical spot exchange rate.

Revenue recognition

Siemens Healthineers recognizes revenue when or as control over distinct goods or services is transferred to a customer, that is, when the customer is able to direct the use of the transferred goods or services and obtains substantially all of the remaining benefits. This assumes, however, that a contract with enforceable rights and obligations exists. Additional requirements are, among others, that the customer is committed to its obligations and that collectability of consideration is probable, taking the customer's creditworthiness into account. Revenue is the transaction price Siemens Healthineers expects to be entitled to. Variable consideration is included in the transaction price if it is highly probable that no significant reversal of revenue will occur once associated uncertainties are resolved. Significant estimates are involved in determining the amount of variable consideration which is calculated by using either the expected value or the most likely amount depending on which is expected to better predict the amount of variable consideration. Consideration is adjusted for the time value of money if the period between the transfer of goods or services and the receipt of payment exceeds twelve months and the financing benefit either to the customer or Siemens Healthineers is significant. If a contract contains more than one distinct good or service, the transaction price is allocated to each performance obligation based on relative stand-alone selling prices. If stand-alone selling prices are not observable, the Group reasonably estimates them, primarily by using historical reference values. Revenue is recognized for each performance obligation either at a point in time or over time.

Sale of goods: Revenue is recognized at a point in time when control of the goods passes to the customer, usually upon delivery of the goods. Payment terms typically do not exceed 90 days after customer acceptance.

Revenue from services: Revenue is recognized over time on a straight-line basis or, if the performance pattern is other than straight-line, as services are provided. Service contracts can also include extended warranties which cover periods beyond the statutory or customary warranty period and for which revenue is recognized straight-line over the extended warranty period. Customer payments are typically received on a monthly or quarterly basis over the contract term.

Contract assets, contract liabilities, receivables: When either party to a contract with a customer has performed its contractual obligations, Siemens Healthineers presents a contract asset or a contract liability depending on the relationship between Siemens Healthineers' performance and the customer's payment. Contract assets primarily relate to the sale of equipment and reagents for which transfer of control occurs before Siemens Healthineers has an unconditional right to consideration whereas contract liabilities mainly result from customer advances on service contracts for which revenue is generally recognized on a straight-line basis over the contract term as well as from prepayments for goods not yet shipped. Contract assets and contract liabilities are presented net at the contract level and as current since they arose in the course of the regular operating cycle. Receivables are recognized when the right to consideration becomes unconditional. Valuation allowances for credit risks are set up for contract assets and receivables according to the accounting policy for loans and receivables.

Income from leases

Operating lease income for equipment leases is recognized on a straight-line basis over the lease term. Receivables from finance leases, in which Siemens Healthineers, as the lessor, transfers substantially all the risks and rewards incidental to ownership to the customer, are recognized at an amount equal to the net investment in the lease. Finance income is subsequently recognized based on a pattern reflecting a constant periodic rate of return on the net investment using the effective interest method.

Functional costs

In general, operating expenses by types are assigned to the functions following the functional area of the corresponding profit and cost centers. Amortization, depreciation and impairment of intangible assets and property, plant and equipment are included in functional costs depending on the use of the assets.

Research and development expenses

Costs of research activities and collaborations are expensed as incurred. Costs of development activities are capitalized when the recognition criteria in IAS 38, Intangible Assets, are met. To determine whether these criteria are met it is necessary to make assumptions about technical development risks and market developments, among other matters. Capitalized development costs are stated at cost less accumulated amortization and impairment losses with an amortization period of generally five to 25 years.

Income taxes

Recognition of tax positions under respective local tax laws and tax authorities' views can be complex and subject to different interpretations by taxpayers and local tax authorities. Different interpretations of existing or new tax laws as a result of tax reforms (like the U.S. Tax Cuts and Jobs Act as of December 2017) or other actions of tax legislation may result in additional tax payments or refunds for prior years. They are taken into account based on management's considerations.

Under the liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized if sufficient future taxable profit is projected, including income from forecast operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each end of period, Siemens Healthineers evaluates the recoverability of deferred tax assets based on projected future taxable profits. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, Siemens Healthineers believes it is probable to realize the benefits of these deductible differences. As future developments are uncertain and partly beyond Siemens Healthineers' control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will be recovered. Estimates are updated in the period in which there is sufficient evidence to revise the assumption.

Until the completion of the legal separation of Siemens Healthineers, income taxes were determined using the separate tax return approach under the assumption that the entities and operations of Siemens Healthineers constituted separate taxable entities. This assumption implied that current and deferred taxes for all companies, operations and tax groups within Siemens Healthineers were calculated separately. The recoverability of deferred tax assets was also assessed on this basis. Deferred tax assets from tax loss carry-forwards were recognized to the extent that it was probable that they could be offset with future taxable income from the respective Siemens Healthineers' entities. Tax receivables and liabilities as well as deferred tax assets on loss carry-forwards of Siemens Healthineers' entities and operations that did not constitute a separate taxpayer in the reporting periods were treated as contributions or transfers from reserves by shareholders and were not included in the comparable period.

Earnings per share

Basic earnings per share are computed by dividing net income attributable to the shareholders of Siemens Healthineers AG by the weighted average number of outstanding shares of Siemens Healthineers AG. Diluted earnings per share are calculated by assuming conversion or exercise of all potentially dilutive share-based payment plans.

Inventories

Inventories are valued at the lower of acquisition or production costs and net realizable value. The determination of the net realizable value includes assumptions with respect to quantity risk, risk of technical obsolescence and price risk. Acquisition and production costs are generally determined on the basis of an average or first-in, first-out method.

Goodwill

Goodwill is carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit or the group of cash-generating units that is expected to benefit from the synergies of the business combination and represents the lowest level at which goodwill is monitored for internal management purposes. At Siemens Healthineers, the goodwill impairment test is performed at the level of the segments → ***Note 29 Segment information***. The allocation of goodwill requires judgment.

Goodwill is tested for impairment annually as well as whenever an indication (triggering event) arises that the carrying amount may not be recoverable. Siemens Healthineers performs the annual impairment test in the three months ending September 30. For the purpose of impairment testing, the segment's recoverable amount is estimated as the higher of the segment's fair value less costs of disposal and its value in use. If either of these values exceeds the carrying amount, it is not necessary to determine both values. If the carrying amount of the segment to which the goodwill is allocated exceeds its recoverable amount, an impairment loss on goodwill allocated to this segment is recognized. Impairment losses on goodwill are not reversed in future periods.

The determination of a segment's recoverable amount is based on discounted cash flow calculations and involves the use of estimates by management. The outcome predicted by these estimates is influenced by, for example, the market launch of new products, the successful integration of acquired entities, volatility of capital markets, interest rate developments, exchange rate fluctuations and the outlook on economic trends. At Siemens Healthineers, the recoverable amount is generally estimated on the basis of the fair value less costs of disposal. For the purpose of estimating a segment's fair value less costs of disposal, cash flows are projected for the next five years based on past experience, actual operating results and management's best estimate about future developments as well as market assumptions. Cash flows after the planning period are extrapolated using individual growth rates. The determined fair value of a segment is assigned to level 3 of the fair value hierarchy → ***Note 25 Financial instruments and hedging activities***. Key assumptions on which the determinations of fair values less costs of disposal are based include estimated terminal value growth rates and weighted average cost of capital. Both assumptions are determined individually for each segment. The discount rates correspond to the segment's weighted average cost of capital and are calculated based on a risk-free rate of interest and a market risk premium. In addition, the discount rates reflect the current market assessment of the risks specific to each segment by taking into account specific peer group information on beta factors, leverage and cost of debt. The parameters for calculating the discount rates are based on external sources of information. The peer groups undergo an annual review and are adjusted, if necessary. Terminal value growth rates take into consideration external macroeconomic sources of data and industry-specific trends. The estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any goodwill impairment. Additionally, the outcome of goodwill impairment tests may depend on the allocation of goodwill to the segments.

Other intangible assets

Siemens Healthineers amortizes purchased intangible assets with finite useful life on a straight-line basis over their respective estimated useful life. Estimated useful life for patents, licenses and other similar rights generally range from three to five years. In addition, there are intangible assets acquired in business combinations, which primarily consist of customer relationships and trademarks as well as technology. Their respective useful life ranges from eight to 15 years for customer relationships and trademarks and from two to 15 years for technology.

Property, plant and equipment

Property, plant and equipment are valued at cost less accumulated depreciation and impairment losses. Depreciation expense is recognized using the straight-line method. The following useful lives are assumed:

Factory and office buildings	20 to 50 years
Other buildings	5 to 10 years
Technical machinery and equipment	generally 10 years
Furniture and office equipment	generally 5 years
Equipment leased to others	generally 5 to 8 years

As of October 1, 2017, the useful life of instruments leased to customers in an operating lease in the Diagnostics segment was increased from five to seven years to reflect the updated expected utility of these assets to Siemens Healthineers.

Impairment of other intangible assets and property, plant and equipment

Siemens Healthineers reviews other intangible assets and property, plant and equipment for impairment whenever an indication (triggering event) arises that the carrying amount of an asset may not be recoverable. In addition, intangible assets not yet available for use are subject to an annual impairment test. If the recoverable amount of an individual asset cannot be determined, the impairment test is performed at the level of the cash-generating unit. A cash generating unit is the smallest identifiable group of assets that includes the asset to be tested for impairment and that generates cash inflows which are largely independent of the cash inflows from other assets or groups of assets. When determining the relevant cash generating unit, various factors need to be considered, including how management monitors operations or makes decisions about continuing or disposing of assets and operations. Therefore, the identification of the relevant cash-generating unit involves management judgment. In addition, impairment testing of other intangible assets and property, plant and equipment involves the use of estimates in determining the assets' or cash-generating units' recoverable amount, which can have a material impact on the respective values and ultimately the amount of any impairment.

Provisions

A provision is recognized in the statement of financial position when it is probable that Siemens Healthineers has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are recognized at present value by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money.

Significant estimates are involved in the determination of provisions related to onerous contracts, warranty costs, asset retirement obligations, legal and regulatory proceedings as well as governmental investigations (below, collectively, legal proceedings). Siemens Healthineers recognizes a provision for onerous contracts with customers when estimated costs of outstanding goods and services exceed expected outstanding revenue. Legal proceedings often involve complex legal issues and are subject to substantial uncertainties. Accordingly, considerable judgment is required to determine whether it is probable that there is a present obligation as a result of a past event at the end of the reporting period, whether an outflow of resources is probable and whether the amount of the obligation can be reliably estimated. Internal and external counsels are generally part of the determination process for legal proceedings. Due to new developments, it may be necessary to recognize a provision for an ongoing legal proceeding or to adjust the amount of a previously recognized provision. Upon resolution of a legal proceeding, Siemens Healthineers may incur charges in excess of the provision recognized for the matter concerned. The outcome of legal proceedings may have a material effect on Siemens Healthineers' financial position, its results of operations and/or its cash flows.

Defined benefit plans

Siemens Healthineers measures entitlements from defined benefit plans by applying the projected unit credit method. The approach reflects an actuarially calculated net present value of the future benefit entitlement for services already rendered (defined benefit obligation). In the calculation, the expected rates of future salary increase and expected rates of future pension progression are considered. The assumptions used for the calculation of the defined benefit obligation as of the period-end of the preceding fiscal year are used to determine the calculation of service cost and interest income and expense of the following year. For significant plans the individual spot rates from full yield curves rate are applied to determine the service cost and interest income and expense. The net interest income or expense for the fiscal year is based on the discount rate for the respective year multiplied by the net defined benefit asset or liability at the preceding fiscal year's period-end date.

Service cost, past service cost and settlement gains and losses for pensions and similar obligations, as well as administration costs unrelated to the management of plan assets, are allocated among functional costs. Past service cost and settlement gains and losses are recognized immediately in profit or loss. For unfunded plans, the amount contained in line item provisions for pensions and similar obligations equals the defined benefit obligation. For funded plans, Siemens Healthineers offsets the fair value of the plan assets with defined benefit obligation. Siemens Healthineers recognizes the net amount, after adjustments for effects relating to any asset ceiling.

Remeasurements comprise actuarial gains and losses as well as the difference between the return on plan assets and the amounts included in net interest on the net defined benefit liability or asset. They are recognized in other comprehensive income.

Actuarial valuations rely on key assumptions including discount rates, expected compensation increases, rate of pension progression and mortality rates. Discount rates used are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the end of the reporting period. In case such yields are not available, discount rates are based on government bond yields. Due to changing market, economic and social conditions, the underlying key assumptions may differ from actual developments.

Termination benefits

Termination benefits are provided when an entity makes an offer to enable an employee to resign from its employ voluntarily before his or her normal retirement date or when an entity decides to terminate employment. Termination benefits in accordance with IAS 19, Employee Benefits, are recognized as a liability and an expense when the entity can no longer withdraw the offer of those benefits.

Financial instruments

Based on their nature, financial instruments are classified as financial assets or financial liabilities measured at cost or amortized cost, as financial assets or financial liabilities measured at fair value or as receivables from finance leases. Regular way purchases or sales of financial assets are accounted for at the trade date. Initially, financial instruments are recognized at their fair value. Transaction costs are only included in determining the carrying amount, if the financial instruments are not subsequently measured at fair value through profit or loss. Receivables from finance leases are recognized at an amount equal to the net investment in the lease. Subsequently, financial assets and liabilities are measured according to the category to which they are assigned: cash and cash equivalents, available-for-sale financial assets, loans and receivables, financial liabilities measured at amortized cost or financial assets and liabilities classified as held for trading. Siemens Healthineers does not use the category held to-maturity and the option to designate financial assets or financial liabilities at fair value through profit or loss at inception (fair value-option).

Cash and cash equivalents: Cash and cash equivalents are measured at cost. Siemens Healthineers considers all highly liquid investments with a maturity of less than three months from the date of acquisition to be cash equivalents. Short-term deposits and overdraft facilities granted in connection with the cash pooling arrangements with the Siemens Group are not included in cash and cash equivalents. Changes in these items are presented as financing activities in the consolidated statements of cash flows as the cash pooling arrangements serve to finance the operating activities of Siemens Healthineers.

Available-for-sale financial assets: Investments in equity instruments, debt instruments and fund shares are measured at fair value, if reliably measurable. If fair value cannot be reliably determined, Siemens Healthineers measures available-for-sale financial assets at cost. This applies to equity instruments that do not have a quoted market price in an active market and for which it is not possible to obtain a reliable estimate of key parameters to be used in valuation models for a fair value determination. Siemens Healthineers considers all available evidence, such as market conditions and prices as well as investee-specific factors, in evaluating potential impairment of available-for-sale financial assets. In addition, Siemens Healthineers considers a decline in fair value as objective evidence of impairment, if the decline exceeds 20 % of cost or continues for more than six months.

Loans and receivables: Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method less any impairment losses. Impairment losses on trade and other receivables are recognized using separate allowance accounts. The relevant amounts are written off, taking legal conditions into account, when it is unlikely that they will be recovered. The allowance for doubtful accounts involves significant management judgment and reviews of individual receivables based on individual customer creditworthiness, current economic trends and an analysis of credit history. In general, the valuation allowance for receivables is based on credit ratings provided by the Siemens Group which also consider transfer and conversion risks.

Financial liabilities: Siemens Healthineers measures financial liabilities, except for derivative financial instruments, at amortized cost using the effective interest method.

Derivative financial instruments: Derivative financial instruments, such as forward exchange contracts, are measured at fair value and classified as held for trading unless they are designated as hedging instruments in a hedge accounting relationship. If no hedge accounting is applied, changes in the fair value of derivative financial instruments are recognized in net income.

Cash flow hedges: The effective portion of changes in the fair value of derivative instruments which are designated as hedging instruments in cash flow hedges is recognized in other comprehensive income. Amounts accumulated in equity are reclassified into net income in the same periods in which the hedged item affects net income. Any ineffective portion is recognized immediately in net income.

Share-based payment

Share-based payment awards may be settled in newly issued shares of capital stock of Siemens Healthineers AG or Siemens AG, depending on which shares are the basis, in treasury shares of the respective entity or in cash. Share-based payment awards at Siemens Healthineers that are based on Siemens Healthineers AG shares are classified predominately as equity-settled. Share-based payment awards at Siemens Healthineers that are based on Siemens AG shares are classified predominately as cash-settled to fulfill the specific requirements for share-based payment transactions among group entities.

For equity-settled and cash-settled plans, fair value is measured at the grant date, updated each quarter for cash-settled plans and expensed over the vesting period. Fair value is determined as the market price of Siemens Healthineers AG shares or Siemens AG shares considering the present value of dividends to which the beneficiaries are not entitled during the vesting period and also taking account of market conditions and non-vesting conditions, if applicable. Therefore, fair value is based on certain market parameters, assumptions and estimates. Changes of these market parameters, assumptions and estimates could necessitate material adjustments to the carrying amount of the liabilities.

Recently adopted accounting pronouncements

IFRS 15, Revenue from Contracts with Customers, was adopted retrospectively as of October 1, 2017 (i.e., the comparable prior-year period is presented in accordance with IFRS 15). Siemens Healthineers has made use of the practical expedient not to disclose the order backlog for previous periods.

The following table summarizes the impacts of adopting IFRS 15 on Siemens Healthineers' consolidated statement of financial position as of September 30, 2017, and on the opening balance sheet as of October 1, 2016:

(in millions of €)	Sept 30, 2017			Oct 1, 2016		
	Previously reported	Adjustments	Restated	Previously reported	Adjustments	Restated
Total assets	**20,440**	**673**	**21,113**	**20,295**	**752**	**21,047**
Therein:						
Trade and other receivables	2,200	108	2,308	2,080	177	2,257
Contract assets	–	294	294	–	339	339
Inventories	1,323	282	1,605	1,308	269	1,577
Deferred tax assets	419	−11	408	524	−33	491
Total liabilities	**17,198**	**626**	**17,824**	**17,888**	**654**	**18,542**
Therein:						
Contract liabilities	–	1,406	1,406	–	1,415	1,415
Current provisions	314	−24	290	318	−1	317
Other current liabilities	1,797	−547	1,250	1,745	−558	1,187
Deferred tax liabilities	243	16	259	197	15	212
Other liabilities	590	−225	365	591	−220	371
Total equity	**3,242**	**47**	**3,289**	**2,407**	**98**	**2,505**

Equity as of October 1, 2016, was increased by €98 million. The increase mainly resulted from an earlier recognition of variable consideration components and because transfer of control may occur before the transfer of significant risks and rewards for certain goods.

According to IFRS 15, once either party to an existing contract (i.e., the customer or Siemens Healthineers) has performed, the contract is presented in the consolidated financial statements as a contract asset or a contract liability. The amounts recognized in these new line items mainly resulted from reclassifications, such as the reclassification of advance payments received from inventories to contract liabilities or the reclassification of customer advances for services business from other current liabilities to contract liabilities. In addition, contract assets related to the sale of equipment and reagents for which transfer of control to the customer occurs before Siemens Healthineers has an unconditional right to consideration.

The following table illustrates the effects of IFRS 15 on Siemens Healthineers' consolidated statements of income in fiscal year 2017:

(in millions of €, earnings per share in €)	Fiscal year 2017		
	Previously reported	Adjust-ments	Restated
Revenue	13,796	−119	13,677
Cost of sales	−8,034	52	−7,982
Gross profit	**5,762**	**−67**	**5,695**
Research and development expenses	−1,253	–	−1,253
Selling and general administrative expenses	−2,222	–	−2,222
Other operating income	22	–	22
Other operating expenses	−19	–	−19
Income from investments accounted for using the equity method, net	9	–	9
Interest income	12	–	12
Interest expenses	−267	–	−267
Income before income taxes	**2,044**	**−67**	**1,977**
Income tax expenses	−600	19	−581
Net income	**1,444**	**−48**	**1,396**
Basic earnings per share	**1.43**	**−0.05**	**1.38**
Diluted earnings per share	**1.43**	**−0.05**	**1.38**

The effect from revenue acceleration in fiscal year 2017 under IFRS 15 was more than compensated by a higher effect from revenue acceleration as of October 1, 2016.

Total cash flows from operating, investing and financing activities were not impacted in fiscal year 2017.

Recent accounting pronouncements, not yet adopted

The following pronouncements issued by the IASB are not yet mandatorily effective and have not yet been adopted by Siemens Healthineers:

In July 2014, the IASB issued IFRS 9, Financial Instruments. IFRS 9 introduces a single approach for the classification and measurement of financial assets according to their cash flow characteristics and the business model they are managed in. Moreover, the standard provides a new impairment model based on expected credit losses. IFRS 9 also includes new provisions regarding the application of hedge accounting to better reflect an entity's risk management activities especially with regard to managing nonfinancial risks. The new standard is effective for annual reporting periods beginning on or after January 1, 2018. Siemens Healthineers will adopt IFRS 9 for the fiscal year beginning October 1, 2018, and will not adjust comparative figures for the preceding fiscal year in accordance with IFRS 9 transitional provisions.

Siemens Healthineers has assessed the effects of the adoption of IFRS 9 and expects only very limited impact on the consolidated financial statements. No material debt instruments were identified that would not be eligible to be carried at amortized cost. Equity instruments currently classified as available-for-sale financial assets will be measured at fair value through profit or loss or at fair value through other comprehensive income. The new impairment model of IFRS 9 will not have any material effect on the valuation allowances on debt instruments. Siemens Healthineers will apply the simplified impairment model for the recognition of lifetime expected credit losses of trade receivables, contract assets and lease receivables based on customer ratings and taking forward-looking information into consideration. Siemens Healthineers will adopt IFRS 9 hedge accounting rules prospectively from October 1, 2018. All existing hedge accounting relationships will also meet the hedge accounting requirements under IFRS 9.

In January 2016, the IASB issued IFRS 16, Leases. IFRS 16 eliminates the current classification model for lessee's lease contracts as either operating or finance leases. Instead, IFRS 16 introduces a single lessee accounting model requiring lessees to recognize right-of-use assets and lease liabilities for leases with a term of more than twelve months. This brings the previous off-balance leases on the balance sheet in a manner largely comparable to current finance lease accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Siemens Healthineers will adopt the standard for the fiscal year beginning as of October 1, 2019, by applying the modified retrospective approach, that is, comparative figures for the preceding year would not be adjusted. Currently, it is expected that the majority of the transition effect relates to real estate leased by Siemens Healthineers. When IFRS 16 is applied, expenses for current operating leases will be no longer recognized on a straight-line basis. Instead, depreciation expenses for the right-of-use assets and interest expenses for the lease liabilities will be recorded. This results in a deterioration in cash flows from financing activities and an improvement in cash flows from operating activities. Siemens Healthineers is currently assessing further impacts of adopting IFRS 16 on the consolidated financial statements. It is intended to apply the practical expedients permitted by IFRS 16 to a large extent.

In May 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments. This interpretation clarifies the recognition and measurement requirements for tax positions when there is uncertainty over income tax treatments. In assessing uncertainty, an entity shall consider whether it is probable that the taxation authority will accept the uncertain tax treatment. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, while earlier application is permitted. Siemens Healthineers will adopt the standard retrospectively for the fiscal year beginning as of October 1, 2019. Siemens Healthineers is currently assessing the impacts of adopting the interpretation on the consolidated financial statements.

In addition to the standards presented in detail, the IASB has issued further standards, interpretations and amendments to standards and interpretations whose application is also not yet mandatory and which in part require EU endorsement before they can be applied. Siemens Healthineers currently assumes that the application of these standards, interpretations and amendments will not have a material impact on the presentation of the consolidated financial statements.

Note 3 Acquisitions

Acquisition of Epocal

On October 31, 2017, Siemens Healthineers successfully completed the acquisition of all shares in EPOCAL INC. and selected assets (collectively, "Epocal"). The divestment of this business by the Alere Group was in connection with the review of Abbott Laboratories' acquisition of the Alere Group by the Federal Trade Commission and the European Commission. Epocal develops and provides point-of-care blood gas diagnostic systems for healthcare enterprises. The acquisition allows Siemens Healthineers to complete its blood gas portfolio. The business is being integrated into the Diagnostics segment.

The contractually agreed purchase price including subsequent adjustments amounted to US$ 202 million (€173 million as of the acquisition date) and was paid in cash. The purchase price allocation as of the acquisition date resulted in other intangible assets of €71 million, property, plant and equipment of €13 million, deferred tax assets of €4 million, other assets of €10 million and other liabilities of €1 million. Other intangible assets mainly related to technology for €46 million and customer-related intangible assets for €24 million. The goodwill of €76 million comprised intangible assets that were not separable, such as employee know-how and expected synergy effects. Of this amount, €36 million was expected to be deductible for tax purposes.

Acquisition of FTD

On December 19, 2017, Siemens Healthineers successfully completed the acquisition of all shares in FAST TRACK DIAGNOSTICS LUXEMBOURG S.à r.l. (formerly FTD Investments S.à r.l.; hereinafter "FTD"). FTD provides globally a broad range of diagnostic tests covering major disease groups. The acquired business is being integrated into the Diagnostics segment and allows Siemens Healthineers to underscore its commitment to molecular diagnostics.

The purchase price amounted to €75 million as of the acquisition date. A payment of €60 million was made in cash at closing. For the remaining contingent payments of €15 million, a liability was recognized in the line item other financial liabilities. The purchase price allocation as of the acquisition date resulted in other intangible assets of €48 million, cash and cash equivalents of €6 million, other receivables of €2 million and deferred tax liabilities of €15 million. The goodwill of €34 million comprised intangible assets that were not separable, such as employee know-how and expected synergy effects.

Note 4 Other operating income

In fiscal year 2018, other operating income included positive effects of €19 million related to U.S. pension funding. For further information on U.S. pension funding, please refer to → ***Note 21 Provisions for pensions and similar obligations***.

Note 5 Income taxes

Income tax expenses consisted of the following:

	Fiscal year	
(in millions of €)	**2018**	**2017**
Current tax	465	567
Deferred tax	50	14
Total income tax expenses	**515**	**581**
Effective tax rate	**28.6 %**	**29.4 %**

The current tax in fiscal year 2018 included benefits amounting to €84 million (2017: expenses amounting to €62 million) for adjustments of current tax from prior fiscal years. The deferred tax in fiscal year 2018 included expenses of €132 million (2017: €30 million) from the origination and reversal of temporary differences. In fiscal year 2018, deferred tax also included benefits in the amount of €48 million relating to the revaluation of deferred taxes caused by the U.S. Tax Cuts and Jobs Act and the accompanying reduction of the corporate income tax rate (federal tax rate) from 35 % to 21 %. Additionally, adopting the new U.S. territorial taxation system and applying the transition tax on retained foreign earnings led to current tax expenses of €21 million. The resulting total income tax benefit relating to the described changes in the United States of €27 million is included in the item change in tax rates in the table below.

In Germany, the calculation of current tax was based on a combined tax rate of 29.6 % in fiscal year 2018 (2017: 31.0 %), consisting of the corporate tax rate of 15.0 % (2017: 15.0 %), the solidarity surcharge thereon of 5.5 % (2017: 5.5 %) and an average trade tax rate of 13.8 % (2017: 15.2 %). The average trade tax rate decreased in fiscal year 2018 due to the termination of the tax group with Siemens AG in course of the legal separation of Siemens Healthineers. For foreign subsidiaries, current tax was calculated based on local tax laws and applicable tax rates in the individual foreign countries. Deferred tax assets and liabilities in Germany and abroad were measured at the tax rates that were expected to apply to the period when the asset is realized or the liability is settled.

Income tax expenses differed from the expected amounts computed by applying the combined statutory German tax rate of 29.6 % (2017: 31.0 %) as follows:

(in millions of €)	Fiscal year 2018	Fiscal year 2017
Expected income tax expenses	533	613
Nondeductible losses and expenses	87	21
Tax-free income	−12	−23
Taxes for prior years	7	43
Change in realizability of deferred tax assets and tax credits	9	−7
Change in tax rates	−36	2
Foreign tax rate differential	−67	−66
Other	−6	−2
Total income tax expenses	**515**	**581**

Deferred tax assets and liabilities (–) related to the following items:

(in millions of €)	Sept 30, 2018	Sept 30, 2017
Deferred taxes due to temporary differences	−55	61
Thereof:		
Intangible assets	−613	−774
Provisions for pensions and similar obligations	259	347
Current assets and liabilities	207	327
Non-current assets and liabilities	92	161
Deferred taxes on tax losses and tax credits	101	88
Total deferred taxes, net	**46**	**149**

In fiscal years 2018 and 2017, deferred taxes developed as follows:

(in millions of €)	Fiscal year 2018	Fiscal year 2017
Balance at beginning of fiscal year	**149**	**279**
Changes recognized in the consolidated statements of income	−50	−14
Changes recognized in the consolidated statements of comprehensive income	−56	−119
Additions from acquisitions directly recognized in equity	−10	−1
Other	13	4
Balance at fiscal year-end	**46**	**149**

Deferred tax assets (gross amounts) have not been recognized with respect to the following items:

(in millions of €)	Sept 30, 2018	Sept 30, 2017
Deductible temporary differences	214	260
Tax loss carry-forwards	228	124
Total items (gross amounts) for which no deferred tax assets have been recognized	**442**	**384**

As of September 30, 2018, €78 million (September 30, 2017: €8 million) of the unrecognized tax loss carry-forwards will expire over the periods to 2037 (September 30, 2017: 2026).

Siemens Healthineers did not recognize deferred tax liabilities on €2,965 million of cumulative earnings of subsidiaries in fiscal year 2018 (2017: €3,003 million) because the earnings are intended to be permanently reinvested in the subsidiaries.

Income taxes included in the consolidated statements of comprehensive income or recognized directly in equity were as follows:

(in millions of €)	Fiscal year 2018	Fiscal year 2017
Income tax expenses recognized in the consolidated statements of income	515	581
Income tax effects recognized in other comprehensive income or directly in equity	70	114
Total income taxes included in the consolidated statements of comprehensive income or directly recognized in equity	**585**	**695**

Note 6 Earnings per share

(in millions of €, shares in thousands, earnings per share in €)	Fiscal year	
	2018	2017
Net income	1,284	1,396
Portion attributable to non-controlling interests	−19	−17
Net income attributable to shareholders of Siemens Healthineers AG[1]	1,265	1,379
Weighted average shares outstanding (basic)	999,901	1,000,000
Effect of dilutive share-based payment	160	–
Weighted average shares outstanding (diluted)	1,000,061	1,000,000
Basic earnings per share	**1.26**	**1.38**
Diluted earnings per share	**1.26**	**1.38**

[1] Siemens Group in fiscal year 2017.

Profit transfers under the domination and profit and loss transfer agreement between Siemens Healthcare GmbH and Siemens AG had no effect on net income and therefore have not been considered in the calculation of earnings per share. Until the completion of the legal separation of Siemens Healthineers, 1,000,000,000 shares were used for calculating basic earnings per share.

Note 7 Trade and other receivables

(in millions of €)	Sept 30,	
	2018	2017
Receivables from the sale of goods and services	2,388	2,282
Receivables from finance leases	31	26
Total trade and other receivables	**2,419**	**2,308**

Receivables from finance leases particularly related to the leasing of imaging products in the Imaging segment. The corresponding long-term portion is reported in the line item other financial assets and amounted to €108 million at the reporting date (September 30, 2017: €99 million). The following table shows a reconciliation of the total future minimum lease payments from finance leases, principally equaling the gross investment in finance leases, to the net investment in finance leases and to the present value of future minimum lease payments receivable:

(in millions of €)	Sept 30,	
	2018	2017
Gross investment in finance leases	174	151
Unearned finance income	−32	−25
Net investment in finance leases	142	126
Allowances for doubtful accounts	−3	–
Present value of future minimum lease payments receivable from finance leases	**139**	**126**

The gross investment in finance leases and the present value of future minimum lease payments receivable were due as follows:

(in millions of €)	Gross investment in finance leases		Present value of future minimum lease payments receivable from finance leases	
	Sept 30,		Sept 30,	
	2018	2017	2018	2017
Within 1 year	35	28	32	26
Between 1 and 5 years	99	92	80	74
After 5 years	40	32	27	26
Total	**174**	**151**	**139**	**126**

However, actual cash flows will vary from contractual maturities due to future sales of finance receivables, prepayments and write-offs.

The valuation allowances on current and non-current receivables which belong to the category of financial assets measured at (amortized) cost changed as shown in the following table. The change in the valuation allowances related to a decrease in the valuation allowances on receivables from the sale of goods and services in fiscal year 2018 by €17 million (2017: increase by €31 million).

(in millions of €)	Fiscal year	
	2018	2017
Valuation allowances at beginning of fiscal year	117	110
Change in valuation allowances	−15	31
Write-offs charged against allowances	−13	−15
Currency translation differences	−4	−9
Valuation allowances at fiscal year-end	**85**	**117**

Note 8 Other current financial assets

(in millions of €)	Sept 30, 2018	2017
Derivative financial instruments	27	11
Receivables from employees	23	20
Other	28	27
Total other current financial assets	**77**	57

Note 9 Contract assets

As of the reporting date, contract assets amounted to €600 million (September 30, 2017: €294 million; October 1, 2016: €339 million). Thereof, contract assets amounting to €80 million had a remaining term of more than twelve months (September 30, 2017: €31 million). The change in contract assets in fiscal year 2018 primarily related to the Imaging segment (increase by €212 million) and mainly resulted from an increase in deliveries of equipment for which control had already been transferred to the customer but for which Siemens Healthineers' unconditional right to consideration was still dependent on the rendering of services outstanding as of the reporting date.

Note 10 Inventories

(in millions of €)	Sept 30, 2018	2017
Raw materials and supplies	450	378
Work in progress	547	491
Finished goods and products held for resale	804	708
Advances to suppliers	28	28
Total inventories	**1,829**	1,605

In fiscal year 2018, cost of sales included inventories recognized as expenses in the amount of €7,750 million (2017: €7,790 million). Write-downs of inventories increased in fiscal year 2018 by €15 million compared to the prior year (2017: decrease by €58 million).

Note 11 Other current assets

(in millions of €)	Sept 30, 2018	2017
Miscellaneous tax receivables	250	222
Prepaid expenses	46	46
Other	7	8
Total other current assets	**303**	276

As of September 30, 2018, miscellaneous tax receivables mainly consisted of sales tax receivables amounting to €247 million (September 30, 2017: €213 million).

Note 12 Goodwill

(in millions of €)	Fiscal year 2018	2017
Cost		
Balance at beginning of fiscal year	9,231	9,593
Currency translation differences and other	92	−403
Acquisitions and purchase accounting adjustments	110	41
Balance at fiscal year-end	9,433	9,231
Accumulated impairment losses		
Balance at beginning of fiscal year	−1,239	−1,292
Currency translation differences	−18	53
Balance at fiscal year-end	−1,257	−1,239
Carrying amount		
Balance at beginning of fiscal year	7,992	8,301
Balance at fiscal year-end	8,176	7,992

As of September 30, 2017, the carrying amount of goodwill was based on the goodwill attributable to the Siemens Healthineers' business that was transferred from the Siemens Group to Siemens Healthineers during the legal reorganization. Thereby, this carrying amount corresponds to the historically reported amount of the goodwill allocated to the Healthineers segment in the consolidated financial statements of Siemens AG (predecessor values → ***Note 1 Basis of presentation***). In fiscal year 2017, goodwill was tested for impairment at the level of the Group due to the cash-generating unit structure used by the Siemens Group to monitor goodwill at that time. No goodwill impairment was recognized.

As a result of the reorganization in fiscal year 2018, Siemens Healthineers' Managing Board monitors the goodwill on the level of the segments that have now been established. For that purpose, goodwill was reallocated to the new segments on the basis of relative values. Accordingly, the reallocation did not result in any goodwill impairments. The allocation of goodwill to the segments is presented in the following table. The amounts for fiscal year 2017 were determined in accordance with the new reporting structure for comparative purposes.

(in millions of €)	Sept 30, 2018	2017
Imaging	5,702	5,651
Diagnostics	1,588	1,463
Advanced Therapies	886	878
Total goodwill	**8,176**	7,992

In fiscal year 2018, Siemens Healthineers performed the annual impairment test at the level of the segments. No goodwill impairment was recognized. Key assumptions on which Siemens Healthineers based its determinations of the segments' fair value less costs of disposal in 2018 are shown in the following table:

	Sept 30, 2018	
(in %)	Terminal value growth rate	After-tax discount rate
Imaging	1.7	6.5
Diagnostics	1.7	7.5
Advanced Therapies	1.7	7.0

Revenue figures in the five-year planning period included average revenue growth rates (excluding portfolio effects) of 4% to 6%.

Siemens Healthineers performed sensitivity analyses based on a 10% reduction in after-tax future cash flows, a one percentage-point increase in after-tax discount rates or a one percentage-point decrease in the terminal value growth rate. These indicated that no goodwill impairment loss would need to be recognized.

Note 13 Other intangible assets and property, plant and equipment

(in millions of €)	Gross carrying amount at beginning of fiscal year 2017
Internally generated technology	1,178
Acquired technology including patents, licenses and similar rights	423
Customer relationships and trademarks	2,265
Total other intangible assets	**3,866**
Land and buildings	1,110
Technical machinery and equipment	746
Furniture and office equipment	863
Equipment leased to others	1,503
Advances to suppliers and construction in progress	95
Total property, plant and equipment	**4,317**

(in millions of €)	Gross carrying amount at beginning of fiscal year 2018
Internally generated technology	1,310
Acquired technology including patents, licenses and similar rights	422
Customer relationships and trademarks	2,166
Total other intangible assets	**3,898**
Land and buildings	1,083
Technical machinery and equipment	745
Furniture and office equipment	909
Equipment leased to others	1,513
Advances to suppliers and construction in progress	143
Total property, plant and equipment	**4,393**

The item equipment leased to others comprised predominately instruments that were leased out under operating leases in the Diagnostics segment. The decrease in depreciation of equipment leased to others was mainly caused by the extension of the useful life for diagnostic instruments from five to seven years as of October 1, 2017 → *Note 2 Accounting policies*.

Future minimum lease payments under operating leases to be received were due as follows:

	Sept 30,	
(in millions of €)	2018	2017
Within 1 year	24	28
Between 1 and 5 years	71	64
After 5 years	10	2
Total	**105**	93

In fiscal year 2018, the contingent rents recognized as income amounted to €89 million (2017: €99 million).

As of the reporting date, contractual commitments for purchases of property, plant and equipment amounted to €81 million (September 30, 2017: €22 million).

Note 14 Other financial assets

	Sept 30,	
(in millions of €)	2018	2017
Receivables from finance leases	108	99
Equity instruments measured at cost	38	42
Other	27	21
Total other financial assets	**174**	162

Currency translation differences	Additions through business combinations	Additions	Reclassifications	Retirements	Gross carrying amount at end of fiscal year 2017	Accumulated amortization, depreciation and impairment	Carrying amount at end of fiscal year 2017	Amortization, depreciation and impairment in fiscal year 2017
−39	–	189	–	−18	1,310	−383	927	−61
−16	3	30	–	−17	422	−305	118	−37
−101	3	–	–	–	2,166	−1,685	481	−132
−157	**5**	**219**	**–**	**−36**	**3,898**	**−2,373**	**1,525**	**−230**
−36	–	10	3	−3	1,083	−551	532	−35
−28	–	23	26	−23	745	−538	207	−43
−33	–	107	23	−51	909	−673	237	−104
−43	–	220	8	−175	1,513	−1,064	448	−160
−5	–	117	−60	−3	143	–	143	–
−145	**–**	**477**	**–**	**−256**	**4,393**	**−2,827**	**1,566**	**−342**

Currency translation differences	Additions through business combinations	Additions	Reclassifications	Retirements	Gross carrying amount at end of fiscal year 2018	Accumulated amortization, depreciation and impairment	Carrying amount at end of fiscal year 2018	Amortization, depreciation and impairment in fiscal year 2018
15	–	127	–	–	1,452	−469	982	−83
8	72	18	–	−21	499	−327	173	−37
19	47	–	–	−8	2,224	−1,808	416	−114
42	**119**	**145**	**–**	**−29**	**4,175**	**−2,604**	**1,571**	**−233**
9	4	13	9	−1	1,117	−588	529	−32
6	4	32	35	−14	808	−579	229	−46
5	2	141	20	−56	1,021	−740	281	−113
−24	–	276	9	−208	1,566	−973	593	−106
3	3	213	−73	−2	287	–	287	–
−1	**13**	**675**	**–**	**−281**	**4,799**	**−2,880**	**1,919**	**−297**

Note 15 Other assets

(in millions of €)	Sept 30, 2018	2017
Deferred compensation assets	234	225
Prepaid expenses	42	31
Other	11	12
Total other assets	**287**	**268**

Deferred compensation assets related to a deferred compensation plan in the United States. Please refer to → ***Note 22 Other liabilities*** for the corresponding deferred compensation liabilities.

Note 16 Debt

(in millions of €)	Sept 30, 2018	2017
Short-term debt and current maturities of long-term debt	57	55
Thereof:		
Loans from banks	48	47
Obligations under finance leases	9	8
Payables to Siemens Group from financing activities	632	5,779
Total current debt	**689**	**5,834**
Long term debt	17	15
Thereof:		
Obligations under finance leases	17	15
Other liabilities to Siemens Group from financing activities	4,002	5,167
Total non-current debt	**4,019**	**5,182**
Total debt	**4,707**	**11,016**

Financing arrangements of Siemens Healthineers with Siemens AG consisted of a multicurrency revolving credit facility in an amount of up to €1.1 billion to serve as a net working capital and as a short-term loan facility as well as a multicurrency revolving credit facility in an amount of up to €1.0 billion which provides funding for backup purposes.

In addition, the Siemens Group provided term loans with various maturities and in various currencies. As of September 30, 2018, existing term loans were mainly denominated in U.S. dollars with approximately US$ 0.9 billion maturing until fiscal year 2021 (September 30, 2017: US$ 2.5 billion), approximately US$ 0.7 billion maturing in fiscal year 2023 (September 30, 2017: US$ 0.7 billion), approximately US$ 1.7 billion maturing in fiscal year 2027 (September 30, 2017: US$ 1.7 billion) and approximately US$ 1.0 billion maturing in fiscal year 2046 (September 30, 2017: US$ 1.0 billion). Interest rates for these loans were 1.9% for the loans maturing until fiscal year 2021 (September 30, 2017: 1.5% to 1.9%), 2.2% for the loan maturing in fiscal year 2023 (September 30, 2017: 2.2%), 2.5% for the loan maturing in fiscal year 2027 (September 30, 2017: 2.5%) and 3.4% for the loan maturing in fiscal year 2046 (September 30, 2017: 3.4%).

The decrease in debt compared to fiscal year 2017 is primarily related to the early redemption of borrowings from the Siemens Group in connection with the legal separation of Siemens Healthineers. The redemption amount reflected the fair value at the redemption date. Due to differences between the fair value and carrying amount of the borrowings, the transactions resulted in a gain of €27 million, which is included in the line item interest income.

In fiscal year 2018, interest expenses from financing arrangements with Siemens AG amounted to €27 million (2017: €21 million), while interest expenses from financing arrangements with other Siemens Group companies amounted to €150 million (2017: €212 million).

The following table shows the sources of changes in total debt as well as of total liabilities from financing activities:

(in millions of €)	Balance at beginning of fiscal year 2018	Cash flows[1]	Non-cash changes: Currency translation differences	Non-cash changes: Other	Balance at the end of fiscal year 2018
Loans from banks	47	8	−10	3	48
Obligations under finance leases	23	−9	–	10	26
Payables and other liabilities to Siemens Group from financing activities	10,946	−595	−236	−5,480	4,634
Total debt	**11,016**	**−596**	**−246**	**−5,467**	**4,707**
Receivables and other receivables from Siemens Group from financing activities	−4,177	326	39	2,421	−1,391
Total liabilities from financing activities	**6,839**	**−269**	**−206**	**−3,046**	**3,317**

[1] Reported in the following line items of the consolidated statements of cash flows: Change in short-term debt and other financing activities, profit and loss transfers with Siemens Group, dividends paid to Siemens Group and other transactions/financing with Siemens Group.

Other non-cash changes primarily resulted from the bundling of financing activities within the Group and from transactions in connection with the legal separation of Siemens Healthineers. In particular, these transactions included contributions from the Siemens Group which effectively resulted in the conversion of debt to equity.

Note 17 Additional capital management disclosures

Siemens Healthineers has a robust cash generation from recurring revenue, supporting a strong cash position. The capital management intends to maintain ready access to international capital markets, and thereby to financing through various debt instruments, as well as to sustain the ability to repay and service debt obligations over time. This consideration is reflected in Siemens Healthineers' post-IPO target ratio of net debt (including pensions) to EBITDA of 1.5. The ratio indicates the approximate number of years that would be needed to cover the net debt through continuing income, without taking into account interest, taxes, depreciation and amortization.

The capital structure is managed based on a long-term outlook. Siemens Healthineers intends to maintain a capital structure which would qualify for a solid investment grade rating at the minimum.

(in millions of €)	Sept 30, 2018	Sept 30, 2017
Short-term debt and current maturities of long-term debt	57	55
Long-term debt	17	15
Payables to Siemens Group from financing activities	632	5,779
Other liabilities to Siemens Group from financing activities	4,002	5,167
Receivables from Siemens Group from financing activities	−1,391	−2,812
Other receivables from Siemens Group from financing activities	–	−1,365
Cash and cash equivalents	−519	−184
Net debt	**2,798**	**6,655**
Provisions for pensions and similar obligations	845	1,732
Net debt (including pensions)	**3,643**	**8,387**
Income before income taxes	1,799	1,977
Interest income, interest expenses and other financial income, net	169	255
Amortization, depreciation and impairments	530	572
EBITDA	**2,498**	**2,804**
Net debt (including pensions)/EBITDA	**1.5**	**3.0**

Note 18 Contract liabilities

As of September 30, 2018, contract liabilities amounted to €1,524 million (September 30, 2017: €1,406 million; October 1, 2016: €1,415 million). Thereof, contract liabilities amounting to €342 million had a remaining term of more than twelve months (September 30, 2017: €232 million).

In fiscal year 2018, an amount of €947 million included in contract liabilities at the beginning of the period was recognized as revenue (2017: €1,007 million).

Note 19 Provisions

(in millions of €)	Warranties	Order-related losses and risks	Other	Total
Balance at beginning of fiscal year 2018	**254**	**80**	**108**	**442**
Therein: Non-current	30	62	61	153
Additions	185	22	37	244
Usage	−151	−7	−15	−173
Reversals	−40	−7	−13	−60
Currency translation differences	−1	1	−1	−2
Other	−2	–	2	–
Balance at the end of fiscal year 2018	**245**	**89**	**117**	**452**
Therein: Non-current	35	66	56	157

The majority of Siemens Healthineers' provisions were expected to result in cash outflows during the next one to 15 years. Warranties related to products sold. Order-related losses and risks were primarily recognized for contracts in which the unavoidable costs of meeting the obligations under the contracts exceeded the economic benefits expected to be received. Other provisions included various types of provisions, such as provisions for asset retirement obligations related to certain items of property, plant and equipment as well as provisions for legal proceedings.

In the course of its normal business operations, Siemens Healthineers is involved in legal proceedings in various jurisdictions. At present, Siemens Healthineers does not expect any matters to have material effects on its financial position, the results of its operations or its cash flows.

Note 20 Other current liabilities

(in millions of €)	Sept 30, 2018	Sept 30, 2017
Employee-related accruals	260	297
Wage and salary obligations and other liabilities to employees	615	599
Miscellaneous tax liabilities	205	203
Other	143	151
Total other current liabilities	**1,223**	**1,250**

Employee-related accruals primarily included accruals for vacation entitlements and share-based payment. Miscellaneous tax liabilities mainly comprised sales tax liabilities as of the reporting date amounting to €147 million (September 30, 2017: €162 million).

Note 21 Provisions for pensions and similar obligations

Siemens Healthineers provides post-employment benefit plans for almost all of its German employees and the majority of its foreign employees. These plans are accounted for either as defined benefit plans or defined contribution plans.

Defined benefit plans

The defined benefit plans open to new entrants are based predominantly on contributions made by Siemens Healthineers. These plans are to a certain extent affected by longevity, inflation and compensation increases and take country-specific differences into account. Siemens Healthineers' major plans are funded with assets in segregated pension institutions. Those plans are managed in the beneficiaries' interest in accordance with local laws and bilateral agreements with benefit trusts (trust agreement). The defined benefit plans cover around 44,000 participants. These are divided into 26,000 active employees for which current service cost is recognized, 8,000 active and former employees with vested benefits for which no more current service cost is recognized and 9,000 retirees and surviving dependents which receive benefits. The majority of Siemens Healthineers' pension liabilities derive from defined benefit plans in four countries, which are described below.

Germany

In Germany, Siemens Healthineers provides pension benefits through the following plans: BSAV ("Beitragsorientierte Siemens Altersversorgung"), frozen legacy plans and deferred compensation plans. The majority of active employees participate in the BSAV. The benefits provided under this plan are predominantly based on contributions made by Siemens Healthineers and returns earned on such contributions which are subject to a minimum return guaranteed by the employer. At the inception of the BSAV, benefits provided under the frozen legacy plans were modified to substantially eliminate the effects of compensation increases. However, the frozen plans still expose the employer to investment risk, interest rate risk and longevity risk. No legal or regulatory minimum funding requirements apply in Germany.

In the second quarter of fiscal year 2018, Siemens Healthineers established a contractual trust arrangement in Germany to finance its obligations related to defined benefit pension plans that had been transferred from the Siemens Group to Siemens Healthineers as part of the legal separation. Also in the second quarter of fiscal year 2018, Siemens Healthineers received assets in the amount of €766 million from the Siemens Group by way of a capital contribution, which was recognized in capital reserves. These assets were funded into the contractual trust arrangement and classified as plan assets.

United States

Siemens Medical Solutions USA, Inc. (hereinafter referred to as "SMS") currently sponsors defined benefit plans which have been frozen to new entrants and to future benefit accruals, except for interest credits on cash balance accounts. SMS has appointed an investment committee as the named fiduciary for the management of the assets of the plans. The pension plans are subject to the funding requirements under the Employee Retirement Income Security Act of 1974 (ERISA) as amended. There is a regulatory requirement to maintain a minimum funding level of 80% in the defined benefit plans in order to avoid benefit restrictions. Annual contributions are calculated by independent actuaries. The sponsoring employers may, at their discretion, contribute in excess of this regulatory requirement.

The abovementioned defined benefit plans were established and all assets relating to Siemens Healthineers were legally transferred from Siemens Corporation to SMS's plans based on regulatory asset allocation calculations during fiscal year 2018.

United Kingdom

Siemens Healthineers offers defined benefits through the Siemens Healthineers Benefit Scheme (SHBS) for which an inflation adjustment of the majority of accrued defined benefits is mandatory until the start of retirement. The required funding is determined by a funding valuation carried out every third year based on legal requirements.

In fiscal year 2018, plan assets were transferred from the Siemens Benefit Scheme (SBS) to the Siemens Healthcare Limited section of the SHBS. During fiscal year 2018, changes in the expected scope of the population transferred from the SBS to the SHBS reduced the plan assets by €671 million and the defined benefit obligation by €624 million.

Switzerland

Following the Swiss Law of Occupational Benefits ("Berufliches Vorsorgegesetz", BVG) each employer has to grant post-employment benefits for qualifying employees. Accordingly, Siemens Healthineers sponsors cash balance plans in Switzerland. These plans are administered by external foundations. The board of the main foundation is composed of an equal number of employer and employee representatives. The board of the foundation is responsible for the investment policy and the asset management as well as for any changes in the plan rules and the determination of contributions to finance the benefits. Siemens Healthineers is required to make total contributions at least as high as the sum of the employee contributions set out in the plan rules. In case of an underfunded plan, Siemens Healthineers together with the employees may be asked to pay supplementary contributions according to a well-defined framework of recovery measures.

	Defined benefit obligation (I)		Fair value of plan assets (II)		Effects of asset ceiling (III)		Net defined benefit balance (I-II+III)	
	Fiscal year		Fiscal year		Fiscal year		Fiscal year	
(in millions of €)	2018	2017	2018	2017	2018	2017	2018	2017
Balance at beginning of fiscal year	**4,067**	4,558	**2,364**	2,436	**12**	9	**1,715**	2,131
Current service cost	59	66	–	–	–	–	59	66
Interest expenses	81	91	–	–	–	–	81	92
Interest income	–	–	55	60	–	–	–55	–60
Other[1]	12	–4	–8	–8	–	–	20	4
Components of defined benefit costs recognized in the consolidated statements of income	**152**	154	**47**	52	**–**	–	**105**	102
Return on plan assets excluding amounts included in net interest income and net interest expenses	–	–	67	18	–	–	–67	–18
Actuarial gains (–) and losses	–10	–381	–	–	–	–	–10	–381
Effects of asset ceiling	–	–	–	–	1	3	1	3
Remeasurements recognized in the consolidated statements of comprehensive income	**–10**	–381	**67**	18	**1**	3	**–76**	–396
Employer contributions	–	–	207	81	–	–	–207	–81
Plan participants' contributions	10	8	10	8	–	–	–	–
Benefits paid	–158	–194	–135	–173	–	–	–24	–22
Settlement payments	–87	–3	–87	–3	–	–	–	–
Business combinations, disposals and other	–610	24	89	21	–	–	–699	3
Currency translation differences	12	–98	11	–76	–	–	1	–22
Other reconciling items	**–833**	–263	**96**	–141	**–**	–	**–929**	–122
Balance at fiscal year-end	**3,376**	4,067	**2,574**	2,364	**13**	12	**815**	1,715
Thereof:								
Germany	1,765	1,722	1,109	339	–	–	656	1,383
United States	979	1,116	881	865	–	–	99	251
United Kingdom	332	928	370	952	12	12	–26	–13
Switzerland	85	87	84	79	–	–	2	8
Other countries	214	215	130	129	–	–	84	85
Thereof:								
Provisions for pensions and similar obligations							845	1,732
Net defined benefit assets (presented in the line item other assets)							30	17

[1] Included past service benefits and costs, settlement gains and losses and administration costs related to liabilities.

Net interest expenses related to provisions for pensions and similar obligations amounted to €27 million in fiscal year 2018 (2017: €31 million). The defined benefit obligation in fiscal year 2018 was attributable to active employees for which current service cost was recognized 46% (2017: 40%), to active and former employees with vested benefits for which no more current service cost was recognized 15% (2017: 19%) and to retirees and surviving dependents which received benefits 39% (2017: 41%). Employer contributions in fiscal year 2018 included U.S. pension funding in the amount of €126 million. Due to the use of certain transition rules of the U.S. tax reform in relation to this funding, Siemens Healthineers realized other operating income in the amount of €19 million. The effects from business combinations, disposals and other relating to plan assets included the offsetting effects of the assets funded into the contractual trust arrangement in Germany and the changes in the U.K. population affecting plan assets. The remeasurements comprised actuarial gains (–) and losses resulting from:

	Fiscal year	
(in millions of €)	2018	2017
Changes in demographic assumptions	–8	–20
Changes in financial assumptions	–56	–361
Experience gains and losses	54	–1
Total actuarial gains (–) and losses	**–10**	–381

Actuarial assumptions

The weighted-average discount rate used for actuarial valuation of the defined benefit obligation at the reporting date is shown in the following table. The discount rate was derived from high-quality corporate bonds with an issuing volume of more than 100 million units in the respective currency zones, which have been awarded an AA rating (or equivalent) by at least one of the three rating agencies Moody's Investor Service, Standard & Poor's Rating Services or Fitch Ratings.

	Sept 30,	
(in %)	2018	2017
Discount rate	2.9	2.8
Euro	2.0	2.1
U.S. dollar	4.2	3.8
British pound	2.9	2.8
Swiss franc	1.2	0.8

Mortality tables applied in 2018 were:

Germany	Siemens-specific tables with mortality trends based on Heubeck Richttafeln 2005G
United States	RP-2006 with generational projection from the U.S. Social Security Administration's Long-Range Demographic Assumptions
United Kingdom	SAPS S2 (Standard mortality tables for Self-Administered Pension Schemes with allowance for future mortality improvements)
Switzerland	BVG 2015G

The rates of compensation increase and pension progression for countries with significant effects are shown in the following table. If applicable, inflation effects were included in the assumptions below.

	Sept 30,	
(in %)	2018	2017
Compensation increase		
United Kingdom	3.7	3.7
Switzerland	1.3	1.5
Pension progression		
Germany	1.4	1.4
United Kingdom	2.9	3.0

Sensitivity analysis

A one-half percentage-point change of the above assumptions would affect the defined benefit obligation as shown in the following table.

	Effect on defined benefit obligation due to a one-half percentage-point change			
	Sept 30, 2018		Sept 30, 2017	
(in millions of €)	increase	Decrease	increase	Decrease
Discount rate	−195	218	−261	293
Rate of compensation increase	13	−12	14	−13
Rate of pension progression	123	−113	174	−165

The effect on the defined benefit obligation of a 10% reduction in mortality rates for all beneficiaries would be an increase of €78 million as of September 30, 2018 (September 30, 2017: €105 million).

Sensitivity determinations applied the same methodology as applied for the determination of the post-employment benefit obligation. Sensitivities reflected changes in the defined benefit obligation solely for the assumption changed.

Asset liability matching strategies

Siemens Healthineers considers a decline in the plans' funded status due to adverse developments of plan assets and/or defined benefit obligations resulting from changing parameters as a significant risk. Accordingly, Siemens Healthineers implemented a risk management concept aligned with the defined benefit obligations (asset liability matching). Risk management is based on a worldwide defined risk threshold (value at risk, VaR). The concept, the value at risk and the asset development including the investment strategy are monitored and adjusted on an ongoing basis. Independent asset managers are selected based on quantitative and qualitative analyses, which include their performance and risk evaluation. Derivatives are used to reduce risks as part of risk management.

Disaggregation of plan assets

(in millions of €)	Sept 30, 2018	2017
Equity securities	375	517
Fixed income securities	1,431	1,453
Thereof:		
Government bonds	409	613
Corporate bonds	1,022	840
Alternative investments	170	187
Multi-strategy funds	269	76
Derivatives	22	10
Cash and cash equivalents	252	44
Other	54	77
Total plan assets	**2,574**	2,364

Virtually all equity securities had quoted prices in active markets. The fair value of fixed income securities was based on prices provided by price service agencies. The fixed income securities were traded in highly liquid markets and almost all fixed income securities were investment grade. Alternative investments mostly included hedge funds. Additionally, real estate investments were included. Multi-strategy funds mainly comprised absolute return funds and diversified growth funds that invest in various asset classes within a single fund and aim to stabilize return and reduce volatility. Derivatives predominantly consisted of financial instruments for hedging interest rate risk.

Future cash flows

Employer contributions expected to be paid to defined benefit plans in fiscal year 2019 amounted to €66 million. Over the next ten fiscal years, average annual benefit payments of €177 million were expected as of September 30, 2018 (September 30, 2017: €190 million). The weighted average duration of the defined benefit obligation for Siemens Healthineers' defined benefit plans was 13 years as of September 30, 2018 (September 30, 2017: 14 years).

Defined contribution plans and state plans

The amount recognized as an expense for defined contribution plans amounted to €150 million in fiscal year 2018 (2017: €150 million). Contributions to state plans amounted to €248 million in fiscal year 2018 (2017: €244 million).

Note 22 Other liabilities

(in millions of €)	Sept 30, 2018	2017
Employee-related accruals	138	119
Deferred compensation liabilities	228	227
Other	20	19
Total other liabilities	**386**	365

Employee-related accruals primarily included accruals for share-based payment and service anniversary awards. Deferred compensation liabilities related to a deferred compensation plan in the United States. Please refer to → ***Note 15 Other assets*** for the corresponding deferred compensation assets.

Note 23 Equity

Siemens Healthineers AG was established in a notarial deed of incorporation on December 1, 2017, with a share capital of €50,000. In the course of the legal reorganization of Siemens Healthineers, the extraordinary Shareholders' Meeting on February 2, 2018, resolved to increase Siemens Healthineers AG's share capital from €50,000 to €1.0 billion by issuing 999,950,000 new shares in return for contributions in kind by the Siemens Group. The value of contributions in kind that exceeded the increase of share capital was accounted for in the capital reserve. As of September 30, 2018, the capital reserve additionally included the contribution from the transfer of plan assets → ***Note 21 Provisions for pensions and similar obligations***.

As of the reporting date, the issued capital of Siemens Healthineers AG was divided into 1,000,000,000 ordinary registered shares with no par value and a notional value of €1.00 per share. The shares are fully paid in. At the Shareholders' Meeting, each share has one vote and accounts for the shareholder's proportionate share in the net income. All shares confer the same rights and obligations.

During the periods presented in the consolidated financial statements, the other changes in equity as included in the consolidated statements of changes in equity mainly concerned transactions in connection with the formation and the funding of the Group and the application of the separate tax return approach.

As of September 30, 2018, the total authorized capital of Siemens Healthineers AG was €500 million, issuable on one or more occasions until February 18, 2023, by issuing up to 500,000,000 new ordinary registered shares with no par value in return for cash and/or contributions in kind. In addition, as of September 30, 2018, the conditional capital of Siemens Healthineers AG was €100 million or 100,000,000 shares. It can be used for servicing convertible bonds or warrants under warrant bonds.

The extraordinary Shareholders' Meeting held on February 19, 2018, authorized the Managing Board to repurchase treasury shares of Siemens Healthineers AG until February 18, 2023, up to a limit of 10% of its share capital as of the date of the resolution, or as of the date on which the authorization is exercised if the latter value is lower, for every permissible purpose. In fiscal year 2018, Siemens Healthineers repurchased 1,440,861 treasury shares and transferred 1,193,098 treasury shares. As of the reporting date, the Group held 247,763 treasury shares.

The Managing Board and the Supervisory Board propose to distribute a dividend of €0.70 per share entitled to the dividend, in total representing approximately €700 million in expected payments. Payment of the proposed dividend is contingent upon approval at the Shareholders' Meeting on February 5, 2019. The amount of the dividend to be paid for fiscal year 2018 was calculated based on the Group's net income generated during the entire period from October 1, 2017, until September 30, 2018, as if no profit transfer pursuant to the domination and profit and loss transfer agreement between Siemens AG and Siemens Healthcare GmbH had occurred in the six months ended March 31, 2018.

Note 24 Other financial obligations

Other financial obligations arose from operating leases. Future minimum lease payments under non-cancellable operating leases were due as follows:

	Sept 30,	
(in millions of €)	**2018**	**2017**
Within 1 year	127	114
Between 1 and 5 years	245	209
After 5 years	77	93
Total	**449**	**416**

In fiscal year 2018, total operating lease expenses amounted to €203 million (2017: €234 million).

Note 25 Financial instruments and hedging activities

Financial instruments

The following table shows the carrying amounts and measurement details of each category of financial assets and liabilities:

(in millions of €)	Category of financial assets and financial liabilities [1]	Measurement/ Fair value hierarchy [5]	Carrying amount Sept 30, 2018	Carrying amount Sept 30, 2017
Loans and receivables [2]	LaR	Amortized cost	2,596	2,468
Cash and cash equivalents	n.a.	–	519	184
Derivatives designated as hedging instruments	n.a.	Level 2	15	4
Derivatives not designated as hedging instruments	FAHfT	Level 2	12	7
Available-for-sale financial assets [3]	AfS	At cost/Level 1	47	50
Receivables and other receivables from Siemens Group	LaR	Amortized cost	1,396	4,356
Total financial assets			**4,585**	**7,068**
Financial liabilities measured at amortized cost [4]	FLaC	Amortized cost	1,436	1,273
Derivatives designated as hedging instruments	n.a.	Level 2	11	6
Derivatives not designated as hedging instruments	FLHfT	Level 2	13	6
Payables and other liabilities to Siemens Group	FLaC	Amortized cost	4,640	10,962
Total financial liabilities			**6,100**	**12,248**

[1] Categories of financial assets and liabilities:
LaR = Loans and Receivables;
FAHfT = Financial Assets Held-for-Trading;
AfS = Available-for-Sale Financial Assets;
FLaC = Financial Liabilities Measured at Amortized Cost;
FLHfT = Financial Liabilities Held-for-Trading;
n.a. = not applicable.

[2] Reported in the following line items of the statements of financial position: Trade and other receivables, other current financial assets and other financial assets, except for separately disclosed derivative financial instruments and available-for-sale financial assets; including receivables from finance leases (measured in accordance with IAS 17, Leases), amounting to €139 million as of September 30, 2018, and €126 million as of September 30, 2017.

[3] Therein equity instruments classified as available-for-sale which were recognized at cost since fair value could not be reliably measured: €38 million (September 30, 2017: €42 million).

[4] Reported in the following line items of the statements of financial position: Short-term debt and current maturities of long-term debt, trade payables, other current financial liabilities, long-term debt and other financial liabilities, except for separately disclosed derivative financial instruments; including obligations under finance leases (measured in accordance with IAS 17, Leases) amounting to €26 million as of September 30, 2018, and €24 million as of September 30, 2017.

[5] According to IFRS 13, Fair Value Measurement, fair value measurements are categorized in different levels based on the inputs to valuation techniques used. The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs to valuation techniques other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3: Inputs to valuation techniques that are not observable for the asset or liability.

- The carrying amounts of the items cash and cash equivalents, short-term debt and current maturities of long-term debt, trade payables, receivables from Siemens Group, payables to Siemens Group as well as other current financial assets and other current financial liabilities approximated their fair value due to the short-term maturities of these instruments.
- The carrying amount of other liabilities to Siemens Group which related to Siemens Healthineers' business in the United States was €3,698 million as of September 30, 2018 (September 30, 2017: €5,052 million). The corresponding fair values, which are based on prices provided by price service agencies (level 2), amounted to €3,358 million as of September 30, 2018 (September 30, 2017: €4,883 million). The carrying amounts of the remaining other liabilities to Siemens Group approximated their fair value as the interest rates approximated market rates.
- The fair values of obligations under finance leases as well as other financial liabilities were estimated by discounting future cash flows using market rates. The carrying amounts approximated the fair values.
- Trade and other receivables, other financial assets and other receivables from Siemens Group were evaluated by Siemens Healthineers based on parameters such as interest rates, specific country risk factors and individual creditworthiness of the customer. Based on this evaluation, allowances for these receivables were taken into account. The carrying amounts of such receivables net of allowances approximated the fair values.
- The determination of the fair values of derivative financial instruments depended on the specific type of instrument. The fair values of forward exchange contracts were based on forward exchange rates. Options were generally valued based on quoted market prices or based on option pricing models. In determining the fair values of derivative financial instruments, no compensating effects from underlying transactions were taken into consideration.

The following table shows the net gains or losses on financial instruments:

(in millions of €)	Fiscal year 2018	2017
Available-for-sale financial assets	1	–
Loans and receivables	7	−10
Financial liabilities measured at amortized cost	−21	−46
Financial assets and liabilities held for trading	−3	37

Net gains or losses on available-for-sale financial assets included gains and losses on derecognition as well as impairment losses. Net gains or losses on loans and receivables consisted of foreign exchange gains and losses, changes in valuation allowances, gains and losses on derecognition and recoveries of amounts previously written off. Net gains or losses on financial liabilities measured at amortized cost included foreign exchange gains and losses as well as gains or losses from derecognition. Net gains or losses on financial assets and liabilities held for trading resulted from changes in the fair value of derivative financial instruments which were not designated as hedging instruments.

In fiscal year 2018, interest expenses on financial liabilities not measured at fair value through profit or loss amounted to €179 million (2017: €235 million).

Hedging activities

As part of Siemens Healthineers' risk management approach → ***Note 26 Financial risk management***, derivative financial instruments were used to reduce the risks resulting primarily from fluctuations in exchange rates. In particular, Siemens Healthineers entered into forward exchange contracts in order to reduce the risk of variability of future cash flows resulting from forecast sales and purchases as well as firm commitments denominated in foreign currencies.

In fiscal years 2018 and 2017, Siemens Healthineers did not hold any material derivative financial instruments relating to interest rates or commodity prices.

Cash flow hedges

Siemens Healthineers applied hedge accounting for certain significant transactions and firm commitments denominated in foreign currencies. Changes in the fair value of forward exchange contracts designated as hedging instruments in cash flow hedges that were determined to be an effective hedge were recognized in other comprehensive income. As of September 30, 2018 and 2017, the maturity of the main portion of derivative financial instruments, which were used to hedge future cash flows, did not exceed twelve months.

Note 26 Financial risk management

Siemens Healthineers is managed centrally by the Managing Board. The Managing Board is responsible for the operating business of Siemens Healthineers and manages and controls Siemens Healthineers' financial risks in accordance with its risk management policy. In previous periods, the Siemens Group was responsible for the risk management policy. Since the IPO of Siemens Healthineers, the Siemens Group has been acting only as a service provider with respect to certain financial risk management activities.

Market risks

Increasing market fluctuations may result in significant earnings and cash flow volatility risk for Siemens Healthineers. Its worldwide operating business as well as its investing and financing activities are affected particularly by changes in exchange rates and interest rates. In order to optimize the allocation of the financial resources across its segments and entities as well as to achieve its aims, Siemens Healthineers identifies, analyzes and manages the relevant market risks. Siemens Healthineers seeks to manage and control market risks primarily through its regular operating and financing activities and uses derivative financial instruments when deemed appropriate.

Management of financial market risk is a priority for Siemens Healthineers' Managing Board. The chief financial officer has specific responsibility for this part of the overall risk management system. This responsibility is delegated to Siemens Healthineers' corporate treasury. For practical business purposes, Siemens Healthineers has entered into service agreements with the Siemens Group to receive support in the management of financial market risks.

In order to quantify market risks, Siemens Healthineers uses a system based on parametric variance-covariance Value at Risk (VaR). The VaR figures are calculated based on historical volatilities and correlations of various risk factors, a ten day holding period and a 99.5% confidence level. Actual results in the consolidated statements of income or consolidated statements of comprehensive income may differ substantially from calculated VaR figures due to fundamental conceptual differences. While the consolidated statements of income and consolidated statements of comprehensive income are prepared in accordance with IFRS, the VaR figures are the output of a model with a purely financial perspective and represent the potential financial loss that will not be exceeded within ten days with a probability of 99.5%. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations including the following: A ten day holding period assumes that it is possible to dispose of the underlying positions within this period. This may not apply during continuing periods of illiquid markets. A 99.5% confidence level means that there is a 0.5% statistical probability that losses exceed the calculated VaR. The use of historical data as a basis for estimating the statistical behavior of the relevant markets and finally determining the possible range of the future outcomes on the basis of this statistical behavior may not always cover all possible scenarios, especially those of an exceptional nature.

Any market-sensitive instruments, including equity and interest bearing investments, that Siemens Healthineers' pension plans hold are not included in the following quantitative and qualitative disclosures.

Exchange rate risk

Transaction risk

Each Siemens Healthineers entity that does business leading to future cash flows denominated in a currency other than its functional currency is exposed to risks from changes in exchange rates. In the ordinary course of business, Siemens Healthineers entities are particularly exposed to exchange rate fluctuations between the U.S. dollar and the euro.

Siemens Healthineers defines foreign currency risk as the sum of the net amount of foreign currency denominated monetary items and planned sales and purchases in a foreign currency for the following twelve months. The foreign currency exposure is determined based on the respective functional currencies of the exposed Siemens Healthineers entities.

The exchange rate exposure from cash inflows in foreign currency is partly balanced by purchasing of goods, commodities and services in the respective currencies as well as by production activities and other contributions along the value chain in the local markets.

Siemens Healthineers entities are bound by a foreign exchange risk management system established within the Group. Each entity is responsible for recording, assessing and monitoring its foreign currency transaction exposure. The binding guideline for the treatment of foreign currency risks within Siemens Healthineers provides the concept for the identification and determination of the single net foreign currency positions. It commits the entities to hedge at least 75 % but no more than 100 % of their foreign currency denominated monetary items as well as cash flows from planned sales and purchases for the following three months. A part of Siemens Healthineers' hedging transactions is carried out with the corporate treasury of the Siemens Group as the counterparty.

Siemens Healthineers entities are prohibited from borrowing or investing in foreign currencies on a speculative basis. Financing from the Siemens Group or investments of operating units are preferably carried out in their functional currency.

As of September 30, 2018 and 2017, the VaR relating to exchange rates was €91 million and €94 million, respectively. This VaR was calculated under consideration of items of the consolidated statement of financial position in addition to firm commitments which are denominated in foreign currencies as well as foreign-currency-denominated cash flows from forecast transactions for the following twelve months.

Translation risk

Many Siemens Healthineers entities are located outside the euro zone. Since the financial reporting currency of Siemens Healthineers is the euro, the financial statements of these entities are translated into euros for the preparation of the consolidated financial statements. To take account of the effects of foreign currency translation in the risk management, the general assumption is that investments in foreign-based operations are permanent and that reinvestment is continuous. Effects from exchange rate fluctuations on the translation of net asset amounts into euros are reflected in the line item other components of equity.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This risk arises whenever interest terms of financial assets and liabilities are different. Siemens Healthineers' exposure to the risk of changes in market interest rates relates to short-term bank loans as well as money market borrowings and investments at Siemens Financial Services. Long-term liabilities to Siemens Group primarily have fixed interest rates.

Before the IPO of Siemens Healthineers, interest rate risk management was performed at the level of the Siemens Group. Consequently, Siemens Healthineers did not actively manage its interest rate risk. Due to the existing financing agreements with the Siemens Group, predominantly with fixed interest rates, Siemens Healthineers was not exposed to a substantial risk of fluctuations in future cash flows resulting from changes in market interest rates. Accordingly, Siemens Healthineers did not use any interest rate derivatives in fiscal years 2018 and 2017.

As of September 30, 2018 and 2017, the VaR relating to interest rates was €1 million and €2 million, respectively.

Liquidity risk

Liquidity risk results from Siemens Healthineers' inability to meet its financial liabilities. Siemens Healthineers' reserve of cash and cash equivalents as of September 30, 2018 and 2017 amounted to €519 million and €184 million, respectively.

In the periods presented, Siemens Healthineers was largely financed by the Siemens Group and invested excess liquidity using Siemens AG's cash pooling and cash management systems. For details about financing arrangements with the Siemens Group, please refer to ➔ *Note 16 Debt*.

The following table reflects the contractually fixed payoffs for repayments and interest. The disclosed expected undiscounted net cash outflows from derivative financial liabilities are determined based on each particular settlement date of an instrument and on the earliest date on which Siemens Healthineers could be required to pay. Cash outflows for financial liabilities without fixed amount are based on the conditions existing as of September 30, 2018.

	Fiscal year			
(in millions of €)	2019	2020	2021 to 2023	2024 and thereafter
Non-derivative financial liabilities	**2,130**	**353**	**1,754**	**3,122**
Thereof:				
Loans from banks	48	–	–	–
Obligations under finance leases	9	9	8	–
Trade payables	1,272	1	3	3
Other financial liabilities	59	19	6	–
Payables and other liabilities to Siemens Group	742	324	1,737	3,119
Derivative financial liabilities	**23**	**–**	**–**	**–**

The risk implied from the values shown in the table above reflects the one-sided scenario of cash outflows only. Obligations under trade payables and other financial liabilities, including finance leases, mainly originate from the financing of assets used in Siemens Healthineers' ongoing operations, such as property, plant, equipment and investments in working capital (e.g., inventories and receivables from the sale of goods and services). These assets are considered in Siemens Healthineers' overall liquidity risk management. Thus, Siemens Healthineers mitigates liquidity risk by the implementation of an effective working capital and cash management. To monitor existing financial assets and liabilities as well as to enable an effective controlling of emerging risks, Siemens Healthineers uses a comprehensive risk reporting system which covers its worldwide business.

Credit risk

Credit risk is defined as an unexpected loss in financial instruments if a counterparty is unable to pay its obligations in due time or if the value of collateral declines. The effective monitoring and controlling of credit risk through credit evaluations and ratings is a core competence of Siemens Healthineers' risk management system. Accordingly, Siemens Healthineers has implemented binding credit policy guidelines. In principle, each Siemens Healthineers entity is responsible for managing credit risk in its own operating activities. Ratings and individually defined credit limits are mainly based on generally accepted rating methodologies, with input consisting of information obtained from the customer, external rating agencies, data service providers and credit default experiences. Ratings and credit limits are carefully considered in determining the conditions under which direct or indirect financing will be offered to customers by Siemens Healthineers.

Siemens Healthineers applies various systems and processes developed by the Siemens Group to analyze and monitor credit risk. A central IT application is available that processes data from operating units together with rating and default information and calculates an estimate which is used as a basis for individual bad debt allowances. In addition to this automated process, qualitative information is considered, in particular to incorporate the latest developments. Up to December 2017, certain operating entities of Siemens Healthineers transferred their current trade receivables, along with the inherent credit risk, to the Siemens Credit Warehouse, but were still responsible for the administration of these receivables.

There were no significant concentrations of customer credit risk as of September 30, 2018 and 2017. The maximum exposure to credit risk for financial assets, without taking account of any collateral, is represented by their carrying amount. As of September 30, 2018 and 2017, collateral and other credit enhancements held for financial instruments classified as financial assets measured at amortized cost amounted to €59 million and €72 million, respectively, mainly in the form of letters of credit and guarantees.

Concerning trade and other receivables as well as other loans and receivables that are neither impaired nor past due, there were no indications that defaults in payment obligations will occur which lead to a decrease in the net assets. Overdue financial instruments are generally impaired on a portfolio basis in order to reflect losses incurred. When substantial expected payment delays become evident, overdue financial instruments are assessed individually for additional impairment and are further allowed for as appropriate.

Note 27 Share-based payment

Employees of Siemens Healthineers can participate in share-based payment plans of the Siemens Group based on Siemens AG shares. These plans include Siemens' stock awards, the Share Matching program, the Siemens Profit Sharing and the Jubilee Share program. In addition, share-based payment plans based on shares of Siemens Healthineers AG were set up in the context of the IPO, including the My IPO Shares program and Siemens Healtineers' stock awards.

As of September 30, 2018, the carrying amount of liabilities from share-based payment transactions amounted to €99 million (September 30, 2017: €143 million). Total pretax expenses for share-based payments in fiscal year 2018 amounted to €80 million (2017: €81 million). These include €13 million related to equity-settled awards (2017: €0 million).

My IPO Shares program

In fiscal year 2018, Siemens Healthineers launched the one-time share program My IPO Shares. Employees other than members of the Managing Board or Supervisory Board of Siemens Healthineers AG had the right to purchase shares of Siemens Healthineers AG at the market price at a predetermined date in the fourth quarter and to receive bonus shares of Siemens Healthineers AG in a certain ratio for no additional payment on the invested amount. For an investment in shares of up to €1,000, plan participants received 30% of the invested amount in bonus shares. For an additional investment in shares of up to €1,500, plan participants received 10% of the invested amount in bonus shares. In fiscal year 2018, 205,960 shares were granted for the equity-settled plan and transferred to eligible employees. The fair value of the bonus shares transferred amounted to €8 million in fiscal year 2018.

Stock awards

Siemens Healthineers grants stock awards to members of the Managing Board, members of senior management and other eligible employees. Stock awards are subject to a restriction period of about four years and entitle the beneficiary to receive Siemens AG shares (Siemens' stock awards) or Siemens Healthineers AG shares (Siemens Healthineers' stock awards) without payment of consideration following the restriction period.

Siemens' stock awards

Siemens' stock awards are tied to performance criteria of Siemens AG. The annual target amount for stock awards can be bound to the average of basic earnings per share of the past three fiscal years and/or to the share price performance of Siemens AG relative to the share price performance of five important competitors during the four-year restriction period. The target attainment for the performance criteria ranges between 0% and 200%. If the target attainment of the share price performance criterion exceeds 100%, an additional cash payment results corresponding to the outperformance. The vesting period is four years.

In fiscal year 2018, 288,070 stock awards (2017: 289,246 stock awards) were granted contingent upon the share price performance criterion. The fair value of these stock awards which are classified as cash-settled amounted to €21 million at the grant date in fiscal year 2018 (2017: €19 million) and was calculated by applying a valuation model. Inputs to that model in 2018 included an expected weighted volatility of Siemens AG shares of 22.17% (2017: 22.79%), a market price of €114.80 (2017: €107.95) per Siemens AG share, a risk-free interest rate of 0.05% (2017: 0.03%) and an expected dividend yield of 3.23% (2017:3.33%). Expected volatility and assumptions concerning share price correlations were determined by reference to historical volatilities and historical correlations, respectively.

Siemens Healthineers' stock awards

In the context of the IPO, Siemens' stock awards granted to the members of the Managing Board in fiscal years 2015, 2016 and 2017 were compensated in cash. Additionally, members of the Managing Board, members of senior management and other eligible employees who were granted Siemens' stock awards under the 2018 tranche were offered the opportunity to replace Siemens' stock awards with Siemens Healthineers' stock awards (replacement awards) as part of a 2018 special tranche. The restriction period of the Siemens Healthineers' stock awards ends at the same time as the restriction period of the Siemens' stock awards originally granted. The target amount for Siemens Healthineers' stock awards equals the target amount for the 2018 tranche of Siemens' stock awards. The Siemens Healthineers' stock awards are tied to the relative development of total shareholder return in comparison to the development of the total shareholder return of established competitors during the vesting period. The target attainment ranges between 0% and 200%. If the target attainment exceeds 100%, an additional cash payment results corresponding to the outperformance.

Siemens Healthineers' stock awards consist of an equity component and a cash component. For the equity component, the replacement of Siemens' stock awards with Siemens Healthineers' stock awards resulted in stock awards formerly classified as cash-settled being modified to equity-settled stock awards. The number of replacement awards granted under the 2018 special tranche was calculated by dividing the target amount by €30.19, a volume-weighted average share price of Siemens Healthineers AG shares during the first 20 trading days after the IPO less the present value of expected dividends during the vesting period. In fiscal year 2018, 64,226 replacement stock awards with a fair value at grant date of €1 million were granted to members of the Managing Board. In addition, 559,863 replacement stock awards with a fair value at grant date of €12 million were granted to members of the senior management and other eligible employees.

Changes in the stock awards held by members of senior management and other eligible employees were as follows:

	Siemens AG shares Fiscal year		Siemens Healthineers AG shares Fiscal year
(in millions of €)	2018	2017	2018
Non-vested at beginning of fiscal year	960,800	860,751	–
Granted	318,277	336,336	–
Vested and fulfilled	−156,463	−189,957	–
Forfeited	−81,751	−46,267	−3,263
Settled	−42,837	−63	–
Replacement	−162,499	–	559,863
Non-vested at fiscal year-end	**835,527**	**960,800**	**556,600**

Share Matching program and its underlying plans

Under the Share Matching program Siemens Healthineers offers plans to members of senior management and other employees which entitle the beneficiary to receive Siemens AG shares. In fiscal years 2018 and 2017, a new tranche was issued under each of the following plans of the Share Matching program.

Share matching plan

Under the share matching plan senior managers can invest a specified part of their variable compensation in Siemens AG shares (investment shares). The shares are purchased at the market price at a predetermined date in the second quarter of each fiscal year. Plan participants have the right to receive one Siemens AG share without payment of consideration (matching share) for every three investment shares continually held over the vesting period of about three years, provided the plan participant has been continually employed by the Siemens Group, including Siemens Healthineers, until the end of the vesting period.

Monthly investment plan

Under the monthly investment plan employees other than senior managers can invest a specified part of their compensation in Siemens AG shares on a monthly basis over a period of twelve months. Shares are purchased at market price at a predetermined date once a month. If the Managing Board of Siemens AG decides that shares acquired under the monthly investment plan are transferred to the share matching plan, plan participants have the right to receive matching shares under the same conditions applying to the share matching plan described above with a vesting period of about two years. The Managing Board of Siemens AG decided that shares acquired under the tranches issued in fiscal years 2017 and 2016 are transferred to the share matching plan as of February 2018 and February 2017, respectively.

Base share program

Under the base share program employees of participating Siemens Healthineers' companies can invest a fixed amount of their compensation in Siemens AG shares, sponsored by the company. The shares are bought at market price at a predetermined date in the second quarter of each fiscal year and grant the right to receive matching shares under the same conditions applying to the share matching plan described above.

The development of outstanding matching shares from all plans of the Share Matching program is shown below:

	Fiscal year	
(in millions of €)	**2018**	**2017**
Outstanding at beginning of fiscal year	244,759	230,810
Granted	106,124	94,914
Vested and fulfilled	−105,308	−63,963
Forfeited	−12,131	−11,850
Settled	−3,741	−5,152
Outstanding at fiscal year-end	**229,703**	**244,759**

The plans under the Share Matching program are classified as cash-settled. The weighted average fair value of the matching shares, granted in fiscal year 2018, amounted to €90.33 per share (2017: €92.60) and was determined as the market price of Siemens AG shares less the present value of expected dividends taking non-vesting conditions into account.

Siemens Profit Sharing

The Managing Board of Siemens AG decides annually on the issuance of a new Siemens Profit Sharing tranche and determines the targets to be met for the current fiscal year. At fiscal year-end, based on the actual target achievement, the Managing Board of Siemens AG decides at its discretion on the amount to be transferred to the profit sharing pool. This transfer is limited to a specific maximum amount annually. If the profit sharing pool reaches a certain minimum amount after one or more fiscal years, it will be transferred to eligible employees below senior management in full or partially through the grant of free Siemens AG shares. As of September 30, 2017, €46 million therefrom was allocated to Siemens Healthineers. Expenses were recognized pro rata over the estimated vesting period for this plan which is classified as cash-settled.

In November 2017, an amount of €15 million was transferred to the profit sharing pool for Siemens Healthineers. In March 2018, an amount of €58 million was transferred to eligible Siemens Healthineers' employees through the grant of free Siemens AG shares.

Jubilee share program

For their 25th and 40th service anniversaries, eligible employees receive jubilee shares in form of Siemens AG shares. The jubilee share program is classified as cash-settled. There were around 462,000 entitlements to jubilee shares outstanding for Siemens Healthineers' employees in Germany as of September 30, 2018 (September 30, 2017: around 432,000).

Note 28 Personnel expenses and employees

	Fiscal year	
(in millions of €)	**2018**	**2017**
Wages and salaries	3,770	3,749
Statutory social welfare contributions and expenses for optional support	558	558
Expenses relating to post-employment benefits	231	222
Total personnel expenses	**4,559**	**4,529**

Wages and salaries in fiscal years 2018 and 2017 included severance charges in the amount of €96 million and €57 million, respectively. The item expenses relating to post-employment benefits included service costs for the period.

Employees were engaged in the following functions (averages):

	Fiscal year	
(in thousands)	**2018**	**2017**
Manufacturing and services	28	27
Sales and marketing	10	10
Research and development	9	8
Administration and general services	3	2
Total employees	**50**	**48**

Note 29 Segment information

(in millions of €)	External revenue Fiscal year		Intersegment revenue Fiscal year		Total revenue Fiscal year	
	2018	2017	2018	2017	2018	2017
Imaging	7,882	7,873	271	240	8,153	8,113
Diagnostics	3,962	4,163	–	–	3,962	4,164
Advanced Therapies	1,462	1,492	18	10	1,479	1,503
Total segments	**13,306**	**13,529**	**288**	**250**	**13,594**	**13,779**
Reconciliation to consolidated financial statements	123	148	–288	–250	–165	–102
Siemens Healthineers	**13,429**	**13,677**	**–**	**–**	**13,429**	**13,677**

[1] Siemens Healthineers: Income before income taxes.

[2] Including additions through business combinations, excluding goodwill.

Reportable segments

Siemens Healthineers has the following three reportable segments, which are differentiated according to the nature of products and services:

- ***Imaging*** offers diagnostic imaging products, services and solutions, including a broad portfolio of advanced imaging and ultrasound systems and solutions.
- ***Diagnostics*** offers products and services in laboratory diagnostics, point-of-care diagnostics and molecular diagnostics.
- ***Advanced Therapies*** is a supplier of highly integrated products, services and solutions to therapy departments of healthcare providers.

Measurement and reconciliations

Accounting policies for segment information are generally the same as those summarized in →***Note 2 Accounting policies***. Any exceptions or supplements are outlined below or become apparent in the reconciliations. For comparative purposes, the segment information for fiscal year 2017 reflects the new segment structure of Siemens Healthineers after the legal reorganization.

Revenue

Siemens Healthineers' revenue included revenue from contracts with customers and revenue from lease contracts. In fiscal year 2018, lease revenue amounted to € 179 million (2017: € 185 million).

For each of the segments, revenue mainly results from performance obligations satisfied at a point in time, especially in the case of the sale of products, including consumables and reagents in the Diagnostics segment. However, the performance obligations related to maintenance contracts for products sold are generally satisfied over time with revenue recognized on a straight-line basis.

As of the reporting date, the aggregate amount of transaction prices allocated to performance obligations that were unsatisfied or partially unsatisfied (order backlog) amounted to € 16 billion. Of this total, € 6 billion is expected to be recognized as revenue in the next twelve months.

Intersegment revenue is based on market prices.

Profit[1]		Assets		Free cash flow		Additions to other intangible assets and property, plant and equipment[2]		Amortization, depreciation and impairments	
Fiscal year		Sept 30,		Fiscal year		Fiscal year		Fiscal year	
2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
1,533	1,567	6,258	6,041	1,408	1,596	152	125	138	137
455	561	4,676	3,915	59	329	622	456	197	235
275	325	904	879	257	298	23	10	11	10
2,263	**2,453**	**11,838**	**10,835**	**1,725**	**2,222**	**798**	**591**	**346**	**383**
−464	−476	7,920	10,278	−660	−713	154	110	185	189
1,799	**1,977**	**19,758**	**21,113**	**1,065**	**1,509**	**952**	**701**	**530**	**572**

Profit

Siemens Healthineers' profitability measure of the segments is profit defined as income before income taxes, financing interest, centrally carried pension service and administration expenses and amortization of intangible assets acquired in business combinations. Income tax expenses are excluded from the segments' profit since income taxes are subject to legal structures which typically do not correspond to the segment's structure. Financing interest comprises any interest income or expenses other than interest income related to receivables from customers and from cash allocated to the segments as well as interest expenses on payables to suppliers. Financing interest is excluded from the segments' profit because decision-making regarding financing is typically made at group level. Similarly, decisions on essential pension items are made centrally. Accordingly, the segments' profit primarily includes amounts related to service costs of pension plans, while other regularly recurring pension-related expenses (hereinafter, centrally carried pension service and administration expenses) are excluded. In addition, selected items which are not indicative of the segments' performance are excluded from profit, such as items that have a corporate or central character and/or refer to more than one reportable segment, corporate treasury or Siemens Healthineers Real Estate. Costs for support functions are primarily allocated to the segments.

The reconciliation of total segments' profit to Siemens Healthineers' income before income taxes is given in the following table.

	Fiscal year	
(in millions of €)	2018	2017
Total segments' profit	**2,263**	2,453
Financing interest	−181	−277
Centrally carried pension service and administration expenses	−26	−25
Amortization of intangible assets acquired in business combinations	−131	−147
Corporate items	−145	−56
Corporate treasury, Siemens Healthineers Real Estate,[1] eliminations and other items	18	29
Total reconciliation to consolidated financial statements	**−464**	−476
Siemens Healthineers' income before income taxes	**1,799**	1,977

[1] Siemens Healthineers Real Estate manages Siemens Healthineers' entire real estate business portfolio, operates the properties and is responsible for building projects and for the purchase and sale of real estate.

The item corporate items included corporate costs, for example, group managing costs and corporate projects as well as business activities and special topics which were not allocated directly to the segments, because they were not considered to be indicative of the segment's performance. In fiscal year 2018, this also included the expenses relating to the IPO.

Assets

Siemens Healthineers determined segments' assets – defined as net capital employed – as a measure to assess the segments' capital intensity. Segments' assets are based on total assets presented in the consolidated statements of financial position (i.e., including intangible assets acquired in business combinations) which are allocated to the segments, primarily excluding receivables and other receivables from Siemens Group from financing activities as well as tax-related assets, since the corresponding income and expenses are also excluded from the segments' profit. Moreover, the remaining assets are reduced by non-interest-bearing liabilities (e.g., trade payables, contract liabilities and other current liabilities) other than tax-related liabilities.

	Sept 30,	
(in millions of €)	2018	2017
Total segments' assets	**11,838**	10,835
Asset-based adjustments	2,943	5,593
Therein:		
Assets corporate treasury	586	257
Assets Siemens Healthineers Real Estate	611	550
Receivables and other receivables from Siemens Group from financing activities	1,391	4,177
Current income tax assets and deferred tax assets	450	487
Liability-based adjustments	4,977	4,685
Total reconciliation to consolidated financial statements	**7,920**	10,278
Siemens Healthineers' total assets	**19,758**	21,113

Free cash flow

The free cash flow comprises the cash flows from operating activities and additions to intangible assets and property, plant and equipment included in cash flows from investing activities. Similarly to the segments' profit, the segments' free cash flow excludes payments related to income taxes, corporate items as well as certain other payments.

	Fiscal year	
(in millions of €)	2018	2017
Total segments' free cash flow	**1,725**	2,222
Tax-related cash flows	−266	−567
Corporate items and other	−394	−146
Total reconciliation to consolidated financial statements	**−660**	−713
Siemens Healthineers' free cash flow	**1,065**	1,509

Amortization, depreciation and impairments

Amortization, depreciation and impairments include depreciation and impairments of property, plant and equipment as well as amortization and impairments of intangible assets (similarly to segments' profit excluding intangible assets acquired in business combinations), each net of reversals of impairment.

Note 30 Information about geographies

The following tables disclose revenue by location of customers and location of companies as well as the location of non-current assets. Non-current assets consisted of property, plant and equipment, goodwill and other intangible assets.

	Revenue by customer location		Revenue by location of companies	
	Fiscal year		Fiscal year	
(in millions of €)	2018	2017	2018	2017
Europe, C.I.S., Africa, Middle East (EMEA)	4,409	4,340	5,127	4,986
Americas	5,290	5,570	5,243	5,545
Asia, Australia	3,730	3,767	3,059	3,146
Total	**13,429**	13,677	**13,429**	13,677
Thereof:				
Germany	856	883	1,762	1,723
Foreign countries	12,573	12,794	11,667	11,954
Therein:				
United States	4,458	4,667	4,478	4,689
China	1,681	1,616	1,144	1,099

	Non-current assets	
	Sept 30,	
(in millions of €)	2018	2017
Europe, C.I.S., Africa, Middle East (EMEA)	3,643	3,504
Americas	7,271	6,883
Asia, Australia	751	697
Total	**11,666**	11,083
Thereof:		
Germany	1,716	1,655
Foreign countries	9,950	9,429
Therein:		
United States	6,728	6,381

Note 31 Related-party transactions

Siemens Healthineers maintained business relations with the Siemens Group and with joint ventures and associates of both the Siemens Group and Siemens Healthineers. The Siemens Group is a related party, as Siemens AG controls Siemens Healthineers AG.

Transactions with the Siemens Group

Sales of goods and services and other income as well as purchases of goods and services and other expenses from transactions with the Siemens Group in fiscal years 2018 and 2017 were as follows:

	Sales of goods and services and other income		Purchases of goods and services and other expenses	
	Fiscal year		Fiscal year	
(in millions of €)	2018	2017	2018	2017
Siemens AG	8	10	398	360
Other companies of Siemens Group	315	280	256	298
Total	**323**	290	**654**	658

Supply and delivery agreements existed between Siemens Healthineers and the Siemens Group. Siemens Healthineers was supplied with goods and services by the Siemens Group and delivered goods and services to the Siemens Group on a case by case basis.

Siemens Healthineers received support from the Siemens Group for central corporate services such as tax, legal, IT, corporate communications, human resources, accounting, financial services and treasury in an amount of €499 million in fiscal year 2018 (2017: €496 million).

In fiscal year 2018, Siemens Healthineers entered into a number of standardized transitional service agreements and largely standardized long-term service agreements with companies of the Siemens Group as service providers and companies of Siemens Healthineers as service recipients. With respect to certain services, Siemens AG and Siemens Healthineers have agreed on a minimum service volume commitment based on expected service volume requirements. As of September 30, 2018, the commitment amounted to €313 million.

Siemens Healthineers has entered into leasing transactions with the Siemens Group, particularly operating lease agreements relating to real estate.

On December 22, 2017, Siemens AG and Siemens Healthcare GmbH, as the holding company for major parts of Siemens Healthineers at that point in time, entered into an agreement pursuant to which Siemens AG agreed to provide certain services to Siemens Healthcare GmbH in order to support Siemens Healthineers in preparing for the IPO. As consideration for the provision of the services, Siemens Healthcare GmbH agreed to pay to Siemens AG a reasonable compensation, in particular covering fees payable to third parties, such as underwriters, legal counsel, auditors, or costs otherwise arising in the context of the IPO. Expenses charged by the Siemens Group to Siemens Healthcare GmbH in relation to the IPO amounted to €93 million. The expenses were included in the line item other operating expenses.

Siemens Healthineers' employees participated in share-based payment plans implemented by Siemens AG. Siemens AG delivered the respective shares on behalf of Siemens Healthineers and was reimbursed by Siemens Healthineers. In addition, Siemens AG administrated all share-based payment plans for Siemens Healthineers. For further details, please refer to → ***Note 27 Share-based payment***.

Receivables from and payables to the Siemens Group

The receivables from and payables to the Siemens Group were as follows:

	Receivables		Payables	
	Sept 30,		Sept 30,	
(in millions of €)	2018	2017	2018	2017
Siemens AG	1,026	1,028	869	74
Other companies of Siemens Group	371	3,327	3,771	10,888
Total	**1,396**	4,356	**4,640**	10,962

Receivables from and payables to the Siemens Group mainly resulted from financing activities:

- Siemens Healthineers was included in the Siemens Group's cash pooling and cash management. Siemens Healthineers invested excess short-term liquidity and was granted overdraft facilities for financing its operating activities.
- Moreover, the Siemens Group provided additional revolving backup facilities as well as term loans to Siemens Healthineers. For detailed information, please refer to →***Note 16 Debt***.
- In fiscal year 2018, long-term receivables from the Siemens Group amounting to €1,365 million were repaid early in connection with the legal separation of Siemens Healthineers.

In addition, Siemens Healthineers participated in the factoring program called Siemens Credit Warehouse. Thereby, Siemens Healthineers transferred trade receivables to the Siemens Group including all relevant collection risks, but was still responsible for the administration of the trade receivables. The participation in this program was terminated in December 2017. Accordingly, there were no receivables from Siemens Credit Warehouse as of September 30, 2018 (September 30, 2017: €175 million).

Other material relationships with Siemens Group

Hedging

A part of Siemens Healthineers' hedging activities was carried out with corporate treasury of the Siemens Group as the counterparty. As of September 30, 2018, related receivables and payables were mainly recognized in the line items other current financial assets and other current financial liabilities and amounted to €14 million (September 30, 2017: €7 million) and €12 million (September 30, 2017: €9 million), respectively.

Collaterals, letters of support and guarantees

The Siemens Group issued guarantees for or on behalf of Siemens Healthineers in connection with the operating business of the Group. As of September 30, 2018, the guarantees issued by Siemens AG and other Siemens Group companies amounted to €82 million (September 30, 2017: €96 million) and €328 million (September 30, 2017: €350 million), respectively.

In addition, Siemens AG provided letters of support to banks and insurance companies, for example in connection with securing guarantee credit lines and overdraft facilities of the Group. As of September 30, 2018, the obligations secured by letters of support amounted to €358 million (September 30, 2017: €298 million).

Transactions in connection with pension plans and pension entities

In some countries Siemens Healthineers participated in Siemens Group pension plans and trusts. In fiscal year 2018, the remaining major plans and trusts were legally transferred to Siemens Healthineers. For further information, please refer to →***Note 21 Provisions for pensions and similar obligations***.

Domination and profit and loss transfer agreement

The domination and profit and loss transfer agreement between Siemens Healthcare GmbH and Siemens AG was terminated by mutual agreement with effect as of March 31, 2018. The profit attributable to Siemens AG for the six months ended March 31, 2018, amounted to €778 million (fiscal year 2017: €815 million).

Joint ventures and associates

In fiscal year 2018, Siemens Healthineers purchased goods and services from Siemens Healthineers' joint ventures and associates in an amount of €65 million (2017: €61 million).

Related individuals

Managing Board and Supervisory Board of Siemens Healthineers

Prior to the formal appointment of the current Managing Board of Siemens Healthineers AG on March 1, 2018, Siemens Healthineers was managed by the members of the Managing Board of Siemens Healthcare GmbH. They were responsible for the worldwide operating business of Siemens Healthineers. Based on their function within Siemens Healthineers they were defined as key management.

In fiscal year 2018, the members of the Managing Board of Siemens Healthineers received cash remuneration of €4.1 million (2017: €4.3 million). The fair value of share-based remuneration amounted to €3.7 million in fiscal year 2018 (2017: €1.3 million). The contributions under the defined contribution plan BSHAV ("Beitragsorientierte Siemens Healthineers Altersversorgung") granted to members of the Managing Board amounted to €0.9 million (2017: €0.6 million). Thus, total remuneration and benefits attributable to the Managing Board of Siemens Healthineers amounted to €8.7 million in fiscal year 2018 (2017: €6.2 million). Parts of the remuneration for the function as members of the Managing Board of Siemens Healthcare GmbH are still subject to approval by the Supervisory Board of Siemens Healthcare GmbH at the end of November 2018. The expense related to share-based payments in 2018 amounted to €4.5 million (2017: €2.2 million).

For the members of the Managing Board, any unvested long-term share-based remuneration tranches under which stock awards were granted in fiscal years 2015, 2016 and 2017 were paid out in cash in the third quarter of fiscal year 2018. Expenses related to the cash payout are included in expenses related to share-based payment as mentioned above.

Since their appointment to the Managing Board of Siemens Healthineers AG in fiscal year 2018, total remuneration of the members of the Managing Board of Siemens Healthineers amounted to €6.6 million. The fair value of share-based remuneration which was granted since their appointment amounted to €3.4 million for 120,097 stock awards.

The key management personnel further include the Supervisory Board of Siemens Healthineers AG and the Supervisory Board of Siemens Healthcare GmbH which had the oversight over the Managing Board of Siemens Healthcare GmbH until its members were appointed as the Managing Board of Siemens Healthineers AG.

Remuneration attributable to members of the Supervisory Board of Siemens Healthcare GmbH until March 31, 2018 comprised a base remuneration and amounted to €0.1 million (including meeting fees) (2017: €0.1 million). Remuneration attributable to members of the Supervisory Board of Siemens Healthineers AG comprised a base remuneration and additional remuneration for committee work and amounted to €0.6 million in fiscal year 2018 (including meeting fees).

Information regarding the remuneration of the members of the Managing Board and Supervisory Board of Siemens Healthineers AG since its incorporation on December 1, 2017, is disclosed on an individual basis in chapter → ***A.12 Remuneration report*** in the combined management report.

In fiscal years 2018 and 2017, no other major transactions took place between Siemens Healthineers and members of the Managing Board of Siemens Healthineers AG or Siemens Healthcare GmbH or between Siemens Healthineers and members of the Supervisory Board of Siemens Healthineers AG or Siemens Healthcare GmbH.

Some Supervisory Board and Managing Board members held, or in past years have held, positions of significant responsibility with other entities. Siemens Healthineers has relationships with many of these entities in the ordinary course of business.

Managing and Supervisory Board of Siemens AG

As of September 30, 2018, Siemens Healthineers has been controlled by its ultimate parent company, Siemens AG. Therefore, Siemens AG's Managing Board and Supervisory Board were deemed key management. Information related to Siemens AG's Managing Board and Supervisory Board is included in Siemens AG's publicly available annual report.

Note 32 Principal accountant fees and services

Fees related to professional services rendered by the principal accountant EY for fiscal year 2018 were:

(in millions of €)	Fiscal year 2018
Audit services	7.3
Other attestation services	0.3
Tax services	–
Total principal accountant fees	**7.6**

In fiscal year 2018, 42% of the total fees related to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Germany. Audit services related primarily to services provided by EY for auditing Siemens Healthineers' consolidated financial statements, for auditing financial statements of Siemens Healthineers AG and its subsidiaries, for reviews of interim financial statements being integrated into the audit and for project-accompanying IT audits. Other attestation services included primarily a post-foundation audit and an audit of a capital increase with contribution in kind.

In fiscal year 2017, principal accountant fees of €5.5 million within the group audit of the Siemens Group related to audit services at Siemens Healthineers.

Note 33 Corporate Governance

The Managing Board and the Supervisory Board of Siemens Healthineers AG provided the declaration required by Section 161 of the German Stock Corporation Act ("Aktiengesetz") as of October 1, 2018. The declaration is available on the Group's website at → ***www.corporate.siemens-healthineers.com/investor-relations/corporate-governance***.

Note 34 List of subsidiaries and associated companies pursuant to Section 313 (2) of the German Commercial Code

Sept 30, 2018	Equity interest in %
Subsidiaries	
Germany (12 companies)	
Befund24 GmbH, Erlangen	70
Dade Behring Grundstücks GmbH, Marburg	94
NEO New Oncology GmbH, Cologne	100
Siemens Healthcare Diagnostics GmbH, Eschborn	100 [8]
Siemens Healthcare Diagnostics Holding GmbH, Eschborn	100 [8]
Siemens Healthcare Diagnostics Products GmbH, Marburg	100 [8]
Siemens Healthcare GmbH, Munich	100 [8]
Siemens Healthineers Beteiligungen GmbH & Co. KG, Kemnath	100 [7]
Siemens Healthineers Beteiligungen Verwaltungs-GmbH, Kemnath	100 [5]
Siemens Medical Solutions Health Services GmbH, Grünwald	100
Siemens Real Estate GmbH & Co. KG, Kemnath	94 [7]
Siemens Real Estate Management GmbH, Kemnath	100 [5]
Europe, C.I.S., Africa, Middle East (EMEA) (without Germany) (54 companies)	
Conworx Medical IT Ltd., Marlow, Buckinghamshire/United Kingdom	100
Fast Track Diagnostics Ltd, Sliema/Malta	100
FAST TRACK DIAGNOSTICS LUXEMBOURG S.à r.l., Esch-sur-Alzette/Luxembourg	100
FAST TRACK DIAGNOSTICS RESEARCH LIMITED, Dunblane/United Kingdom	100
FTD Europe Ltd, Sliema/Malta	100
ITH icoserve technology for healthcare GmbH, Innsbruck/Austria	69
PETNET Solutions SAS, Lisses/France	100
Siemens Diagnostics Holding II B.V., The Hague/Netherlands	100
Siemens Healthcare (Private) Limited, Lahore/Pakistan	100
Siemens Healthcare A/S, Ballerup/Denmark	100
Siemens Healthcare AB, Solna/Sweden	100
Siemens Healthcare AG, Zurich/Switzerland	100
Siemens Healthcare AS, Oslo/Norway	100
Siemens Healthcare d.o.o. Beograd, Belgrade/Serbia	100
Siemens Healthcare d.o.o., Ljubljana/Slovenia	100
Siemens Healthcare d.o.o., Zagreb/Croatia	100

Sept 30, 2018	Equity interest in %
Siemens Healthcare Diagnostics GmbH, Vienna/Austria	100
Siemens Healthcare Diagnostics Ltd., Frimley, Surrey/United Kingdom	100
Siemens Healthcare Diagnostics Manufacturing Limited, Swords, County Dublin/Ireland	100 [5]
Siemens Healthcare Diagnostics Manufacturing Ltd, Frimley, Surrey/United Kingdom	100
Siemens Healthcare Diagnostics Products Ltd, Frimley, Surrey/United Kingdom	100
Siemens Healthcare Employee Share Ownership Trust, Midrand/South Africa	0 [3]
Siemens Healthcare EOOD, Sofia/Bulgaria	100
Siemens Healthcare FZ LLC, Dubai/United Arab Emirates	100
Siemens Healthcare Industrial and Commercial Société Anonyme, Athens/Greece	100
Siemens Healthcare Kft., Budapest/Hungary	100
Siemens Healthcare L.L.C., Dubai/United Arab Emirates	49 [2]
SIEMENS HEALTHCARE LIMITED LIABILITY COMPANY, Kiev/Ukraine	100
Siemens Healthcare Limited Liability Company, Moscow/Russian Federation	100
Siemens Healthcare Limited Liability Partnership, Almaty/Kazakhstan	100
Siemens Healthcare Limited, Frimley, Surrey/United Kingdom	100
Siemens Healthcare Limited, Riyadh/Saudi Arabia	51
Siemens Healthcare Logistics LLC, Cairo/Egypt	100
Siemens HealthCare Ltd., Rosh HaAyin/Israel	100
Siemens Healthcare Medical Solutions Limited, Swords, County Dublin/Ireland	100
Siemens Healthcare Nederland B.V., The Hague/Netherlands	100
Siemens Healthcare Oy, Espoo/Finland	100
Siemens Healthcare Proprietary Limited, Halfway House/South Africa	75
Siemens Healthcare S.A.E., Cairo/Egypt	100
Siemens Healthcare S.R.L., Bucharest/Romania	100
Siemens Healthcare S.r.l., Milan/Italy	100
Siemens Healthcare s.r.o., Bratislava/Slovakia	100
Siemens Healthcare SA/NV, Beersel/Belgium	100
Siemens Healthcare Saglik Anonim Sirketi, Istanbul/Turkey	49 [3]
Siemens Healthcare SARL, Casablanca/Morocco	100

[1] Control due to a majority of voting rights.
[2] Control due to rights to appoint, reassign or remove members of the key management personnel.
[3] Control due to contractual arrangements to determine the direction of the relevant activities.
[4] No significant influence due to contractual arrangements or legal circumstances.
[5] Not consolidated due to immateriality.
[6] Not accounted for using the equity method due to immateriality.
[7] Exemption pursuant to Section 264b German Commercial Code.
[8] Exemption pursuant to Section 264 (3) German Commercial Code.

Sept 30, 2018	Equity interest in %
Siemens Healthcare SAS, Saint-Denis/France	100
Siemens Healthcare Sp. z o.o., Warsaw/Poland	100
SIEMENS HEALTHCARE, S.L.U., Getafe/Spain	100
Siemens Healthcare, s.r.o., Prague/Czech Republic	100
SIEMENS HEALTHCARE, UNIPESSOAL, LDA, Amadora/Portugal	100
Siemens Healthineers Holding III B.V., The Hague/Netherlands	100
Siemens Medical Solutions Diagnostics Holding I B.V., The Hague/Netherlands	100
Siemens Medicina d.o.o., Sarajevo/Bosnia and Herzegovina	100
Steiermärkische Medizinarchiv GesmbH, Graz/Austria	52
Americas (27 companies)	
Dade Behring Hong Kong Holdings Corporation, Tortola/British Virgin Islands	100
Dedicated2Imaging LLC, Wilmington, DE/United States	80
EPOCAL INC., Toronto/Canada	100
P.E.T.NET Houston, LLC, Austin, TX/United States	51
PETNET Indiana LLC, Indianapolis, IN/United States	50[1]
PETNET Solutions Cleveland, LLC, Wilmington, DE/United States	63
PETNET Solutions, Inc., Knoxville, TN/United States	100
Siemens Healthcare Diagnósticos Ltda., São Paulo/Brazil	100
SIEMENS HEALTHCARE DIAGNOSTICS GUATEMALA, S.A., Guatemala/Guatemala	99
Siemens Healthcare Diagnostics Inc., Los Angeles, CA/United States	100
Siemens Healthcare Diagnostics Manufacturing Limited, Grand Cayman/Cayman Islands	100
Siemens Healthcare Diagnostics Panama, S.A., Panama City/Panama	100
Siemens Healthcare Diagnostics S.A., San José/Costa Rica	100
Siemens Healthcare Diagnostics, S. de R.L. de C.V., Mexico City/Mexico	100
Siemens Healthcare Equipos Médicos Sociedad por Acciones, Santiago de Chile/Chile	100
Siemens Healthcare Laboratory, LLC, Wilmington, DE/United States	100
Siemens Healthcare Limited, Oakville/Canada	100
Siemens Healthcare S.A., Buenos Aires/Argentina	100
Siemens Healthcare S.A., Caracas/Venezuela	100[5]
Siemens Healthcare S.A.C., Surquillo/Peru	100
Siemens Healthcare S.A.S., Tenjo/Colombia	100

Sept 30, 2018	Equity interest in %
Siemens Healthcare Servicios S. de R.L. de C.V., Mexico City/Mexico	100
Siemens Healthcare, Sociedad Anonima, Antiguo Cuscatlán/El Salvador	100
Siemens Medical Solutions USA, Inc., Wilmington, DE/United States	100
Siemens Molecular Imaging, Inc., Wilmington, DE/United States	100
Siemens S.A., Montevideo/Uruguay	100
Siemens-Healthcare Cia. Ltda., Quito/Ecuador	100
Asia, Australia (25 companies)	
Acrorad Co., Ltd., Okinawa/Japan	63
DPC (Tianjin) Co., Ltd., Tianjin/China	100
Fast Track Diagnostics Asia Private Limited, Chennai/India	100
PETNET Radiopharmaceutical Solutions Pvt. Ltd., Mumbai/India	100
Siemens Healthcare Diagnostics (Shanghai) Co. Ltd., Shanghai/China	100
Siemens Healthcare Diagnostics K.K., Tokyo/Japan	100
Siemens Healthcare Diagnostics Manufacturing Ltd., Shanghai, Shanghai/China	100
Siemens Healthcare Inc., Manila/Philippines	100
Siemens Healthcare K.K., Tokyo/Japan	100
Siemens Healthcare Limited, Auckland/New Zealand	100
Siemens Healthcare Limited, Bangkok/Thailand	100
Siemens Healthcare Limited, Ho Chi Minh City/Viet Nam	100
Siemens Healthcare Limited, Hong Kong/Hong Kong	100
Siemens Healthcare Limited, Taipei/Taiwan, Province of China	100
Siemens Healthcare Ltd., Dhaka/Bangladesh	100
Siemens Healthcare Ltd., Shanghai/China	100
Siemens Healthcare Private Limited, Mumbai/India	100
Siemens Healthcare Pte. Ltd., Singapur/Singapore	100
Siemens Healthcare Pty. Ltd., Melbourne/Australia	100
Siemens Healthcare Sdn. Bhd., Petaling Jaya/Malaysia	100
Siemens Healthineers Ltd.,Seoul/Korea	100
Siemens Shanghai Medical Equipment Ltd., Shanghai/China	100
Siemens Shenzhen Magnetic Resonance Ltd., Shenzhen/China	100
Siemens Technology Development Co., Ltd. of Beijing, Beijing/China	90
Siemens X-Ray Vacuum Technology Ltd., Wuxi, Wuxi/China	100

[1] Control due to a majority of voting rights.
[2] Control due to rights to appoint, reassign or remove members of the key management personnel.
[3] Control due to contractual arrangements to determine the direction of the relevant activities.
[4] No significant influence due to contractual arrangements or legal circumstances.
[5] Not consolidated due to immateriality.
[6] Not accounted for using the equity method due to immateriality.
[7] Exemption pursuant to Section 264b German Commercial Code.
[8] Exemption pursuant to Section 264 (3) German Commercial Code.

Sept 30, 2018	Equity interest in %
Associated companies and joint ventures	
Germany (2 companies)	
MeVis BreastCare GmbH & Co. KG, Bremen	49
MeVis BreastCare Verwaltungsgesellschaft mbH, Bremen	49[6]
Europe, C.I.S., Africa, Middle East (EMEA) (without Germany) (3 companies)	
Impilo Consortium (Pty.) Ltd., La Lucia/South Africa	31
Meomed s.r.o., Prerov/Czech Republic	47[6]
TRIXELL SAS, Moirans/France	25
Americas (2 companies)	
PhSiTh LLC, New Castle, DE/United States	33
USARAD Holdings, Inc., Fort Lauderdale, FL/United States	30[6]
Asia, Australia (1 company)	
Xi'An X-Ray Target Ltd., Xi'an/China	43[6]

Sept 30, 2018	Equity interest in %	Net income in millions of €	Equity in millions of €
Other Investments			
Europe, C.I.S., Africa, Middle East (EMEA) (without Germany) (1 company)			
Medical Systems S.p.A., Genoa/Italy[9]	45[4]	4	105

[1] Control due to a majority of voting rights.
[2] Control due to rights to appoint, reassign or remove members of the key management personnel.
[3] Control due to contractual arrangements to determine the direction of the relevant activities.
[4] No significant influence due to contractual arrangements or legal circumstances.
[5] Not consolidated due to immateriality.
[6] Not accounted for using the equity method due to immateriality.
[7] Exemption pursuant to Section 264b German Commercial Code.
[8] Exemption pursuant to Section 264 (3) German Commercial Code.
[9] Values according to the latest available local GAAP financial statements; the underlying fiscal year differs from the Siemens Healthineers fiscal year.

C.

Additional information

C.1 Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group's management report, which has been combined with the management report for Siemens Healthineers AG, 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.

Munich, November 19, 2018

Siemens Healthineers AG
The Managing Board

Dr. Bernhard Montag

Dr. Jochen Schmitz

Michael Reitermann

C.2 Independent auditor's report

To Siemens Healthineers AG, Munich

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of Siemens Healthineers AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statements of income and comprehensive income for the fiscal year from October 1, 2017 to September 30, 2018, the consolidated statements of financial position as of September 30, 2018, the consolidated statements of cash flows and changes in equity for the fiscal year from October 1, 2017 to September 30, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Siemens Healthineers AG for the fiscal year from October 1, 2017 to September 30, 2018, which is combined with the management report of Siemens Healthineers AG. In accordance with the German legal requirements we have not audited the content of chapter → ***A.11.3 Corporate Governance statement*** of the combined management report, including chapter → ***C.3.2 Corporate Governance statement pursuant to Sections 289f and 315d of the German Commercial Code*** of the Annual Report 2018 referred to in chapter → ***A.11.3 Corporate Governance statement***.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] as well as with full IFRSs as issued by the International Accounting Standards Board (IASB), and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as of September 30, 2018 and of its financial performance for the fiscal year from October 1, 2017 to September 30, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the Corporate Governance statement referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). In conducting the audit of the consolidated financial statements we also complied with International Standards on Auditing (ISA). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from October 1, 2017 to September 30, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Revenue recognition

Reasons why the matter was determined to be a key audit matter: The Group's revenue stems from the sale of imaging, diagnostics and therapy products and related maintenance and other services. Financial management and measurement of the operating results of the various segments and of the Siemens Healthineers Group as a whole is based on like-for-like revenue growth and the (adjusted) profit margin. The development of these key performance indicators is primarily determined by the amount of revenue recognized. In view of the materiality of revenue and its significance for the financial management of the Group, we consider revenue recognition to be an area posing a significant risk of material misstatement (including the potential risk of managers circumventing controls) and a key audit matter. Furthermore, the first-time application of IFRS 15, Revenue from Contracts with Customers, in fiscal year 2018 was of particular significance for our audit as it required the group-wide assessment of contracts in relation to the new accounting criteria.

Auditor's response: As part of our audit, we identified all significant revenue streams subject to different processes, risks and controls. For these revenue streams we assessed the different revenue recognition processes and the effectiveness of the accounting-related internal control system in relation to revenue recognition. We planned the nature, timing and scope of substantive audit procedures according to our individual assessment of the risk inherent in the various revenue streams and adjusted them on the basis of insights gained in the course of the audit. Our substantive procedures primarily involved analyses of disaggregated data to determine whether there are any unexpected discrepancies between revenue, cost of sales and trade receivables, or any significant or extraordinary changes in key performance indicators (e.g., revenue or gross profit). We also performed correlation analyses and cut-off analyses of revenue transactions. We supplemented analytical procedures with sample testing of vouchers and assessed the amount and timing of revenue recognition on the basis of contracts, invoices and delivery notes. For this purpose, we also obtained external customer confirmations and reviewed credit notes issued after the reporting date.

With respect to the first-time application of IFRS 15, we obtained an understanding of the processes implemented by Siemens Healthineers in response to the new standard. In assessing management's analysis of contracts, we paid particular attention to clauses which we expect to have an effect on the accounting in view of the Company's business model. We also appraised the disclosures on the effects of the first-time application of IFRS 15 in the notes to the consolidated financial statements.

Our audit procedures did not lead to any reservations relating to the recognition of revenue from the sale of products and the provision of services.

Reference to related disclosures: With regard to the recognition and measurement policies applied for the recognition of revenue, including disclosures about the first-time application of recently published standards, refer to → ***Note 2 Accounting policies*** in the notes to the consolidated financial statements.

Testing impairment of goodwill ("Diagnostics") and capitalized development costs for "Atellica Solution"

Reasons why the matter was determined to be a key audit matter: Due to the considerable judgment involved in estimating future cash flows and discount rates, we consider the risk of material misstatement to be higher in testing impairment of goodwill in the "Diagnostics" cash-generating unit and of capitalized development costs for "Atellica Solution." Estimation uncertainty exists in particular in relation to future net cash flows due to the market launch of its integrated laboratory diagnostics platform "Atellica Solution" in 2018 which will have a major impact on the future development of the "Diagnostics" cash-generating unit. Consequently, the testing of these assets for impairment was a key audit matter.

Auditor's response: To assess the recoverable amounts of goodwill and intangible assets we examined the underlying processes and controls and tested the effectiveness of controls in the process for budgeting future cash flows. With reference to the pertinent valuation standards, we obtained an understanding of the underlying valuation models used to determine the recoverable amounts by verifying the methodology and calculations used. To assess the estimates of future net cash flows, we reconciled the approved budgets with the valuations presented to us. We also examined whether the budget planning reflects general, industry and product-specific market expectations. We performed a budget-to-actual comparison of the historically forecast data and the actual results, where available, on a sample basis to assess forecast accuracy. We also assessed forecast net cash flows relating to "Atellica Solution" by reconciling the order intake and deliveries budgeted during the market launch with the actual figures. We examined the inputs used to estimate recoverable amounts, such as the estimated growth rates and the discount rates, comparing them with publicly available market data and assessing them in light of changes in key assumptions, including future market conditions.

We also performed our own sensitivity analyses to assess the potential impairment risk in the case of a possible change in one of the significant assumptions. In addition, we analyzed the disclosures in the notes to the consolidated financial statements on the measurement of goodwill in relation to the requirements of IAS 36. We consulted internal valuation specialists to assess the recoverable amounts.

Our audit procedures did not lead to any reservations relating to the testing of impairment of goodwill allocated to the "Diagnostics" cash-generating unit and of the capitalized development costs for "Atellica Solution."

Reference to related disclosures: With regard to the testing of impairment of goodwill and other intangible assets, including capitalized development costs for "Atellica Solution," refer to ➔***Note 2 Accounting policies*** in the notes to the consolidated financial statements. For explanatory notes on goodwill and other intangible assets, refer to the disclosures in ➔***Note 12 Goodwill*** and ➔***Note 13 Other intangible assets and property, plant and equipment*** in the notes to the consolidated financial statements.

Uncertain tax positions and deferred taxes

Reasons why the matter was determined to be a key audit matter: Siemens Healthineers operates in numerous countries with different local tax legislation. The accounting for uncertain tax positions as well as deferred taxes requires management to exercise considerable judgment and make estimates and assumptions, and was therefore a key audit matter. In particular, this affects the measurement and completeness of uncertain tax positions, the recoverability of deferred tax assets as well as the measurement and completeness of deferred tax liabilities. In addition, management's assessment of the accounting implications of changes in US tax legislation was of relevance for our audit.

Auditor's response: With the assistance of internal tax specialists who have knowledge of relevant local tax law, we examined the processes installed by management to identify, recognize and measure tax positions. In the course of our audit procedures relating to uncertain tax positions, we evaluated whether management's assessment of the tax implications of significant business transactions or events in fiscal year 2018, which could result in uncertain tax positions or influence the measurement of existing uncertain tax positions, was in compliance with tax law. In particular, this includes the tax implications arising from the acquisition or disposal of businesses, corporate (intragroup) restructuring activities, results of examinations of tax authorities, and cross-border transactions, such as determining transfer prices. We also obtained confirmations from external tax advisors to assess measurement and completeness. The accounting for tax group relationships outside the consolidated group, which was based on the assumption that the entities and operations of Siemens Healthineers constitute separate taxable entities ("separate tax return approach"), was assessed by verifying the methodology and arithmetical correctness of the tax calculations performed for these entities and operations to assess compliance with local tax law. Further, we evaluated management's assessments with respect to the prospects of success of appeal and tax court proceedings by inquiring of the Siemens Healthineers tax department and by considering current tax case law.

In assessing the recoverability of deferred tax assets, we particularly analyzed management's assumptions with respect to projected future taxable income and compared them to internal business plans. In the course of our audit procedures regarding deferred tax liabilities, we examined in particular the assumptions regarding reinvestment of subsidiaries' retained profits for an indefinite period and assessed these taking into account dividend planning.

We also evaluated management's assessment of the accounting implications of the changes in US tax legislation, in particular from the reduction of the corporate tax rate and other changes in tax law, consulting US tax specialists to do so.

Our audit procedures did not lead to any reservations relating to the accounting for uncertain tax positions and deferred taxes.

Reference to related disclosures: With regard to the recognition and measurement policies applied in accounting for income taxes, refer to ➔***Note 2 Accounting policies*** in the notes to the consolidated financial statements. With respect to disclosures for deferred tax assets and liabilities, refer to ➔***Note 5 Income taxes*** in the notes to the consolidated financial statements.

Other information

The Supervisory Board is responsible for the ➔***Report of the Supervisory Board*** in the Annual Report 2018. In all other respects, management is responsible for the other information.

The other information, of which we received a version prior to issuing this auditor's report, includes:

- the Responsibility Statement in chapter ➔***C.1 Responsibility statement*** of the Annual Report 2018,
- the ➔***Report of the Supervisory Board*** in the Annual Report 2018,
- Corporate Governance in chapter ➔***C.3 Corporate Governance*** of the Annual Report 2018, and
- Notes and forward-looking statements in chapter ➔***C.4 Notes and forward-looking statements*** of the Annual Report 2018.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Supervisory Board for the consolidated financial statements and the group management report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, as well as with full IFRSs as issued by the IASB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, management is responsible for such internal control as management has determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, management is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as management has considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation as well as in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the IDW and in supplementary compliance with ISA will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems;
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB as well as with full IFRSs as issued by the IASB;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions;
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides;
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the Annual Shareholders' Meeting on February 19, 2018. We were engaged by the Supervisory Board on April 24, 2018. We have been the group auditor of Siemens Healthineers AG since the fiscal year from October 1, 2017 to September 30, 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Thomas Spannagl.

Munich, November 19, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Spannagl	Tropschug
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

C.3 Corporate Governance

C.3.1 Management and control structure

Siemens Healthineers AG is subject to German corporate law. It therefore has a two-tier board structure, consisting of a Managing Board and a Supervisory Board.

C.3.1.1 Managing Board

As the Company's top management body, the Managing Board is committed to serving the Company's interests and achieving sustainable growth in company value. The members of the Managing Board are jointly responsible for the entire management of the Company and decide on the basic issues of business policy and corporate strategy, as well as on the Company's annual and multiyear plans.

The Managing Board prepares the quarterly statements and the half-year financial report, the annual financial statements of Siemens Healthineers AG, the consolidated financial statements of the Group, and the combined management report of Siemens Healthineers AG and the Group. In addition, the Managing Board ensures that the Company adheres to statutory requirements, official regulations and internal Company guidelines and works to achieve compliance with these provisions and guidelines within the Group. The Managing Board has established a comprehensive compliance management system. Details are available on the Company's website at → ***www.corporate.siemens-healthineers.com/compliance***.

The Managing Board and the Supervisory Board cooperate closely for the benefit of the Company. The Managing Board informs the Supervisory Board regularly, comprehensively and without delay on all issues of importance to the Company with regard to strategy, planning, business development, financial position, earnings, compliance and risks. When filling managerial positions at the Company, the Managing Board takes diversity into consideration and, in particular, aims for an appropriate consideration of women and internationality.

The Supervisory Board has defined a target for the share of women on the Managing Board of Siemens Healthineers AG, and has set a deadline for its attainment. The Managing Board has defined a target for the share of women at the management level immediately below the Managing Board, and has set a deadline for its attainment. Details are set out in chapter → ***C.3.2.4 Targets for the share of women on the Managing Board and at the management level immediately below the Managing Board; target for the share of women on the Supervisory Board***.

Information on the areas of responsibility and the curricula vitae of the members of the Managing Board are available on the Company's website at → ***www.corporate.siemens-healthineers.com/about/management***. Information on the compensation paid to members of the Managing Board is provided in chapter → ***A.12 Remuneration report***.

Members of the Managing Board and positions held by Managing Board members

As of September 30, 2018, the Managing Board comprised the following members:

Name	Year of birth	First appointed	Term expires	Memberships in Supervisory Boards whose establishment is required by law or in comparable domestic or foreign controlling bodies of business enterprises: External positions (as of September 30, 2018)	Group company positions (as of September 30, 2018)
Dr. Bernhard Montag Chief Executive Officer	1969	2018	2021	None	None
Michael Reitermann	1962	2018	2021	**Positions outside Germany:** • Siemens Foundation, USA	None
Dr. Jochen Schmitz	1966	2018	2021	None	None

C.3.1.2 Supervisory Board

The Supervisory Board oversees and advises the Managing Board in its management of the Company's business. At regular intervals, the Supervisory Board discusses business development, planning, strategy and strategy implementation. It reviews the annual financial statements of Siemens Healthineers AG, the consolidated financial statements of the Group and the combined management report of Siemens Healthineers AG and the Group, and the proposal for the appropriation of net income. It approves the annual financial statements of Siemens Healthineers AG as well as the consolidated financial statements of the Group, based on the results of the preliminary review conducted by the Audit Committee and taking into account the reports of the independent auditors. The Supervisory Board decides on the Managing Board's proposal for the appropriation of net income and the Report of the Supervisory Board to the Annual Shareholders' Meeting. In addition, the Supervisory Board or the Audit Committee, which is described in more detail below, concern themselves with monitoring the Company's compliance with legal requirements, official regulations and Company-internal guidelines (Compliance). The Supervisory Board also appoints the members of the Managing Board and determines each member's business responsibilites. Important Managing Board decisions – such as those regarding major acquisitions, divestments, fixed asset investments or financial measures – are subject to Supervisory Board approval, unless the Bylaws for the Supervisory Board specify that such authority is delegated to the Innovation and Finance Committee of the Supervisory Board. In the Bylaws for the Managing Board, the Supervisory Board has established the rules that govern the Managing Board's work.

More detailed information on the work of the Supervisory Board is provided in the →***Report of the Supervisory Board***. The curricula vitae of the members of the Supervisory Board are available on the Siemens Healthineers website at →***www.corporate.siemens-healthineers.com/about/supervisory-board***. The compensation paid to the members of the Supervisory Board is provided in chapter →***A.12 Remuneration report***.

The Supervisory Board of Siemens Healthineers AG has nine members. It is composed entirely of shareholder representatives. The terms of office of the members of the Supervisory Board will expire at the conclusion of the Annual Shareholders' Meeting in 2023.

Members of the Supervisory Board and positions held by Supervisory Board members

As of September 30, 2018, the Supervisory Board comprised the following members:

Name	Occupation	Year of birth	Member since	Memberships in Supervisory Boards whose establishment is required by law or in comparable domestic or foreign controlling bodies of business enterprises (as of September 30, 2018)
Michael Sen Chairman	Member of the Managing Board of Siemens Aktiengesellschaft	1968	2018	**German positions:** • Siemens Healthcare GmbH (Chairman) **Positions outside Germany:** • Siemens Gamesa Renewable Energy, S.A., Spain
Dr. Norbert Gaus Deputy Chairman	Executive Vice President Corporate Technology of Siemens Aktiengesellschaft	1961	2018	**German positions:** • evosoft GmbH (Chairman) **Positions outside Germany:** • evosoft kft, Hungary (Chairman)
Dr. Marion Helmes	Corporate consultant	1965	2018	**German positions:** • ProSiebenSat.1 Media SE (Vice Chairwoman) • Uniper SE **Positions outside Germany:** • British American Tobacco p.l.c., United Kingdom • Heineken N.V., The Netherlands
Dr. Andreas C. Hoffmann	General Counsel of Siemens Aktiengesellschaft	1964	2018	None
Dr. Philipp Rösler	Chief Executive Officer of Hainan Cihang Charity Foundation Inc.	1973	2018	**German positions:** • Bertelsmann Stiftung • Jacobs University Bremen
Dr. Nathalie von Siemens	Managing Director and Spokesperson of Siemens Stiftung	1971	2018	**German positions:** • Messer Group GmbH • Siemens Aktiengesellschaft • Siemens Healthcare GmbH
Dr. Gregory Sorensen	Executive Chairman of IMRIS (Deerfield Imaging, Inc.) and President and CEO of DeepHealth, Inc.	1962	2018	**Positions outside Germany:** • Fusion Healthcare Staffing, LLC, USA (Chairman) • Invicro, LLC, USA • DFB Healthcare Acquisitions Corp., USA
Karl-Heinz Streibich	President of acatech – Deutsche Akademie der Technikwissenschaften	1952	2018	**German positions:** • Dürr AG (Chairman) • Deutsche Telekom AG • Deutsche Messe AG • Wittenstein SE
Dr. Ralf P. Thomas	Member of the Managing Board of Siemens Aktiengesellschaft (Chief Financial Officer)	1961	2018	**German positions:** • Siemens Healthcare GmbH **Positions outside Germany:** • Siemens Aktiengesellschaft Österreich, Austria • Siemens Corp., USA (Deputy Chairman) • Siemens Gamesa Renewable Energy, S.A., Spain

Targets for the Supervisory Board's composition and profile of required skills and expertise

Taking into account the recommendations of the German Corporate Governance Code (hereinafter the "Code"), the Supervisory Board has adopted targets for its composition, including a profile of the skills and expertise that the Supervisory Board should possess; these are described in chapter →***C.3.2.6 Targets for the composition, profile of required skills and expertise, and diversity concept for the Supervisory Board***.

Supervisory Board committees

The Supervisory Board has three committees, whose duties, responsibilities and procedures fulfill the requirements of the German Stock Corporation Act ("Aktiengesetz") and the Code. The chairmen of these committees provide the Supervisory Board with regular reports on their committees' activities.

The ***Chairman's Committee*** coordinates the work of the Supervisory Board, prepares the meetings of the Supervisory Board and the evaluation of its efficiency, and monitors the execution of the resolutions adopted by the Supervisory Board or its committees. It makes proposals regarding the appointment and dismissal of Managing Board members and handles contracts with members of the Managing Board. When making recommendations for first-time appointments, it takes into account that the term of these appointments is not, as a rule, to exceed three years. In preparing recommendations on the appointment of Managing Board members, the Chairman's Committee takes into account the candidates' professional qualifications, international experience and leadership qualities, the age limit specified for Managing Board members, the long-range plans for succession, and diversity. It also takes into account the targets that the Supervisory Board has specified for the share of women on the Managing Board. It decides on approving contracts and transactions with members of the Managing Board and their related parties, whether individuals or entities. The Chairman's Committee submits proposals to the Supervisory Board's plenary meetings for setting the compensation of the individual Managing Board members. The Chairman's Committee prepares resolutions of the Supervisory Board's plenary regarding the system of Managing Board compensation, including the regular review of that system. The Chairman's Committee furthermore has the task of recommending suitable candidates to the Supervisory Board for nomination for election to the Supervisory Board by the Annual Shareholders' Meeting. It therefore has the tasks of a nominating committee. In preparing these recommendations, the targets defined by the Supervisory Board for its composition are to be given appropriate consideration, as are the proposed candidates' required knowledge, abilities and professional experience. Fulfillment of the profile of required skills and expertise is also to be aimed for. The Chairman's Committee has furthermore been authorized by the Supervisory Board to decide on the approval of the Managing Board's proposals regarding the appointment and dismissal of persons in certain management positions at the first level below the Managing Board, and the main principles of the compensation and incentivization system for employees.

In fiscal year 2018, the Chairman's Committee comprised Michael Sen (Chairman), Dr. Norbert Gaus and Dr. Andreas C. Hoffmann.

The ***Audit Committee*** oversees, in particular, the accounting and the accounting process and conducts a preliminary review of the annual financial statements of Siemens Healthineers AG, the consolidated financial statements of the Group and the combined management report of Siemens Healthineers AG and the Group, as well as the report on relationships with affiliated companies. On the basis of the independent auditors' report on their audit of the annual financial statements, the Audit Committee makes, after its own preliminary review, recommendations regarding the Supervisory Board's approval of the annual financial statements of Siemens Healthineers AG and the consolidated financial statements of the Group. The Audit Committee discusses the quarterly statement and half-year financial report with the Managing Board and the independent auditors and deals with the auditors' report on the review of the half-year consolidated financial statements and interim Group management report. It concerns itself with the Company's risk monitoring system and oversees the effectiveness of the internal control, risk management and internal audit systems. The Audit Committee receives regular reports from the Internal Audit Department. It prepares the Supervisory Board's recommendation to the Annual Shareholders' Meeting concerning the election of the independent auditors and submits the corresponding proposal to the Supervisory Board. It awards the audit contract to the independent auditors elected by the Annual Shareholders' Meeting and monitors the independent audit of the financial statements, particularly the auditors' selection, independence, and qualifications, as well as their work, including the additional services they provide; in this regard, the committee complies with the applicable terms of law, including the requirements of the EU Audit Regulation (Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC) regarding statutory audits. The Audit Committee furthermore concerns itself with monitoring compliance within the Company, and with nonfinancial categories of reporting and exemptions from such reporting.

In fiscal year 2018, the Audit Committee comprised Dr. Ralf P. Thomas (Chairman), Dr. Marion Helmes, Dr. Andreas C. Hoffmann and Michael Sen. The members of the Audit Committee are, as a group, familiar with the sector in which the Company operates. Pursuant to the German Stock Corporation Act, the Audit Committee must include at least one Supervisory Board member with knowledge and experience in the areas of accounting or the auditing of financial statements. Pursuant to the Code, the chairperson of the Audit Committee shall have specific knowledge and experience in applying accounting principles and internal control procedures, shall be independent and shall not be a former Managing Board member whose term of office ended less than two years ago. The Chairman of the Audit Committee, Dr. Ralf P. Thomas, fulfills these requirements, with the exception of the requirement of independence, as the Code does not view representatives of a controlling shareholder as independent.

The ***Innovation and Finance Committee*** particularly has the task, based on the Company's overall strategy, of discussing the Company's focuses of innovation and preparing the Supervisory Board's discussions and resolutions relating to the Company's financial situation and structure – including annual planning (budget) – as well as the Company's fixed asset investments and its financial measures. In addition, the Innovation and Finance Committee has been authorized by the Supervisory Board to decide on the approval of transactions and measures that require Supervisory Board approval and have a value of less than €300 million. The Innovation and Finance Committee furthermore regularly deals with the Company's corporate, brand and design image and that of its dependent companies, particularly its image as a Siemens company (the Siemens Brand), and is authorized by the Supervisory Board to decide on changes or other measures in this regard.

In fiscal year 2018, the Innovation and Finance Committee comprised Michael Sen (Chairman), Dr. Norbert Gaus, Dr. Gregory Sorensen and Karl-Heinz Streibich.

Disclosure of participation by individual Supervisory Board members in meetings of the Supervisory Board and its committees in fiscal year 2018

Supervisory Board Members	Supervisory Board and Committee meetings	Participation	Presence
Michael Sen Chairman	11	10	91%
Dr. Norbert Gaus Deputy Chairman	8	8	100%
Dr. Marion Helmes	6	4	67%
Dr. Andreas C. Hoffmann	9	9	100%
Dr. Philipp Rösler	3	2	67%
Dr. Nathalie von Siemens	3	3	100%
Dr. Gregory Sorensen	5	5	100%
Karl-Heinz Streibich	5	5	100%
Dr. Ralf P. Thomas	6	6	100%

C.3.1.3 Share transactions by members of the Managing and Supervisory Boards

Pursuant to Article 19 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, members of the Managing Board and the Supervisory Board are required by law to disclose all transactions conducted on their own account relating to the shares or debt instruments of Siemens Healthineers AG or to derivatives or other financial instruments linked thereto, if the total value of such transactions entered into by a board member or any related party of that member reaches or exceeds €5,000 in any calendar year. All transactions reported during the past year to Siemens Healthineers AG in accordance with this requirement have been duly published and are available on the Company's website at: → ***www.corporate.siemens-healthineers.com/investor-relations/corporate-governance/directors-dealings***.

C.3.1.4 Annual Shareholders' Meeting and investor relations

Shareholders exercise their rights at the Annual Shareholders' Meeting. An ordinary Annual Shareholders' Meeting takes place within the first eight months of each fiscal year. The Annual Shareholders' Meeting decides, among other things, on the appropriation of unappropriated net income, the ratification of the acts of the Managing and Supervisory Boards, and the appointment of the independent auditors. Amendments to the Articles of Association and measures that change the Company's capital stock are approved at the Annual Shareholders' Meeting and are implemented by the Managing Board. The Managing Board facilitates shareholder participation in this meeting through electronic communications – in particular, via the Internet – and enables shareholders who are unable to attend the meeting to vote by proxy. Furthermore, shareholders may exercise their right to vote in writing or by means of electronic communications (absentee voting). The Managing Board may enable shareholders to participate in the Annual Shareholders' Meeting without the need to be present at the venue and without a proxy and to exercise some or all of their rights fully or partially by means of electronic communications. Shareholders may submit proposals regarding the resolutions proposed by the Managing and Supervisory Boards and may contest decisions of the Annual Shareholders' Meeting. Shareholders owning Siemens Healthineers stock with an aggregate value of €100,000 or more may also demand a court appointment of special auditors to examine specific issues. The reports, documents and information required by law for the Annual Shareholders' Meeting, including the annual report, may be downloaded from our website. The same applies to the agenda for the Annual Shareholders' Meeting and to any counterproposals or shareholders' nominations that are required to be disclosed.

As part of our investor relations activities, we inform our investors comprehensively about developments within the Company. For reporting purposes, Siemens Healthineers also makes extensive use of the Internet. At → ***www.corporate.siemens-healthineers.com/investor-relations***, we publish quarterly statements, half-year financial and annual reports, earnings releases, ad hoc announcements, analyst presentations and press releases as well as the financial calendar for the current year, which contains the publication dates of significant financial communications and the date of the Annual Shareholders' Meeting.

Our Articles of Association, the Bylaws for the Supervisory Board and its committees, the Bylaws for the Managing Board, the declaration of conformity with the Code and a variety of other corporate-governance-related documents are posted on our website at → ***www.corporate.siemens-healthineers.com/investor-relations/corporate-governance***.

C.3.2 Corporate Governance statement pursuant to Sections 289f and 315d of the German Commercial Code

The Corporate Governance statement pursuant to Sections 289f and 315d of the German Commercial Code ("Handelsgesetzbuch") is an integral part of the combined management report. Pursuant to Section 317 (2) sentence 6 of the German Commercial Code, the independent auditor's review of the disclosures made within the scope of Sections 289f and 315d of the German Commercial Code is to be limited to ascertaining whether the disclosures were made.

C.3.2.1 Declaration of conformity with the German Corporate Governance Code

The Managing Board and the Supervisory Board of Siemens Healthineers AG approved the following declaration of conformity pursuant to Section 161 of the German Stock Corporation Act for the first time as of September 30, 2018:

"Declaration of conformity by the Managing Board and the Supervisory Board of Siemens Healthineers AG with the German Corporate Governance Code

Since March 15, 2018, the date on which the shares were first admitted to stock exchange trading, Siemens Healthineers AG has complied with all recommendations of the German Corporate Governance Code (the Code) in the version dated February 7, 2017, published by the Federal Ministry of Justice in the official section of the Federal Gazette, with the exception of the recommendation in Section 5.3.2 (3) sentence 2 of the Code regarding the independence of the Chairman of the Audit Committee. The Chairman of the Audit Committee has specific knowledge and experience in the application of accounting principles and internal control procedures, in particular due to his work as Chief Financial Officer of Siemens AG, which particularly enables him to chair the Audit Committee of Siemens Healthineers AG. The company is included in Siemens' consolidated financial statements because it is a member of the Siemens Group. Against this background, the functions of the Audit Committee of Siemens Healthineers AG are strengthened by the fact that the Chief Financial Officer of the majority shareholder chairs the Audit Committee.

Munich, September 30, 2018
Siemens Healthineers AG

The Managing Board The Supervisory Board"

C.3.2.2 Information on corporate governance practices

Suggestions of the Code

Siemens Healthineers AG voluntarily complies with the Code's nonbinding suggestions, with the following sole exception:

Pursuant to Section 3.7 (3) of the Code, in the case of a takeover offer, a management board should convene an extraordinary general meeting at which shareholders discuss the takeover offer and may decide on corporate actions. The convening of a shareholders' meeting – even taking into account the shortened time limits stipulated in the German Securities Acquisition and Takeover Act (Wertpapiererwerbs und Übernahmegesetz) – is an organizational challenge for large publicly listed companies. It appears doubtful whether the associated effort is justified in cases where no relevant decisions by the shareholders' meeting are intended. Therefore, extraordinary shareholders' meetings shall be convened only in appropriate cases.

Further corporate governance practices applied beyond legal requirements are contained in our business conduct guidelines.

Business conduct guidelines

The Siemens Healthcare unit, which is now Siemens Healthineers, has been impressing its customers with innovative products in medical technology for more than 170 years. Technical high performance, innovation, quality, reliability and internationality are the company's outstanding features. With its top achievements and high ethical standards, Siemens Healthineers is helping to shape the healthcare delivery of the future.

The Siemens business conduct guidelines provide the ethical and legal framework within which we intend to operate and to remain on course for success. They contain the basic principles and rules for the conduct of all Siemens Healthineers employees and in relation to our external partners and the general public. They set out how Siemens Healthineers AG meets its ethical and legal responsibilities as a Company.

C.3.2.3 Operation of the Managing Board and the Supervisory Board, and composition and operation of their committees

The composition and operation of the Managing Board and Supervisory Board, and of the committees of the Supervisory Board, are described above in chapter → ***C.3.1 Management and control structure***. Further details can be derived from the Bylaws for the corporate bodies concerned.

This information and these documents, including the Code and the business conduct guidelines, are available at:
→ ***www.corporate.siemens-healthineers.com/investor-relations/presentations-financial-publications***.

C.3.2.4 Targets for the share of women on the Managing Board and at the management level immediately below the Managing Board; target for the share of women on the Supervisory Board

Pursuant to the German Stock Corporation Act, the Supervisory Board is to set targets for the share of women on the Managing Board and Supervisory Board. The Managing Board is to set targets for the share of women in the two levels of management immediately below the Managing Board. If the share of women is less than 30% when the targets are set, the targets cannot be less than the respective share that has already been achieved.

At Siemens Healthineers AG, targets have been set for the Managing Board to include at least one woman by June 30, 2023, and for the first management level below the Managing Board to include at least 25% women by June 30, 2022. There is only one level of management below the Managing Board. A target has been set for the Supervisory Board to be composed at least 2/9 of women by June 30, 2023.

C.3.2.5 Diversity concept for the Managing Board

With the support of the Chairman's Committee, and in consultation with the Managing Board, the Supervisory Board ensures long-term succession planning for members of the Managing Board. The aim is for the Managing Board as a whole to have all knowledge and experience that are considered essential in light of the activities of Siemens Healthineers. The Supervisory Board has decided that in nominating individuals for appointment to the Managing Board, the Chairman's Committee is to give special attention to the following aspects:

- professional qualifications;
- international experience;
- leadership qualities;
- the age limit set for members of the Managing Board. In general, an appointment or a renewal of an appointment to the Managing Board is permitted only for persons below the age of 64;
- long-term succession planning;
- diversity.

The target for the share of women on the Managing Board is explained in chapter → ***C.3.2.4 Targets for the share of women on the Managing Board and at the management level immediately below the Managing Board; target for the share of women on the Supervisory Board***.

The decisive factor for the decision on the filling of a specific Managing Board position is always the company's interest, taking into account all circumstances of the individual case.

Implementation of the diversity concept for the Managing Board

The diversity concept is implemented as part of the procedure for the Supervisory Board's appointment of the Managing Board. In selecting candidates, the Supervisory Board is to take account of the requirements set out in the diversity concept for the Managing Board.

No decisions on filling a specific position on the Managing Board have been made since the diversity concept went into effect.

C.3.2.6 Targets for the composition, profile of required skills and expertise, and diversity concept for the Supervisory Board

The diversity concept for the Supervisory Board was adopted by the Supervisory Board together with the targets for the Board's own composition, including the profile of the skills and expertise that the Supervisory Board should possess. This framework requires the composition of the Supervisory Board of Siemens Healthineers AG to be such as to ensure that its members collectively are qualified to supervise and advise the Managing Board.

Profile of required skills and expertise

The candidates proposed for election to the Supervisory Board should have the knowledge, skills and experience that enable them to perform the duties of a supervisory board member at an international enterprise and bolster the public image of the Group. The character, integrity, motivation and professionalism of the persons proposed for election should be given particular consideration.

The aim is for the Supervisory Board as a whole to have all the knowledge and experience considered essential in view of the activities of Siemens Healthineers. This includes knowledge and experience of medical and healthcare technology (including information technology and digitalization), transformation, entrepreneurship, purchasing, production and sales, finance and legal (including compliance), and human resources. The Supervisory Board should also have knowledge and experience of the lines of business important to Siemens Healthineers, in particular (diagnostic) imaging, laboratory diagnostics and clinical therapy. The Supervisory Board in its entirety should be familiar with the sector in which the company operates. At least one member of the Supervisory Board must have accounting or auditing expertise. The Chair of the Audit Committee should have specific knowledge and experience of applying accounting principles and internal control procedures. In particular, the Supervisory Board members should also include persons who have management experience at a large international enterprise as a result of performing an executive function or as a member of a supervisory board or similar body.

When a new member is about to be appointed, a review should be undertaken to determine which of the desirable skills on the Supervisory Board ought to be enhanced.

International profile
In light of the company's international profile, it should be ensured that the Supervisory Board has a sufficient number of members with many years' international experience.

Diversity
It should be ensured that the Supervisory Board is sufficiently diverse in its composition. In addition to an appropriate quota of women, this also includes diversity with regard to cultural origin, religion and ethnic background as well as diversity of professional background, experience and mindset. When examining potential candidates for reelection or first-time appointment to vacant Supervisory Board positions, diversity should be given appropriate consideration early on in the selection process.

The Supervisory Board has set a target for the share of women among its members, together with a deadline for achieving that target. The details of this target are presented in chapter → ***C.3.2.4 Targets for the share of women on the Managing Board and at the management level immediately below the Managing Board; target for the share of women on the Supervisory Board***.

Independence
The Supervisory Board should include an appropriate number of independent members. Conflicts of interest that are substantial and not merely temporary, for example as a result of a person serving as a member of a governing body or performing an advisory role at a significant competitor of the company, should be avoided. The composition of the Supervisory Board should ensure that its members include at least three independent shareholder representatives as defined in Section 5.4.2 of the Code.

The Supervisory Board members should have sufficient time to enable them to discharge their duties with the necessary regularity and care.

Age limit and length of membership
Observing the age limit laid down by the Supervisory Board in the bylaws, only persons no more than 70 years of age should usually be proposed for election as a member of the Supervisory Board. The proposal for election should take into account the regular limit on length of Supervisory Board membership, of three full terms of office (15 years), set by the Supervisory Board. The aim is for the Supervisory Board to have an appropriate experience and age structure.

Implementation of targets for composition, including profile of required skills and expertise and diversity concept; independent members of the Supervisory Board
In the process of selecting and nominating candidates for the Supervisory Board, the Supervisory Board takes account of the targets for the composition and the requirements laid down in the diversity concept.

With its current membership, the Supervisory Board meets all the above targets for its composition and fulfills the profile of required skills and expertise and the diversity concept. The Supervisory Board members have the professional and personal qualifications considered necessary. As a group, they are familiar with the sector in which the Company operates and have the knowledge, skills and experience essential for Siemens Healthineers. A considerable number of Supervisory Board members are engaged in international activities and/or have many years of international experience. Appropriate consideration has been given to diversity in the Supervisory Board. In fiscal year 2018, the Supervisory Board had two female members.

The Supervisory Board also has an adequate number of independent members. In the opinion of the Supervisory Board, there are currently at least four Supervisory Board members who are independent within the meaning of Section 5.4.2 of the Code – namely, Dr. Marion Helmes, Dr. Philipp Rösler, Dr. Gregory Sorensen and Karl-Heinz Streibich. The regulations establishing limits on age and limiting membership in the Supervisory Board to three full terms of office (15 years) are complied with.

C.4 Notes and forward-looking statements

This document contains statements related to our future business and financial performance and future events or developments involving Siemens Healthineers that may constitute forward-looking statements. These statements may be identified by words such as "expect", "forecast", "anticipate", "intend", "plan", "believe", "seek", "estimate", "will", "target" 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 Healthineers' management, of which many are beyond Siemens Healthineers' control. As they relate to future events or developments, these statements are subject to a number of risks, uncertainties and factors, including but not limited to those described in the respective disclosures. Should one or more of these risks, uncertainties or factors materialize, or should underlying expectations not occur or assumptions prove incorrect, actual results, performance or achievements of Siemens Healthineers may (negatively or positively) vary materially from those described explicitly or implicitly in the relevant forward-looking statement. All forward-looking statements only speak as of the date when they were made and Siemens Healthineers neither intends nor assumes any obligation, unless required by law, 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 may have limitations as analytical tools and should not be viewed in isolation or as alternatives to measures of Siemens Healthineers' 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, which may therefore not be comparable.

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 in formatting between the accounting records appearing in this document and those published pursuant to legal requirements.

Internet:
→ ***www.siemens-healthineers.com***

Press:
→ ***www.siemens-healthineers.com/press-room/***

Investor Relations:
→ ***www.corporate.siemens-healthineers.com/investor-relations***

Siemens Healthineers AG
Henkestr. 127
91052 Erlangen, Germany
Phone: +49 9131 84-0
siemens-healthineers.com

Published by Siemens Healthineers AG · Order No. 63-18-13289-01-76 · Printed in Germany 12/2018 ·