Annual Report 2019

siemens-healthineers.com

SIEMENS Healthineers

Table of contents

“Siemens Healthineers has further established itself as an independent company with its own profile. We will now strive to raise the Company to an even higher level of performance in the coming years.”

Michael Sen
Chairman of the
Supervisory Board

Dear Shareholders,

Your Company successfully completed the first phase of the Siemens Healthineers Strategy 2025 in fiscal year 2019: Siemens Healthineers has further established itself as an independent company with its own profile. We will now strive to raise the Company to an even higher level of performance in the coming years. The Strategy 2025 represents the framework for achieving this goal. Our aspirations are clear: to shape the paradigm shift in the healthcare industry, exploit the resulting growth opportunities, and sharpen the Company's focus on profitable growth. And the overarching aspiration, which was also the central theme of the IPO, remains: shaping the future of healthcare.

"We will now strive to raise the Company to an even higher level of performance in the coming years."

Siemens Healthineers is a focused medical technology company with the necessary entrepreneurial flexibility to seize opportunities in a dynamic and highly attractive market. As a market leader in many fields, with a strong diagnostics and therapy portfolio, the Company is in an excellent position to achieve this goal. The further conversion of this excellent positioning into palpable successes will be the task in the coming years. We are therefore beginning the second phase of Strategy 2025, the so-called Upgrading phase, at the start of fiscal year 2020. With Upgrading, the Company aims to rise to an even higher performance level on all levels. We took several important steps to achieve this goal already before the start of the 2020 fiscal year.

For one thing, we have developed the Managing Board further and reorganized the responsibilities within the board. Michael Reitermann, who – until the end of fiscal year 2019 – was responsible for Diagnostics, including the market introduction of the Atellica Solution laboratory diagnostics platform, among other things, left the Company by mutual agreement as of September 30, 2019. CEO Dr. Bernd Montag has been the Managing Board member responsible for Diagnostics since October 1, 2019. He is also responsible for the cross-functions of Enterprise Services and Customer Services and for the regions. On behalf of the Supervisory Board, I want to take this opportunity to thank Michael Reitermann for his huge commitment and to acknowledge his contributions to the Company's development. The Supervisory Board remains firmly convinced of the outstanding potential for success of Atellica Solution. This conviction has been reinforced by the excellent customer feedback. However, a few assumptions related to the market introduction have changed, including, in particular, the more complex installations of the Atellica Solution systems. Nonetheless, the chances of making Atellica Solution a success in the highly attractive growth market of laboratory diagnostics remain.

"The Supervisory Board remains firmly convinced of the outstanding potential for success of Atellica Solution."

The Supervisory Board has appointed Dr. Christoph Zindel to the Managing Board of Siemens Healthineers AG, effective October 1, 2019. Dr. Christoph Zindel is an outstanding leader, who will successfully guide the Company's activities in the Imaging and Advanced Therapies segments. In further developing the Company's portfolio, he will, in particular, seek to exploit the opportunities of digitalization and artificial intelligence. A physician by training, he also possesses wide-ranging international experience and has held a number of senior management positions within the Company during his career.

Among the steps that were also taken in the past fiscal year were two acquisitions that fulfil our promise to enter growth fields that are adjacent to and complementary to our established businesses. We announced the acquisition of Corindus Vascular Robotics, Inc. in August. This U.S. company develops, produces, and distributes robotic-assisted systems for minimally invasive procedures. The integration of our digitalization and artificial intelligence solutions with the robotic-assisted systems of Corindus offers promising opportunities. For one thing, Corindus is seeking regulatory approval for robotic-assisted remote treatments in vascular interventions. Given the limited availability of specialists in minimally invasive procedures and the relatively small number of clinical facilities in many regions, remote treatment could substantially improve patient access to therapeutic procedures in the future.

In addition, Siemens Healthineers acquired a majority stake in ECG Management Consultants, a leading healthcare consulting firm in the United States. Combined with the strong medical technology portfolio, including the digital platforms and solutions, the collaboration with ECG will enable us to serve our customers' needs more comprehensively than ever before, while also improving healthcare and achieving better outcomes at lower costs. The Supervisory Board of Siemens Healthineers AG closely followed and supported both acquisitions.

During the reporting period, 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 corporate 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, the Supervisory Board discussed in detail the business development and all decisions and transactions of major significance for the Company. Deviations from business plans were explained to the Supervisory Board in detail and intensively discussed. We 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 Chief Executive Officer and always expeditiously informed about current developments in the Company's business situation and on key business transactions.

On behalf of the Supervisory Board, I want to thank all employees of Siemens Healthineers for their dedicated efforts in the past year. I also want to thank the members of the Managing Board, who successfully led the Company through another demanding year. And I especially want to thank you, our shareholders, who placed your trust in our Company, its management, employees and our technologies over past fiscal year.

Finally, I would like to conclude the first part of my report with a personal remark: Effective December 1, 2019, I will hand over the chairmanship of the Supervisory Board to Prof. Dr. Ralf P. Thomas, CFO of Siemens AG and Chairman of the Audit

Committee of the Supervisory Board of Siemens Healthineers AG. As the future CEO of the independent company Siemens Energy, I would like to focus on this task. I thank you for the trust you have placed in me and the Company. I assure you that I will maintain links to the Company, and I would be grateful if you would continue to support Siemens Healthineers as it shapes the future of healthcare.

Topics at the plenary meetings of the Supervisory Board

The Supervisory Board held seven regular meetings and two extraordinary meetings in fiscal year 2019 and adopted one resolution by written circulation. Topics of discussion at our regular plenary meetings were the net assets, financial position and results of operations of Siemens Healthineers, together with its employment development. We also concerned ourselves when required with certain risks to the Company.

At the meeting on October 4, 2018, we discussed the 2019 budget, which was subsequently approved by written circulation. At the meeting, we addressed the results of a commissioned external review of the appropriateness of the compensation and compensation system for the Managing Board. The review confirmed its appropriateness. Furthermore, the Managing Board reported on the strategy and business development in Advanced Therapies.

At the meeting on November 2, 2018, we discussed the key financial data for the fourth quarter and for fiscal year 2018. The Supervisory Board also established the compensation of the members of the Managing Board for fiscal year 2018 on the basis of the calculated target achievement. Furthermore, as proposed by the Chairman's Committee, we adopted the targets for the Managing Board's compensation for fiscal year 2019. The compensation system for members of the Managing Board that applies for fiscal year 2019 is unchanged from the compensation system introduced at the time of the IPO in fiscal year 2018.

On November 21, 2018, the Supervisory Board dealt with the financial statements and combined management report for Siemens Healthineers AG and the Group for the year ended September 30, 2018; the report on relationships with affiliated companies as of September 30, 2018, pursuant to Section 312 of the German Stock Corporation Act ("Aktiengesetz"); the 2018 Annual Report, including the report of the Supervisory Board, the corporate governance report, and the remuneration report; and the agenda for the Shareholders' Meeting on February 5, 2019. We furthermore dealt with matters of compensation for the Managing Board members.

At the meeting on January 28, 2019, the Managing Board reported on the net assets, financial position and results of operations as of the end of the first quarter. We addressed further questions of the Managing Board members' compensation. At this meeting, we furthermore approved the investment project to build a combined x-ray tube and generator plant in Forchheim.

Immediately after the Shareholders' Meeting on February 5, 2019, the Supervisory Board convened to discuss the results of the first meeting of the shareholders of the listed Company since the IPO in March 2018.

At the meeting on April 30, 2019, the Managing Board reported to us on the net assets, financial position and results of operations as of the end of the second quarter, and on the situation for the market launch of Atellica Solution in the Diagnostics segment. We also addressed matters of the Managing Board's compensation.

At our meeting on July 25 and 26, 2019, in Tarrytown, USA, the Managing Board reported on the net assets, financial position and results of operations as of the end of the third quarter. We made use of the Diagnostics site visit to explore this Segment's situation in detail, in particular Atellica Solution, including a product demonstration. We also addressed the matter of applying artificial intelligence in the healthcare sector, and visited a key customer. We furthermore dealt with the declaration of conformity with the German Corporate Governance Code, and agreed to examine the efficiency of the Supervisory Board's activities for the first time since the Supervisory Board was constituted in March 2018. Finally, at this meeting, at the recommendation of the Chairman's Committee, the Supervisory Board resolved to appoint Dr. Christoph Zindel as a member of the Managing Board, effective October 1, 2019, and to terminate by mutual agreement the appointment of Michael Reitermann as a Managing Board member, effective at the end of the day on September 30, 2019, including a termination agreement for his employment contract as a member of the Managing Board. The allocation of duties among the Managing Board was revised, effective October 1, 2019.

At the extraordinary meeting on August 6, 2019, we approved the acquisition of Corindus Vascular Robotics, Inc., a U.S.-based, publicly listed technology leader for robotic-assisted vascular interventions, in order to expand the business of Advanced Therapies.

At the extraordinary meeting on September 6, 2019, we approved the acquisition of a majority interest in ECG Management Consultants, a leading U.S. consulting firm in the healthcare industry. This will enable Siemens Healthineers to add value for healthcare providers beyond the products and services offered to date.

Corporate Governance Code

The Supervisory Board adopted a declaration of conformity under Section 161 of the German Stock Corporation Act ("Aktiengesetz") as of September 30, 2019. The declaration of conformity has been made permanently available to our shareholders on the Company's website. It is also described in ➔***C.3.2 Corporate Governance statement pursuant to Sections 289f and 315d of the German Commercial Code***. Additional Information on corporate governance including the composition of the Supervisory Board is available in ➔***C.3 Corporate Governance***.

Work in the Supervisory Board committees

The Supervisory Board has established three committees, which prepare proposals for resolutions 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 meeting. The members and the tasks of the individual Supervisory Board committees are provided in ➔***C.3.1.2 Supervisory Board***.

The ***Chairman's Committee*** met seven times during the reporting period. It also adopted five resolutions by written circulation. Between meetings, the Chairman of the Supervisory Board discussed topics of major importance with the members of the Chairman's Committee. The committee concerned itself, in particular, with personnel matters, long-term succession planning for the Managing Board, compensation for the Managing Board, material principles of the incentive system for employees, matters of corporate governance, the budget, and Managing Board members' acceptance of offices at other companies and institutions. Thereby, the Chairman's Committee either adopted resolutions itself or prepared resolutions for the Supervisory Board.

The ***Innovation and Finance Committee*** met six times during the reporting period. Its deliberations focused on preparation for the Supervisory Board's approval of the budget, regular discussion of the market launch of Atellica Solution in the Diagnostics segment, more detailed reporting on the situation in the Imaging and Advanced Therapies segments, topics in innovation and technology, including digitalization, and discussion of pension management. The Innovation and Finance Committee also prepared several investment projects, including business acquisitions, for resolutions by the Supervisory Board.

The ***Audit Committee*** held five meetings during the reporting period. It discussed with the Managing Board and the independent auditors the annual financial statements and consolidated financial statements, as well as the combined management report for Siemens Healthineers AG and the Group for fiscal year 2018; the half-year financial report; and the quarterly statements. In the presence of the independent auditors, the Audit Committee also discussed the audit reports on the annual financial statements, the consolidated financial statements and the combined management report and the report on the auditors' review of the Group's half-year consolidated financial statements and of the interim Group management report. The committee engaged the independent auditors for the audit of the annual and consolidated financial statements for fiscal year 2019 and for the auditors' review of the interim financial statements and financial information; it 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 risk-management and internal control systems, the effectiveness, resources, findings and audit plan for the internal audit, and also reports concerning compliance, regulatory compliance, and potential and pending legal disputes.

Audit of the annual and consolidated financial statements discussed in detail

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 2019 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 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the additional requirements of German law set out in Section 315e (1) of the German Commercial Code ("Handelsgesetzbuch"). The consolidated financial statements 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 October 31, 2019. It discussed the annual financial statements, the consolidated financial statements and the combined management report in detail at its meeting on November 26, 2019. In this connection, 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 discussed at the Supervisory Board's meeting on November 26, 2019, in the presence of the independent auditors, who reported on the scope, focal points and main findings of their audit, addressing, in particular, key audit matters and the audit procedures implemented. No major weaknesses in the risk management and internal control system 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. The Supervisory Board also approved the proposal to be submitted to the annual Shareholders' Meeting regarding the election of the independent auditors, taking into account the Audit Committee's recommendation.

The Supervisory Board concurs with the results of the audit. Based on the definitive results of the Audit Committee's preliminary examination and our own examination, we have no objections. The Managing Board prepared the annual financial statements and the consolidated financial statements. 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 €0.80 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 the past fiscal year 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 fiscal year 2019 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 independent auditors. Since pursuant to the final results of the audit no objections were raised, the independent auditor issued the following audit opinion 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 definitive results of the preliminary review by the Audit Committee and our own review, the Supervisory Board has no objections to the Managing Board's declaration on relationships with affiliated companies. The Supervisory Board concurs with the results of the independent auditors' audit of the dependent company report.

Changes in the composition of the Supervisory and Managing Boards

There were no changes in the composition of the Supervisory Board in fiscal year 2019.

I have tendered my resignation from the office of Chairman of the Supervisory Board effective as of the end of the day on November 30, 2019. In its meeting on November 26, 2019, the Supervisory Board elected Prof. Dr. Ralf P. Thomas as its new Chairman for the remaining term of office. It is intended to separate the offices of Chairman of the Supervisory Board and Chairman of the Audit Committee after a transition period.

At the meeting on July 25, 2019, the Supervisory Board appointed Dr. Christoph Zindel a member of the Managing Board, effective October 1, 2019. His appointment will terminate at the end of the day on September 30, 2022. At that meeting, the Supervisory Board also approved the termination of Michael Reitermann's appointment to the Managing Board, effective at the end of the day on September 30, 2019.

Munich, November 26, 2019
For the Supervisory Board

Michael Sen
Chairman

“Fiscal year 2019 was positive overall for Siemens Healthineers. We clearly exceeded our growth outlook and reached a very good profit level. We have identified our challenges and are resolutely tackling them.”

Dr. Bernd Montag
Chief Executive Officer

Dear Shareholders,

Fiscal year 2019 was positive for Siemens Healthineers. Imaging and Advanced Therapies delivered a very gratifying performance, with these segments boosting not only revenue but also profitability. By contrast, the situation at Diagnostics was challenging – mainly due to the complex installations of our new laboratory diagnostics system Atellica Solution. We are addressing these challenges head-on under my direct responsibility. The system has been very well received particularly in large laboratories, proving that it is the right product at the right time. Now we must also put Atellica Solution on track to become an economic success. However, this is just one priority for the coming years that we will address in our strategy's Upgrading phase that we began in October.

"Fiscal year 2019 was positive for Siemens Healthineers.

We outlined the priorities of this next phase of our Siemens Healthineers Strategy 2025 in early November 2019. The Company is well positioned overall. We maintain partnerships with the top institutions in the industry and actively drive the digitalization of medical technology. We are also continuing to expand our strong portfolio with focused acquisitions. However, it is not only our position in the market that makes me optimistic. The basic economic conditions are just as important, and these conditions are good in the medical technology industry. All things considered, we are therefore confident of our prospects in fiscal year 2020 and beyond.

"The Company is ideally positioned for success in the future as well."

Strong growth in fiscal year 2019 – dividend increase planned

We generated revenue of €14.5 billion in the past fiscal year, an increase of almost 6% over the previous year on a comparable basis, i.e., excluding portfolio and currency translation effects. This growth was well above the range we communicated in our outlook. The Imaging and Advanced Therapies segments were the drivers of this strong performance. Profit adjusted for severance charges and in fiscal year 2018 additionally for IPO cost rose by 9% to €2.5 billion. The resulting profit margin adjusted for severance charges of 17.3% came in slightly below the expectations stated at the start of the fiscal year. Higher costs for the installation of Atellica Solution were an important reason for this.

Earnings per share increased significantly in fiscal year 2019, as announced, supported by the higher profit, a reduction in interest expenses and a lower tax rate We are proposing a dividend increase of 14% to €0.80 per share for the fiscal year 2019.

Siemens Healthineers is a recognized partner of the healthcare industry

The Company is ideally positioned for success in the future as well. We have been the partner of choice for healthcare providers for decades now. In the fiscal year 2019, we again entered into a number of extensive cooperation agreements with acclaimed institutions throughout the world. One of these is a long-term partnership with the University of Missouri System, under which we will give researchers and students access to cutting-edge technology and improve patient care in rural areas of Missouri. The acquisition of a majority interest in ECG Management Consultants will enable us to serve the needs of customers in the United States, which remains one of our most important markets, even more comprehensively in the future.

Our expertise is in strong demand also in other countries. For example, we recently entered into an eight-year innovation partnership in Germany with the München Klinik to modernize its laboratory diagnostics activities, convincing the partner with the capabilities of Atellica Solution. And in Saudi Arabia, we will assume responsibility for technology management in the radiology department of Nakheel Hospital in the capital city of Riyadh, on behalf of the healthcare provider Dallah Health Company.

We are investing today in the technologies of tomorrow

Technological progress, digitalization and the use of artificial intelligence will fundamentally change the way healthcare is delivered in the future. With this in mind, we invested around € 1.3 billion in research and development in the past fiscal year. We are investing today in the technologies and applications of tomorrow, such as our AI-Rad Companion Chest CT. Using artificial intelligence, this smart software assistant can automatically evaluate CT images of the thorax and identify pathological anomalies. This speeds up radiology findings while also enhancing quality. In the reporting period, we were granted clinical approvals in Europe and the United States.

And yet, digitalization and artifical intelligence (AI) are not the only technologies of the future. The use of robotics in minimally invasive procedures is also a major trend. The acquisition of Corindus Vascular Robotics Inc. means we are securing technologies from a pioneer in the field of robotic-assisted vascular interventions at a very early stage.

Our markets are still growth markets – start of the Upgrading phase

Even apart from such growth fields, the fundamental prospects of our markets are still positive – even in these times when the economy has recently slowed appreciably in other industries. Against this backdrop, we expect comparable revenue growth of Siemens Healthineers in the fiscal year 2020 of between 5% and 6% over fiscal year 2019. Furthermore, we expect an increase in adjusted basic earnings per share of 6% to 12% based on current foreign exchange rate assumptions and on the current portfolio, including Corindus Vascular Robotics, Inc. and ECG Management Consultants.

Fiscal year 2020 also marks the start of the next phase of our Siemens Healthineers Strategy 2025, known as the so-called Upgrading phase, during which we aim to take Siemens Healthineers to the next level of profitable growth. For the Imaging segment, this means leveraging digitalization to improve our imaging technology in order to make further progress in the automation of diagnostics. We will also further expand our diagnostic offerings along the clinical value chain. With the help of our AI Companions, we aim to take a leading role in supporting clinical decision-making. In the Diagnostics segment, our focus will be on optimizing customer workflows with automation and IT as well as by incorporating AI-based findings. We will also expand our Atellica portfolio and our assay product range. In the Advanced Therapies segment, our new ARTIS icono platform will provide further impetus for growth. Additional growth is expected from the acquisition of Corindus Vascular Robotics, Inc.

We have identified three drivers to help the segments reach their goals: Firstly, we want to extend our market share in the growth markets of China, India, the Middle East and Africa. Secondly, we aim to profit from consolidation on the customer side, deepen relationships at the top levels of our customers' organizations, and grow by implementing large-scale strategic projects. The consulting expertise of ECG Management Consultants will help us do this. And thirdly, we will continue to digitalize our internal processes and accelerate routine workflows, thereby cutting costs.

In the name of the Management Board, I wish to thank you for the trust you have placed in us and our Company in the past year. And we will continue to work with all our strength to earn this trust.

B. Montag

Dr. Bernd Montag
Chief Executive Officer

A.

Combined management report

A.1 Business principles

A.1.1 Business description

Organization

Siemens Healthineers is 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", the "Company", "we" 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 is incorporated in the commercial register in Munich, Germany. The Company's business operations are conducted by the direct and indirect subsidiaries of Siemens Healthineers AG. As of September 30, 2019, the Siemens Group owned around 85% in Siemens Healthineers AG. As of September 30, 2019, Siemens Healthineers had about 52,000 employees (September 30, 2018: about 50,000).

Siemens Healthineers has a strong presence and scale in an attractive market and a direct presence in more than 70 countries worldwide. Our main production sites are in the United States, China and Germany. With 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 in more than 180 countries. We also provide clinical consulting services, complemented by an extensive range of training 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.

Delivering high-quality and affordable healthcare requires scalable solutions to meet the needs of a spectrum of healthcare providers. 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. In all these segments, we are a leading global provider.

Our Imaging segment provides imaging products, services and solutions. Our most important products within this segment are equipment including magnetic resonance, computed tomography, X-ray systems, molecular imaging and ultrasound. All our imaging and therapy systems are driven by shared software platforms. We offer a broad and scalable range of software applications to support multi-modality reading and structured reporting. We generate a significant amount of 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 portfolio of our Diagnostics segment comprises in-vitro diagnostic products and services that we offer to healthcare providers in laboratory, molecular and point-of-care diagnostics. Spanning a breadth of test settings, from the centralized reference and hospital laboratories to the clinic and physician office laboratories, our comprehensive portfolio covers a range of testing disciplines, including areas like immunochemistry, hematology, coagulation, urinalysis, blood gas and PCR testing (molecular). In addition, we provide workflow solutions and informatics products that integrate our offerings and improve provider efficiency and productivity. The bulk of Diagnostic's business model is based on long-term contracts that include an initial instrument placement followed by ongoing reagent sales, which results in a more predictive and resilient revenue stream.

Our Advanced Therapies segment's portfolio consists 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 image guided minimally invasive treatments, 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, with recurring revenues on a regular basis generated through our large installed base and our customer service offerings.

Within these three segments we provide comprehensive services all along the customer value chain, including design, maintenance, operational management, training and education services. Our service offerings include equipment performance management, clinical education and e-learning, asset management, managed departmental services, consulting and Digital Health products and services.

Siemens Healthineers Strategy 2025

With the healthcare trends, described in →***A.1.2 Business environment*** in mind, Siemens Healthineers defined strategic priorities to capture short-term potential and ensure market leadership beyond 2025. The first phase, the so-called Reinforcing Phase of the Siemens Healthineers Strategy 2025 was completed with the end of fiscal year 2019. In this phase, Siemens Healthineers reinforced profitable growth in core business with significant next-generation product and platform launches. In addition, structural cost saving, including standalone cost savings and the ongoing implementation of productivity improvements (hereinafter referred to as the "cost savings program") contributed to achieve this objective. The standalone cost saving measures were completed in fiscal year 2019, and the streamlining of the administration and management structure aimed at in the context of improving productivity was largely implemented. Further positive impacts will take effect from fiscal year 2020 onwards.

Fiscal year 2020 marks the beginning of the second phase of the Siemens Healthineers Strategy 2025, for which the Company has defined clear priorities for its three segments. The so-called Upgrading phase will run until the end of fiscal year 2022. During the Upgrading phase Siemens Healthineers aims at comparable revenue growth of more than 5% p.a. (per annum) and growth of adjusted basic earnings per share of around 10% p.a.

In the Imaging segment, the focus is on continuously innovating the core business, the expansion of diagnostic offerings and taking a leading role in clinical decision-making based on artificial intelligence. In the Diagnostics segment, the main task is to exploit the opportunities offered by the market trend towards automated workflows in laboratory diagnostics and to bring the segment up to market-growth level in the midterm. On top of this, it is planned to further expand the point-of-care business. The Advanced Therapies segment is set to further develop innovative technologies and services that advance and improve image-guided clinical procedures. For example, the new robotic portfolio from Corindus Vascular Robotics, Inc. combined with the strengths in image guidance and navigation will support the transformation of care delivery and improve precision in complex endovascular procedures.

At the same time, Siemens Healthineers has also defined three cross-segment priorities for the Upgrading phase: Market share gains in geographic growth markets, market share gains with leading healthcare providers and driving forward the Company's digital transformation.

Research and development

Our research and development (R&D) activities are ultimately geared towards delivering innovative, sustainable solutions to our customers while safeguarding our competitiveness. Consequently, we focus our R&D activities on a number of selected technologies and innovations. Particularly in the field of artificial intelligence (AI) we have further expanded our R&D activities. These developments are reflected by additions to our product range in this area: We now have more than 40 AI-supported products and applications on the market that further boost our customers' productivity, while enabling clinical decisions to be more precise and tailored to the individual patient. Among these, in the last fiscal year, we launched AI-Rad Companion Chest CT, an intelligent software assistant for analyzing image data. Innovative AI-based technology is now also used in sample handling and classification in our Atellica Solution laboratory system.

The systematic expansion of the cloud-based Teamplay collaboration platform, as part of our growing portfolio of digital services, is a major step to support customers in their transition to outcome-focused care. In the future it will cover clinical, operational, and financial activities and functions in the healthcare field, and connect healthcare providers and solution providers as well as bringing together their data, applications and services. In the past fiscal year, we additionally launched a variety of new products. For instance, we further expanded our MAGNETOM family of MR scanners by adding the Altea (1.5T open bore), Lumina (3T open bore) and Amira (1.5T with BioMatrix technology) models. The Cios mobile C-arm family was further enhanced with the Cios Select and Cios Spin models. Syngo Virtual Cockpit, our software for remote scanning assistance, allows our customers to optimize the utilization of their scanner fleet and achieve a higher level of standardization, which helps improving diagnostic consistency. In addition to continually updating our portfolio, Siemens Healthineers also improves existing products and solutions. Our R&D workforce of around 9,000 employees operates at a variety of R&D sites around the world, mainly in Germany, the United States and China. 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 employees for the respective job. We supplement our internal capabilities through our relationships with strategic partners.

In fiscal year 2019, we reported R&D expenses of €1,328 million (2018: €1,281 million). The resulting R&D intensity, defined as the ratio of R&D expenses to revenue, was 9% (2018: 10%). Additions to capitalized development expenses amounted to €155 million (2018: €127 million). Therefore, the ratio of capitalized development expenses to total R&D expenses is 12% (2018: 10%). Amortization of capitalized development expenses totaled €111 million (2018: €83 million).

As of September 30, 2019, we had more than 18,500 patents, patent applications, and utility models. This figure includes more than 13,500 granted patents. This was slightly above the level of fiscal year 2018.

A.1.2 Business environment

Large portions of the revenue of Siemens Healthineers stem from recurring business. Therefore, our business activities are to a certain extent resilient against short-term economic trends. However, we are directly and indirectly dependent on trends in healthcare markets and on developments in health policy, including reimbursement, and on political developments, including regulatory topics, around the world. To focus on the most significant influences on our business activities, we describe the business environment from fiscal year 2019 onwards based on these factors.

Healthcare market trends and health policy developments

Healthcare markets worldwide are affected by four major trends. The first trend is determined by demographic developments, especially the world's growing and aging population. This development poses major challenges for global healthcare systems. At the same time, however, it offers opportunities for players in the healthcare industry, because demand for cost-efficient healthcare solutions continues to intensify. The second trend is the economic development in emerging countries that 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 persist, driving overall demand for healthcare products and services and hence market growth. The third trend is the increase in chronic diseases as a consequence of an aging population as well as environmental and lifestyle-related changes. This development creates additional pressure on health systems and leads to increased costs to address these challenges. The fourth global trend with significant effect on our business development, the transformation of healthcare providers, is resulting from a combination of societal and market forces. These are driving healthcare providers to operate and organize their businesses differently. Increasing cost pressure on the healthcare sector is prompting the introduction of new remuneration models for healthcare services, such as value-based rather than treatment-based reimbursement. 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. This development is driven partly by society's increasing resistance to healthcare costs, payers' increasing professionalization, burdens 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 operating 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.

Driven by the need of healthcare systems worldwide to deliver better outcomes at lower costs, regulatory schemes around the world increasingly seek to introduce new remuneration models for healthcare services, leading to a shift of healthcare reimbursement systems away from a pay-per-procedure model towards an outcome-based model. Most developed countries are currently considering or undergoing regulatory changes within their healthcare systems.

Political developments

The business environment is not only subject to the influence of new regulatory schemes, which healthcare companies and providers must comply with in order to sell their products and deliver health services. Moreover, non-tariff barriers such as forced localization and licensing requirements and especially economic protectionism have been topics of increased importance in recent years. Barriers to trade become more common, affecting all our segments' markets and create additional financial burdens on companies. The trade dispute between the United States and China resulted in cost increases as new tariffs came into effect in both countries, impacting the flow of products between these countries.

Some countries also consider forced localization as a component of their economic policy, though it raises costs through increased inefficiency. China's strategic national initiative, "Made in China 2025", for example, includes the plan to grow a local Chinese medical device industry, implying promotion of domestic innovation and development of local manufacturing. At the same time, regulatory oversight of large-scale equipment allocation and purchasing increases, and central and local governments are driving "local preferred" procurement policies. This initiative incrementally leads to a higher level of competition also with local vendors. In contrast, policies encourage private capital to invest into the healthcare market, resulting in a fast growth of the private segment.

Segments' markets

There are two fundamental trends in the Imaging market, the shift towards precision medicine and increased utilization of imaging devices in therapy, screening and intervention. Both drive the demand for a broader application of imaging procedures and digitalization and therefore increase the demand for imaging technology. Furthermore, 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. A moderate level of consolidation is one of the key characteristics of the global Imaging market, in which Siemens Healthineers, GE Healthcare and Philips are the top three players.

The Diagnostics market is an attractive market with underlying growth driven by an increasing demand for diagnostics tests, through both the development of new tests as well as increased access to existing tests, particularly in emerging markets. To offset increasing test demand and rising healthcare costs, providers are continuing to consolidate their operations to realize laboratory cost improvements and industrialize their testing processes to improve efficiency through automation and digitalization. Increased digitalization will further enhance laboratory productivity and enable better integration of diagnostics test results into clinical decision making. Immunochemistry continues to be the largest and one of the fastest growing segments of the Diagnostics market. 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.

Developments in clinical procedures are one of the major factors which keep defining growth in the Advanced Therapies market. Minimally invasive procedures as well as the growing complexity of procedures that require complex technological devices are key drivers of the market. In particular, due to technological innovations in imaging, robotics, medical devices and IT, minimally invasive procedures result in, among other things, lower risks of complications, faster recovery time, less post-operative pain, shorter hospital stays and lower costs. The global Advanced Therapies market can be described as consolidated with three top players (Siemens Healthineers, GE Healthcare and Philips).

A.2 Financial performance system

Key performance indicators

Comparable revenue growth

Our key performance indicator (KPI) for managing and monitoring revenue growth of our segments and of Siemens Healthineers is comparable revenue growth. It shows the development of the revenue 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 revenue of Siemens Healthineers 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.

Profit margin (until fiscal year 2019)

Until fiscal year 2019, we used profit margin as KPI for managing our operating performance. Profit was defined as income before income taxes, financing interest, amortization of intangible assets acquired in business combinations and centrally carried pension service and administration expenses (only excluded from segments' profit). Profit margin was defined as the profit of Siemens Healthineers, or of the particular segment concerned, divided by its (total) revenue. In fiscal years 2019 and 2018, we also reported profit adjusted for severance charges, in fiscal year 2018 additionally for costs related to the initial public offering (IPO). The calculation of the adjusted profit margin employed the same revenue definitions as described above. A reconciliation of total segments' profit to Siemens Healthineers' income before income taxes is presented in →***Note 29 Segment information*** in the notes to the consolidated financial statements.

Adjusted EBIT margin (as of fiscal year 2020)

As of fiscal year 2020, we will no longer use the profit margin to manage the operating performance of our segments. Instead, we introduce adjusted earnings before interest and taxes (EBIT) margin as a new KPI. This new KPI enhances transparency as well as comparability and improves reconciliations as the adjusted EBIT margin enables consistent treatment of operating and non-operating interest. Adjusted EBIT is defined as income before income taxes, interest income and expenses and other financial income, net, adjusted for

- amortization of intangible assets acquired in business combinations,
- severance charges,
- acquisition-related transaction costs and
- centrally carried pension service and administration expenses.

The adjustments relate to expenses that do not reflect the operating performance and therefore adversely affect the comparability of operating performance between periods. Adjusted EBIT margin is defined as the adjusted EBIT of the particular segment concerned, divided by its total revenue.

Reconciliation from profit margin to adjusted EBIT margin (for fiscal year 2019)

	Profit margin	Severance charges	Profit margin adjusted for severance charges[1]	Operating interest	Acquisition-related transaction costs	Adjusted EBIT margin[1]
Reconciliation from profit margin to adjusted EBIT margin for fiscal year 2019						
Imaging	20.2%	0.4%-points	20.6%	−0.1%-points	0.0%-points	20.5%
Diagnostics	9.1%	0.2%-points	9.3%	−0.3%-points	0.0%-points	9.1%
Advanced Therapies	19.6%	0.4%-points	20.0%	−0.3%-points	0.0%-points	19.7%
Growth of margin in fiscal year 2019						
Imaging	1.4%-points		1.1%-points			1.1%-points
Diagnostics	−2.4%-points		−2.8%-points			−2.9%-points
Advanced Therapies	1.0%-points		0.4%-points			0.2%-points

[1] In fiscal year 2018, additionally adjusted for IPO costs.

Basic earnings per share growth (until fiscal year 2019)
An important KPI for measuring and communicating performance at the Company level was basic earnings per share (EPS) growth. The driver for this is net income.

Adjusted basic earnings per share growth (as of fiscal year 2020)
As of fiscal year 2020, we will no longer manage performance at the Company level using basic EPS growth. Instead, we introduce adjusted basic EPS growth as new KPI. The adjusted basic EPS are defined as basic EPS adjusted for

- amortization of intangible assets acquired in business combinations,
- severance charges and
- acquisition-related transaction costs,

net of tax. Tax effects on the adjustments are determined based on the income tax rate of the respective reporting period. Similarly, adjusted basic EPS are determined based on the average weighted number of outstanding shares of the respective reporting period. The analog adjustment of the basic EPS and the EBIT ensures consistency between the KPIs adjusted EBIT margin and adjusted basic EPS growth.

Reconciliation from basic EPS to adjusted basic EPS (for fiscal years 2019 and 2018)

Siemens Healthineers	(Growth) basic EPS	Amortization of intangible assets acquired in business combinations	Severance charges, in fiscal year 2018, additionally IPO costs	Acquisition-related transaction costs	(Growth) adjusted basic EPS
Reconciliation from basic EPS to adjusted basic EPS					
Fiscal year 2019	€1.57	€0.09	€0.04	–	€1.70
Fiscal year 2018	€1.26	€0.09	€0.14	–	€1.50
Growth in fiscal year 2019	**24 %**				**14 %**

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 as calculation base for the dividend may be adjusted for selected exceptional non-cash effects.

A.3 Business development

A.3.1 Market development

In general, our addressed markets performed well again in fiscal year 2019, with the positive development from the previous fiscal year continuing. For the healthcare industry as a whole, the trend towards consolidation continued, leading to higher utilization rates at our customers' sites which are counterbalancing procedure volume growth in developed markets. Demand for our products kept growing, but was in terms of volume partially offset by price pressure on new purchases. Competition among the leading healthcare companies remained at high levels.

The addressable global Imaging equipment market in fiscal year 2019 amounted to more than €19 billion. Excluding molecular diagnostics, the global market for Diagnostics was approximately €30 billion. The addressable equipment market for the Advanced Therapies segment (based on angiography systems and mobile C-arms, excluding radiation oncology) was estimated at €3 billion. By further expanding in highly growing procedures, Advanced Therapies aims to capture high growth in adjacent markets.

All our major geographical markets were in a healthy state, which contributed to slightly higher market growth in Europe, Commonwealth of Independent States (C.I.S.), Africa, Middle East (EMEA) and the Americas, similar to what we have seen in fiscal year 2018, most notably in the Imaging and Advanced Therapies markets. The Asia, Australia market grew moderately, at a slower pace than the average in previous years.

In Europe, negotiations over the United Kingdom leaving the European Union (EU) remained complicated. Clarity on future arrangements was not forthcoming, which negatively impacted investment sentiment, however with limited to no effect on the overall positive development of the EMEA market.

In the Americas region, the U.S. market showed slight to solid growth for Imaging, and strong growth in Advanced Therapies, partly due to an increased amount of business under multi-year agreements. Market growth in Diagnostics remained moderate. Still, the U.S. market environment was challenging, as pressure on reimbursement systems and the focus on more extended utilization of equipment at customers' sites persist. The United States - China trade dispute increased costs as new tariffs came into effect in both countries, impacting the flow of products between them.

Growth in China's Imaging and Advanced Therapies markets re-stabilized in fiscal year 2019 to a strong and very strong level, respectively, due to government initiatives and programs together with a growing private market segment. Diagnostics' market growth in China slowed a bit, although still at a low double-digit level, remaining the main growth driver for Asia, Australia. In Japan, the second largest market of the Asia, Australia region, an upcoming tax increase brought investment forward and contributed to slight market growth after rather flat markets in recent years.

The market estimates are based on Siemens Healthineers' market model that builds on external sources (amongst others from IQVIA Ltd., IHS Markit and Signify Research), market information from medtech industry associations (amongst others COCIR, NEMA, JIRA and EDMA) and Siemens Healthineers' management estimates.

A.3.2 Results of operations

A.3.2.1 Revenue by segment and region

	Fiscal year		%-Change	
(in millions of €)	2019	2018	Act.	Comp.[1]
Siemens Healthineers	**14,518**	13,429	**8%**	**6%**
Therein:				
Imaging	8,938	8,153	10%	7%
Diagnostics	4,133	3,962	4%	2%
Advanced Therapies	1,606	1,479	9%	6%

[1] Year-over-year on a comparable basis, excluding currency translation and portfolio effects.

	Fiscal year		%-Change	
Revenue by location of customer (in millions of €)	2019	2018	Act.	Comp.[1]
Europe, Commonwealth of Independent States, Africa, Middle East (EMEA)	4,617	4,409	5%	5%
Therein: Germany	873	856	2%	2%
Americas	5,803	5,290	10%	5%
Therein: United States	4,916	4,458	10%	4%
Asia, Australia	4,098	3,730	10%	8%
Therein: China	1,838	1,681	9%	9%
Siemens Healthineers	**14,518**	13,429	**8%**	**6%**

[1] Year-over-year on a comparable basis, excluding currency translation and portfolio effects.

Siemens Healthineers

Revenue was up by 8% to €14,518 million. On a comparable basis, revenue increased by 6% supported by all segments, and due to very strong growth in Imaging and strong growth in Advanced Therapies.

Currency translation effects gave revenue growth a 2-percentage-point boost.

Segments

Imaging saw nominal growth in total revenue of 10% to €8,938 million. On a comparable basis, total revenue increased by 7% with Molecular Imaging in particular reporting significant growth. Geographically speaking, comparable revenue increased in all three regions, with significant growth in the Americas as well as strong growth in EMEA and Asia, Australia.

Total revenue in Diagnostics showed nominal growth of 4% to €4,133 million. On a comparable basis, total revenue was up by 2%. A very strong increase in Asia, Australia and a modest increase in EMEA were partly offset by a slight decline in the Americas.

Advanced Therapies saw nominal growth in total revenue of 9% to €1,606 million. On a comparable basis, total revenue climbed by 6%, supported by all three regions chiefly including a significant increase in Asia, Australia and a strong increase in EMEA.

Regions

The strong comparable revenue growth in EMEA was supported by all segments, including strong growth in Imaging and Advanced Therapies. Germany reported slight comparable revenue growth, including a moderate increase in Imaging.

In the Americas comparable revenue growth was strong, primarily due to significant growth in Imaging and a moderate increase in Advanced Therapies, partly offset by a slight decline in Diagnostics. The United States reported moderate growth.

Comparable revenue growth was very strong in Asia, Australia due in large part to significant growth in Advanced Therapies and strong performances in Diagnostics and Imaging. China's comparable revenue growth was significant, with Advanced Therapies in particular growing substantially.

A.3.2.2 Income

	Fiscal Year	
(Profit in millions of €, margin in %)	**2019**	**2018**
Profit	**2,450**	2,110
Therein:		
Imaging	1,803	1,533
Diagnostics	376	455
Advanced Therapies	315	275
Profit margin	**16.9%**	15.7%
Therein:		
Imaging	20.2%	18.8%
Diagnostics	9.1%	11.5%
Advanced Therapies	19.6%	18.6%
Severance charges, in fiscal year 2018 additionally IPO costs	**57**	199
Profit margin adjusted for severance charges, in fiscal year 2018 additionally for IPO costs	**17.3%**	17.2%
Therein:		
Imaging	20.6%	19.4%
Diagnostics	9.3%	12.1%
Advanced Therapies	20.0%	19.6%

Siemens Healthineers

Profit rose by 16%, mainly due to volume effects supported by the cost savings program and a slight positive currency effect. The profit figure included severance charges amounting to €57 million (2018: severance charges of €96 million and IPO costs of €103 million). Additionally, profit included a settlement gain of €24 million. In the previous year, profit reflected the positive effects of contributions to a U.S. pension fund totaling €19 million. The profit margin increased from 15.7% to 16.9%.

Research and development expenses increased by €47 million, or 4%, chiefly on account of negative currency translation effects. On a comparable basis, these expenses increased slightly.

Selling and general administrative expenses grew by €61 million, or 3%, mainly due to negative currency translation effects. These expenses were slightly above the previous year's level on a comparable basis.

Segments

Imaging's profit rose by 18%, mainly due to increased revenue and the cost savings program. Currency effects also had a mildly positive influence. The profit figure included severance charges amounting to €36 million (2018: severance charges of €48 million and IPO costs of €4 million). The profit margin increased from 18.8% to 20.2%.

In Diagnostics, profit declined by 17 %, mainly due to negative currency effects and increased ramp-up costs for Atellica Solution, caused among others by complex installations and related higher support costs. The profit figure included severance charges amounting to €9 million (2018: severance charges of €22 million and IPO costs of €3 million). The profit margin decreased from 11.5 % to 9.1 %.

Advanced Therapies' profit was up by 14 %, chiefly due to increased revenue, the cost savings program, and positive currency effects. The profit figure included severance charges amounting to €6 million (2018: severance charges of €14 million and IPO costs of €1 million). The profit margin increased from 18.6 % to 19.6 %.

Reconciliation to consolidated financial statements

The reconciliation from profit to net income is shown in the following table:

	Fiscal year	
(in millions of €)	2019	2018
Profit	**2,450**	2,110
Financing interest	−126	−181
Amortization of intangible assets acquired in business combinations	−131	−131
Income tax expenses	−607	−515
Net income	**1,586**	1,284

Financing interest was down by €55 million, mainly due to implementation of the post-IPO capital structure and debt restructuring described in →***A.3.3 Net assets and financial position***. This was partly offset by negative currency effects associated with financing of business in Turkey. The figure in fiscal year 2018 included a gain of €27 million from the early redemption of loans during the legal separation of Siemens Healthineers.

Income tax expenses rose by €92 million. The effective income tax rate decreased from 28.6 % to 27.7 %. The main reasons for this decrease were the settlement of international proceedings on the avoidance of double taxation, a change of jurisdiction in Brazil and the debt restructuring mentioned above. The U.S. tax reform and adjustments to current taxes from prior fiscal years positively influenced fiscal year 2018. For further information, please refer to →***Note 5 Income taxes*** in the notes to the consolidated financial statements.

The effects described above increased net income to €1,586 million, which in turn led to growth of 24 % in basic earnings per share.

A.3.3 Net assets and financial position

A.3.3.1 Net assets and capital structure

Short-term financial balance

	Sept 30,	
(in millions of €)	2019	2018
Cash and cash equivalents	920	519
Receivables from Siemens Group	686	1,396
Payables to Siemens Group	−364	−639
Short-term financial balance	**1,243**	1,277

The items receivables from Siemens Group, cash and cash equivalents and payables to Siemens Group collectively make up the Company's funds available at short notice. Changes in these items are attributable to income and expenditures from operations and to short-term investment of excess liquidity or short-term borrowing.

Net receivables from and payables to Siemens Group decreased by €435 million to €322 million, while at the same time, cash and cash equivalents increased by €401 million to €920 million. This shift was mainly due to the changed legal framework following the IPO, which had the effect of excluding Chinese entities from participating in the Siemens Group's cash pooling.

Siemens Healthineers continued to participate in the cash pooling of the Siemens Group as of September 30, 2019, which included the short-term investment of excess liquidity and the borrowing of short-term funds within the Siemens Group. We intend to set up our own cash pooling in the medium term in order to (partially) replace our participation in the cash pooling of the Siemens Group.

Net working capital

	Sept 30,	
(in millions of €)	2019	2018
Trade and other receivables	2,779	2,419
Contract assets	839	600
Inventories	2,064	1,829
Trade payables	−1,403	−1,278
Contract liabilities	−1,741	−1,524
Net working capital	**2,538**	2,045

Net working capital rose by €492 million to €2,538 million. This was largely due to the strong revenue growth in the fourth quarter and currency translation effects. In addition, the increase in inventories is attributable to steps taken to ensure the delivery capability of all segments.

Remaining current assets and liabilities

(in millions of €)	Sept 30, 2019	Sept 30, 2018
Other current financial assets	78	77
Current income tax assets	92	56
Other current assets	321	303
Remaining current assets	**491**	**436**

(in millions of €)	Sept 30, 2019	Sept 30, 2018
Short-term financial debt and current maturities of long-term financial debt	80	57
Other current financial liabilities	152	82
Current provisions	282	295
Current income tax liabilities	346	206
Other current liabilities	1,236	1,223
Remaining current liabilities	**2,097**	**1,862**

The level of the remaining current assets and liabilities changed only slightly in fiscal year 2019.

Non-current assets and liabilities

(in millions of €)	Sept 30, 2019	Sept 30, 2018
Goodwill	8,590	8,176
Other intangible assets	1,576	1,571
Property, plant and equipment	2,318	1,919
Investments accounted for using the equity method	45	38
Other financial assets	339	174
Deferred tax assets	462	394
Other assets	320	287
Total non-current assets	**13,650**	**12,559**

Non-current assets rose by €1,092 million to €13,650 million, mainly due to currency translation effects, especially on goodwill, and an increase in property, plant and equipment. Goodwill increased by €414 million to €8,590 million, in addition to currency translation effects, due to the acquisition of Minicare B.V. Property, plant and equipment was up by €399 million to €2,318 million mainly as a result of an increase in equipment leased to Diagnostics' customers as well as advances to suppliers and construction in progress. This was primarily because of the expansion of our manufacturing capabilities, mainly caused by investments in Diagnostics in China and the United States.

(in millions of €)	Sept 30, 2019	Sept 30, 2018
Long-term financial debt	62	17
Provisions for pensions and similar obligations	1,045	845
Deferred tax liabilities	375	348
Provisions	147	157
Other financial liabilities	16	26
Other liabilities	368	386
Other liabilities to Siemens Group	4,030	4,002
Total non-current liabilities	**6,043**	**5,780**

Non-current liabilities grew by €263 million to €6,043 million. This increase is largely attributable to the growth in provisions for pensions and similar obligations by €200 million to €1,045 million, due to a decrease in the discount rate in countries with significant pension commitments. For additional information, please refer to →***Note 21 Provisions for pensions and similar obligations*** in the notes to the consolidated financial statements.

Financial debt and credit facilities

As in the previous year, the Siemens Group granted two credit facilities to Siemens Healthineers as part of a facilities agreement. As of September 30, 2019, a multicurrency revolving credit facility existed in an amount up to €1.0 billion (September 30, 2018: €1.1 billion), available until January 31, 2020. It serves as financing of net working capital and as short-term loan facility. Additionally, a multicurrency revolving credit facility in an amount up to €1.0 billion (September 30, 2018: €1.0 billion) was granted, serving as a financing reserve, available until January 31, 2023. As of September 30, 2019, and September 30, 2018, these credit facilities had not been utilized. Moreover, Siemens AG has committed itself to provide Siemens Healthineers with additional financing of €1.0 billion for the acquisition of Corindus Vascular Robotics, Inc. The acquisition of ECG Management Consultants will be covered under existing financing agreements. For further information regarding the acquisitions closed after the reporting date, please refer to →***Note 34 Subsequent events*** in the notes to the consolidated financial statements.

In addition, loans with various maturities denominated in various currencies have been granted by the Siemens Group. During fiscal year 2019, the following loans were transferred from an entity in the United States to entities in Germany:

- US$ 0.9 billion loan maturing in fiscal year 2021,
- US$ 0.7 billion loan maturing in fiscal year 2023, and
- US$ 1.7 billion loan maturing in fiscal year 2027.

Siemens Healthineers has hedged the resulting foreign currency risks by entering into several forward exchange contracts, which effectively convert the loans into synthetic euro-denominated loans. The actual volume-weighted average interest rate on these loans decreased from around 2.3 % to approximately – 0.1 % due to the positive forward elements of the forward exchange contracts. An additional US$ 1.0 billion loan maturing in fiscal year 2046 carried a contractual interest rate of 3.4 %.

In addition, local bank facilities are in place to cover funding needs of some Siemens Healthineers' entities which have no access to direct funding within Siemens Healthineers.

Please see →***Note 16 Financial debt*** in the notes to the consolidated financial statements for further information on financial debt. For more information on financial risk management responsibilities and objectives, see →***Note 26 Financial risk management*** in the notes to the consolidated financial statements.

Equity

(in millions of €)	Sept 30, 2019	2018
Issued capital	1,000	1,000
Capital reserve	10,801	11,174
Retained earnings	–1,859	– 3,019
Other components of equity	–174	– 500
Total equity attributable to shareholders of Siemens Healthineers AG	**9,769**	**8,656**
Non-controlling interests	13	20
Total equity	**9,782**	**8,675**

Equity rose by € 1,106 million to € 9,782 million mainly as a result of the net income for fiscal year 2019. The increase was partly offset by the dividend payments of € 699 million and share buybacks in the amount of € 54 million. Please see →***Note 23 Equity*** in the notes to the consolidated financial statements for further information.

A.3.3.2 Cash flows

(in millions of €)	Fiscal year 2019	2018
Cash flows from:		
Operating activities	1,617	1,595
Investing activities	– 647	– 743
Financing activities	– 603	– 489

We report free cash flow as a supplemental liquidity measure:

(in millions of €)	Fiscal year 2019	2018
Cash flows from operating activities	**1,617**	**1,595**
Additions to intangible assets and property, plant and equipment	– 579	– 530
Free cash flow	**1,037**	**1,065**

Operating activities

The cash flow from operating activities increased by € 22 million to € 1,617 million in fiscal year 2019. This was mainly caused by higher income before income taxes. Counterbalancing factors were the buildup of operating net working capital mainly in the Imaging and Advanced Therapies segments, a significant increase in cash outflows for income taxes and increases in operating leases with customers in the Diagnostics segment.

Investing activities

Cash outflows for investing activities decreased by € 96 million in fiscal year 2019 to € 647 million. The decrease was primarily the result of higher cash outflows for the acquisitions of EPOCAL INC. and FAST TRACK DIAGNOSTICS LUXEMBOURG S.à r.l in fiscal year 2018 compared with those for Minicare B.V. in fiscal year 2019. The acquisitions made in both 2019 and 2018 are attributable to the Diagnostics segment.

In fiscal year 2019, the increase in cash outflows for additions to property, plant and equipment and intangible assets by € 50 million to € 579 million had an opposite effect.

Our investments mainly aimed at enhancing competitiveness and innovation capability. Our main capital expenditures were for additions to intangible assets, including capitalized development expenses, as well as replacements and enhancements of property, plant and equipment in the ordinary course of business.

Our segments' investments in property, plant and equipment and in intangible assets focused especially on the following:

Imaging: Additions to property, plant and equipment in fiscal year 2019 mainly included the acquisition of new (specialized) tooling, equipment and machinery as well as the expansion of production facilities and reorganization of processes.

Diagnostics: In fiscal year 2019, additions to property, plant and equipment mainly related to investments in our future production facilities in China and the United States, and to additions to intangible assets, primarily attributable to the development of further products related to Atellica Solution.

Advanced Therapies: In fiscal year 2019, other than the usual replacement purchases for machinery, specialized tools and equipment, investments were mostly associated with the launch of the new ARTIS icono product family.

In addition, Siemens Healthineers had contractual obligations as of September 30, 2019, to purchase property, plant and equipment and intangible assets totaling €99 million (September 30, 2018: €81 million). These are mainly future payments related to new factories and will be financed by the use of existing credit lines.

Financing activities

The cash flow from financing activities changed by €114 million from a cash outflow of €489 million in fiscal year 2018 to a cash outflow of €603 million in fiscal year 2019.

In fiscal year 2019, other transactions/financing with the Siemens Group resulted in a cash inflow of €245 million (2018: cash inflow of €740 million). The higher cash inflow in fiscal year 2018 was mainly due to the capital measures related to the legal separation of Siemens Healthineers prior to the IPO and the change in the Company's financing structure.

In fiscal year 2019, lower cash outflows resulted from the lower dividend/profit transfer of €699 million (2018: €1.008 million).

A.3.4 Overall assessment of the economic position

With respect to our outlook provided in the Annual Report 2018, Siemens Healthineers' comparable revenue growth was above expectation, the profit margin adjusted for severance charges was slightly below, and basic earnings per share increased as expected. We reached milestones for the strategic development of Siemens Healthineers and initiated important measures to further strengthen our portfolio. The acquisition of Corindus Vascular Robotics, Inc., a pioneer in robotic-assisted vascular interventions, is a strategically significant addition to the Advanced Therapies business. The acquisition of a majority interest in ECG Management Consultants, a leading U.S. healthcare consulting company, will enable Siemens Healthineers to add value for healthcare providers beyond the products and services offered to date. Minicare B.V., which we acquired in the third quarter of fiscal year 2019, reinforced the technological positioning of Siemens Healthineers in the field of immunoassay point-of-care testing. For further information on the acquisitions of Corindus Vascular Robotics, Inc. and ECG Management Consultants completed after the reporting date, see →***Note 34 Subsequent events***, and for more information on Minicare B.V., see →***Note 3 Acquisitions*** in the notes to the consolidated financial statements.

We generated comparable revenue growth of 6%. For fiscal year 2019, we gave an outlook of 4% to 5% comparable revenue growth. All segments contributed to comparable revenue growth. On a comparable basis, total revenue in Imaging grew by 7% and in Advanced Therapies by 6%. For fiscal year 2019, we projected an increase for both segments within our midterm target range of 4% to 6%. Diagnostics showed 2% comparable revenue growth which is below the midterm target range of 4% to 6%, according to our updated outlook in the half-year financial report.

The profit margin adjusted for severance charges was 17.3% and ended up slightly below our outlook for fiscal year 2019, which had been in the range of 17.5% to 18.5%. Profit development benefited from our continuous efforts to increase productivity. The profit margin adjusted for severance charges of Imaging was, at 20.6%, on the projected level within the midterm target range of 20% to 22%. As expected, Advanced Therapies was above the prior-year level with a profit margin adjusted for severance charges of 20.0%, and within the midterm target range of 20% to 22%. Diagnostics' profit margin adjusted for severance charges came in at 9.3% and was below the level of the previous fiscal year but in line with the updated outlook given in the half-year financial report, mainly due to a change in the dynamics of the Atellica Solution ramp-up.

Net income increased by 24% to €1,586 million, due mainly to higher revenue. The increase was supported by lower financing interest primarily resulting from implementation of the post-IPO capital structure and debt restructuring, and by a lower income tax rate. Higher net income resulted in a year-over-year increase in basic earnings per share of 24% to €1.57. We therefore met our target of an increase between 20% and 30%.

The Managing Board and the Supervisory Board propose to the Shareholders' Meeting to distribute a dividend of €0.80 per share entitled to the dividend. This corresponds to an increase of 14% compared to the prior fiscal year and in total represents approximately €799 million in expected payments. Based on net income of €1,586 million for fiscal year 2019, the dividend payout percentage is around 50%.

A.4 Nonfinancial matters

Siemens Healthineers is exempted from submitting the nonfinancial group declaration pursuant to Section 315b (2) of the German Commercial Code and refers to the combined nonfinancial group declaration, which is integrated in the combined management report in the annual report of Siemens Group for fiscal year 2019. Siemens Group's annual report will be available on the Internet at → ***www.siemens.com/investor/en/publications_calendar.php***

A.5 Report on expected developments

A.5.1 Expected market development

Our markets will continue to benefit from the long-term trends described in →***A.1.2 Business environment*** but these positive effects will be counterbalanced by public spending constraints and by consolidation among healthcare providers. The Imaging and Advanced Therapies equipment markets are expected to stay on a moderate growth path in fiscal year 2020 as well as in the medium to long term, whereas the Diagnostics market is expected to continue with strong growth.

On a geographical basis and across all segments, the Asia, Australia region is expected to remain the major driver of market growth, with its very strong growth offsetting slight to moderate growth in the EMEA and Americas regions.

For Europe, we expect slight growth with a likely increased emphasis on equipment replacement and business with large customers such as hospital chains. The debate on the Brexit, now lasting for more than three years, is expected to remain a concern. The foreseen departure of the United Kingdom from the EU's internal market is likely to create disruptions, implying potential impact on customs duties and hence pricing.

In the Americas region, we expect solid growth for the United States, held back by continued pressure to increase utilization of existing equipment, reduced reimbursement rates and uncertainty about policies. Economic protectionism is expected to continue. In addition, the healthcare industry faces policy challenges, most notably the medical device tax. This excise tax is currently suspended but scheduled to return on January 1, 2020. In the past, suspension of this tax has been extended several times.

In the Asia, Australia region, we expect very strong growth to continue for China, due to rising government spending on healthcare, promotion of the private sector and wider access to healthcare services nationwide. The aging population and a growing incidence of chronic diseases significantly contribute to this expected market growth. The Chinese government has made primary healthcare and the establishment of a tiered healthcare system a priority in its Healthy China 2030 strategy. Another major element thereof is upgrading county-level hospitals. As a result, demand for equipment upgrades and for healthcare IT is expected to increase at the level of primary care. China's approach of pushing for disease-centric medical centers (e.g. for stroke, chest pain, trauma) will drive demand for solutions offerings. Moreover, reimbursement reforms are on the way, aimed at introducing case-based diagnostic-related groups.

In addition to our addressable product markets described above, the product-related service market offers sustainable growth potential. Our participation in this market is directly proportional to our strongly growing installed base.

Beyond that and in line with our Siemens Healthineers Strategy 2025 described in →***A.1.1 Business description***, we aim to address attractive adjacent markets and grow innovative new market segments. The acquisition of Corindus Vascular Robotics, Inc., for example, as well as our expanding digital portfolio, enables us to benefit from substantially growing markets and trends including robotics and digitalization of healthcare.

These market development expectations are based on Siemens Healthineers' market model that builds on external sources (amongst others from IQVIA Ltd., IHS Markit and Signify Research), market information from medtech industry associations (amongst others COCIR, NEMA, JIRA and EDMA) and Siemens Healthineers' management estimates.

A.5.2 Business development

As of fiscal year 2020, along with comparable revenue growth we will apply the new KPIs adjusted EBIT margin (for the segments) and adjusted basic earnings per share (for Siemens Healthineers) as defined in ➔***A.2 Financial performance system***.

Development in the Imaging segment will primarily be based on recent and planned launches of new products and platforms and on sales of imaging products and services from our existing portfolio. In fiscal year 2020, we expect comparable revenue growth in the Imaging segment below the very strong level of fiscal year 2019 but within Siemens Healthineers' target range for fiscal year 2020 from 5% to 6%, and an increase in adjusted EBIT margin, similar to the increase we delivered in prior year.

The Diagnostics segment will benefit from new products and from fundamental drivers such as increased demand from emerging markets, an expected rise in awareness regarding wellness testing and an improvement in diagnostic techniques. In fiscal year 2020, we expect comparable revenue growth to increase in the Diagnostics segment but come in below Siemens Healthineers' target range for fiscal year 2020. However, we expect the adjusted EBIT margin to decrease slightly compared to prior year.

The Advanced Therapies segment is significantly positively influenced by sustainable development of the business environment in all the clinical areas it serves. These market drivers increase as expected demands for the segment's products and solutions, thus supporting our growth expectations. In fiscal year 2020, we expect comparable revenue growth in the Advanced Therapies segment within Siemens Healthineers' target range for fiscal year 2020. We expect a significant decrease in the adjusted EBIT margin compared to prior year due to the acquisition of Corindus Vascular Robotics, Inc.

A.5.3 Overall assessment of the expected development

For fiscal year 2020, we expect comparable revenue growth to be in the range of 5% to 6% compared to fiscal year 2019. We expect growth of adjusted basic EPS to be in the range of 6% to 12%.

We are exposed to exchange rate 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 2020. Siemens Healthineers is still a net exporter from the euro zone into the rest of the world, which means that in terms of absolute values 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 business. We expect this measure to help us limit effects on income related to exchange rate fluctuations in fiscal year 2020.

The above-described outlook is based on current foreign exchange rate assumptions and on the current portfolio, including Corindus Vascular Robotics, Inc. and ECG Management Consultants. Guidance for adjusted basic EPS was calculated using the income tax rate and the average weighted number of outstanding shares expected for fiscal year 2020.

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

A.6 Report on material risks and opportunities

A.6.1 Risk management

Our risk management policy stems from a philosophy of pursuing sustainable growth and creating economic value while managing risks and opportunities appropriately. 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 management of our Siemens Healthineers businesses, regional levels and functions to implement risk management programs that are tailored to their specific businesses and responsibilities, while being consistent with the overall policy.

We make use of a coordinated set of risk management and control systems which support us in the early recognition of developments that could jeopardize the continuity of our business. The most important of these systems include our company-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 audit function reviews the adequacy and effectiveness of our risk management system at the request of the Audit Committee. Accordingly, if deficits are detected, it is possible to adopt appropriate measures to eliminate them. We intend 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 COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework "Enterprise Risk Management – Integrating with Strategy and Performance" (2017) and the ISO (International Organization for Standardization) Standard 31000 (2018) and is adapted to Siemens Healthineers requirements.

Our ERM process aims for early identification and evaluation of, and response 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. While reporting generally follows a quarterly cycle, 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 management of the Siemens Healthineers businesses and regional levels. 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, retain or watch the relevant risk. Our general response strategy for opportunities is to pursue 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 Company 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 adopt a purely quantitative assessment of risk themes.

Below we describe the risks that could have a material adverse effect on our business, financial position (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.6.2 Risks

A.6.2.1 Strategic risks

Increasing governmental protectionism

Protectionist trade policies and changes in the political and regulatory environment in the markets we operate in, such as import and export controls, tariffs and other trade barriers, including exclusion from certain markets and price or exchange controls, could affect our business in some national markets and could impact our business, financial position and results of operations. Furthermore, they may expose us to penalties, other sanctions and reputational damage. Over the last fiscal year, we observed an overall increased tendency in this regard. In particular, the trade dispute between the United States and China burdens our business in these two important markets, and beside the addition of punitive tariffs it also brings the risk of threatening a free market access. The imposition of import customs duties, the increased regulatory burdens, and non-refundable taxes on foreign value added may result in a need to reduce our transfer prices, provided that passing these costs along to customers is not feasible. To counter these risks, we closely observe the geopolitical situation and its indicators in order to identify critical cases. We do this with the objective to adapt our processes and business models to any changes due to protectionism, to ensure compliance 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 and financing terms. In addition, shifts in market demands are partially driven by rapid and significant changes due to the introduction of innovative and disruptive technologies. Next to existing competitors there is a risk that new competitors (e.g. IT-companies expanding into healthcare business) 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 or introduce new business models. Beside the risk from our competitors, we also see changes in the behavior of local authorities that push for locally manufactured products, products from local players or might even exclude us from competing for governmental business. This might lead to an increased pressure on prices 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. 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 market and competitive information in order to be able to anticipate unfavorable changes in the competitive environment rather than merely reacting to them. Many of our products, solutions and services are at the cutting edge of existing technologies and medical advances. However, the demand for standard and basic products, which render lower margins, has been increasing, 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, this could result in negative effects on our profit. Furthermore, the launch of new products may lead to additional price pressure (e.g. competitive response to our new diagnostics platform). As a countermeasure, we closely monitor how the market develops in order to better anticipate future development, adapt our product roadmap to future demands, implement tools to strengthen value selling and determine how to lower operating expenses to increase competitiveness for basic and standard products.

Economic, political and geopolitical conditions (macroeconomic environment)

There is a risk that an unstable political, regulatory and economic environment in certain countries (e.g., in the United Kingdom due to the Brexit) might potentially result in significant adverse business impacts including non-sustainable business development, diverted management attention or less competitive strength. A slowdown of an economy might lead to reduced income through taxes, which in a second step could reduce the budget for public healthcare spending. For example, it may become more difficult for our customers to obtain financing and as a consequence, they may modify, delay or cancel plans to purchase our products, solutions and services, or fail to follow through on purchases or contracts that they already made. Furthermore, the prices for our products, solutions and services may decline, as a result of unfavorable market conditions, to a greater extent than we currently anticipate. In addition, we could face a shortage of supplies or increased cost in our sourcing that could potentially impact our competitive position. We see a high degree of uncertainty in the current political environment within the EU, e.g. risks to fiscal stability, the development of negative interest rates, further independence debates, and anti-EU and anti-business parties which may reignite the Euro crisis or even increase uncertainty about the future of the EU in general. Further risks stem from geopolitical tensions (such as in Iran, Syria, Russia, North Korea, Turkey or Ukraine) and potentially resulting conflicts. A significant terrorist attack or 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. If macroeconomic growth stalls and we cannot successfully adapt our production and cost structure to subsequent changes in the markets we operate in, it cannot be ruled out that we will experience adverse effects. To address risks in this field, we constantly monitor changes in economic, political and geopolitical situations. For example, regarding the Brexit developments we leverage a task force to coordinate our local and global mitigation measures. We also use opportunities to engage in discussions with local authorities. Siemens Healthineers' global setup, with operations in almost all relevant economies, together with the variety of our products and services, helps us to compensate the impact of an unfavorable development in a single market.

A.6.2.2 Operational risks

Cybersecurity

We observe a global increase of cybersecurity 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. The increasing capabilities of state-sponsored hacking and professionalization of attacks contribute to a growing cybersecurity risk in particular to the healthcare sector, which is subject to specific privacy regulations with regard to a wide range of health information. These threats, if they materialize, could lead to major negative impacts on our business, performance and reputation. On a global level we can see rising political interest in cybersecurity, caused by increasing cyber risks in a highly complex technological environment. As a result, compliance with existing and emerging cybersecurity-specific laws and regulations on a local or regional level must be ensured. Any breach of these regulations could lead to financial and reputational damages that can be avoided only with a strong internal control system and high awareness for the relevant requirements and risks. As with other large multinational companies and our own customers, we have also been subject to targeted social engineering and sophisticated phishing attacks that we were able to identify and stop with our established technical and organizational controls. As we expand our business portfolio and leverage digital technologies including the digitalization of our supply chain, our cyber-resilience has become a key business enabler that is important to sustain. Therefore, we continue to focus on expanding, adapting and improving established security controls across the organization. Contributing measures include among others the certification in Information Security Management according to ISO Standard 27001, the implementation of new security technologies in our IT infrastructure and the continuous improvement of our provider security management. By adhering to and supporting the Charter of Trust for a secure digital world, we are on track to systematically improve the supply chain security, further adapt our security by default approach for both products and internal processes and expand cybersecurity education across the organization.

Product development and introduction

We design, manufacture and sell a comprehensive portfolio of products, solutions and services (including accessories and software products) to a wide range of healthcare providers. Many of our products, solutions and services are at the cutting edge of existing technologies and medical advances. 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. Our products, solutions, services and their enhancements often have long development and government approval cycles, which require us, as a result, to maintain early and accurate anticipation of changes in the marketplace, in technology and in customer demands that can be subject to significant changes. 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 services are not introduced to the market at the targeted margins, 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 own. In addition, we closely monitor market developments in order to identify and react on new demands early on. Furthermore, operational failures in the design of our products or in our value chain processes could result in quality problems or potential product, labor safety, regulatory or environmental risks. This could lead to 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, project risk management and claim prevention that contribute to the mitigation of existing risks.

A.6.2.3 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 an adverse development of plan assets or the defined benefit obligations is considered as a significant risk. The funded status can be affected by changes in actuarial assumptions, primarily the discount rate, as well as by movements in financial markets. 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. Regular asset liability studies are performed to implement an investment strategy to mitigate liability risks and reduce funded status volatility.

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 activities, 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 risks resulting from fluctuations in interest rates. Increasing financial 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 financial 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.

Tax risks

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, and other tax aspects. This could result in additional financial charges such as double taxation, penalties or interest payments as well as corrections of 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.

Liquidity and financing risk

Our treasury and financing activities could face negative developments related to financial markets, such as limited availability of 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 partner, 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 and liabilities, 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.6.2.4 Compliance risks

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 position as well as our time to market for certain products or product life cycles. Examples include, among others, Medical Device Regulation (MDR) and In-vitro-Diagnostics Regulation (IVDR) in Europe, new and changed regulations in the USA or China (e.g. from FDA or NMPA), as well as new or changed regulations in practically all jurisdictions world-wide. The risk also covers effects of the regulations in the area of Environment, Health, and Safety (EHS) including, but not limited to, the Restriction of Hazardous Substances (RoHS) and the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). 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. In parallel, we conduct continuous training and communication, issue internal regulations and guidance and conduct dedicated projects.

Violations of anti-corruption, antitrust, data privacy legislation or other violations of law

If proceedings are brought against us regarding allegations of corruption, antitrust violations 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 under certain circumstances also 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 agencies or organizations 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 customers or 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 such as general training on compliance with law and the requirements of our Business Conduct Guidelines, 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 process. 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. As a globally operating company we process personal data of our employees, our customers, the patients of our customers and our business partners. We are conscious of our responsibility when handling personal data and take the responsibility very seriously. Since the implementation of the European Regulation on Data Protection in May 2018, European authorities have tightened their enforcement in case of data protection violations and issue higher fines. We are also bound by similar legislation in other countries. A violation of any of these laws could result in significant damage to the Company such as fines, damage claims as well as in a loss of reputation. Therefore, the realization of any of these risks could have a material adverse effect on our business, assets, financial condition and results of operations, reputation and future prospects. We have addressed and continue to address this risk through organizational measures, such as strengthening our data protection organization, including dedicated roles and responsibilities, both centrally and locally. Moreover, we have strengthened our corporate governance, e.g. by issuing a globally applicable directive. To ensure adherence to the set standard, we have implemented data protection controls. In addition, we perform independent audits through our internal audit function. We established a dedicated tool and contact points to ensure a timely reporting of potential deficiencies or violations to us, authorities or other stakeholders, if any. Awareness on data protection is enhanced through continuous global employee training.

A.6.2.5 Assessment of the overall risk situation

The order in which the risks are presented in each of the four categories above – strategic, operational, financial and compliance risks – reflects the currently estimated exposure. The most significant risks we are currently exposed to are those that arise in connection with cybersecurity, changes in regulations, laws and policies, and pension obligations. Compared to the prior year, mitigating measures in our processes have, in our estimation, slightly reduced the risk from increasing governmental protectionism in the reporting period. Nonetheless, the risk of considerable adverse effects remains high and we continue to observe developments in order to quickly identify changes and make adjustments where necessary. We consider our exposure to all remaining risks described above on a constant lower level than the three most significant 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.6.3 Opportunities

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

Growth fields

Innovation, digital offerings and new business models are core for our Company in shaping the future of the healthcare industry. We do this by investing significantly in R&D to develop innovative products, solutions and services for our customers in the area of digitalization and at the same time safeguarding our competitiveness. We enable healthcare providers to increase value by expanding precision medicine, transforming care delivery and improving patient experience by leveraging digital technologies. With this, we expect to meet future demands arising from societal trends such as demographic shifts, population growth and growing chronic disease burdens. We see the opportunity to generate additional sales volume and profit from new and innovative digital products, services and solutions, including cybersecurity for our customers, preventive maintenance and data analytics, among others. Furthermore, additional business opportunities could also arise from long-term value partnerships with healthcare providers, supporting our customers in setting up centers of excellence and jointly working on solutions. In addition to that, we aim to grow into adjacent fields by advancing our offerings, especially in high growth customer segments. This includes but is not limited to targeted product development (e.g. entry level systems), partnering, selected merger and acquisition activities, growing our consulting competencies to increase relevance as a trusted partner and assessing new market entry strategies. We also continuously strive to grow and expand our business in established markets, open up new markets for existing portfolio elements and strengthen our installed base in order to gain a higher market share and improve profitability. (Inter) national funding from aid organizations such as the World Health Organization (WHO) or the EU and governmental funding or subsidies could further increase. This would expand investment and spending in private hospitals, for example in the Middle East and Africa, Asia and Europe. That in turn would generate additional growth in these markets, especially for standard and basic products and services. In our Diagnostics segment, further collaboration with third parties could create opportunities for increased revenue and margins on existing system platforms by having an even broader range of assays in addition to our own development assays and having them available sooner for our customers.

Efficiency gains

Further investments into efficiency measures could potentially drive additional improvements in our processes and cost structures. Localizing certain value-chain activities, such as procurement, manufacturing, logistics, maintenance and service, e.g. in emerging markets could enable us to reduce costs and strengthen our global competitive position, in particular compared to competitors based in countries with more favorable cost structures. In supply chain management and product lifecycle management opportunities for improvement could arise from further implementing an integrated digital tool landscape. Improvements could also include further gains from platforms leveraging a high degree of strategic re-use of standardized platform elements. Utilizing these synergies could further increase our flexibility and speed in adjusting our innovative solution portfolio to the needs of the market while optimizing product lifecycle costs and reducing internal complexity.

Assessment of the overall opportunities situation

The order in which opportunities are presented reflects the currently estimated exposure for Siemens Healthineers. The described opportunities are not necessarily the only ones we envision or may 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.6.4 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 combined management report of Siemens Healthineers are prepared in accordance with all relevant regulations.

Our ERM approach is based on the COSO framework "Enterprise Risk Management – Integrating with Strategy and Performance" (2017) and ISO (International Organization for Standardization) Standard 31000 (2018) and is adapted to Siemens Healthineers requirements. The frameworks connect the ERM process with our financial reporting process and our internal control system. They consider a company's strategy, the efficiency and effectiveness of its business operations, the reliability of its financial reporting and compliance with relevant laws and regulations to be equally important. Our accounting-related internal control system (control system) is based on the internationally recognized "Internal Control – Integrated Framework" (2013) 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 entities 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. 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, e.g. actuaries for the calculation of pension obligations, 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 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 addresses 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.

A.7 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. Its results are significantly influenced by directly or indirectly owned subsidiaries. The business development of Siemens Healthineers AG is generally subject to the same risks and opportunities as the Group. Due to the interrelations between Siemens Healthineers AG and its subsidiaries, the outlook of the Company 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. The results of the test are 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 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 significantly influences the net income of Siemens Healthineers AG.

We intend to provide an attractive return to our shareholders. Therefore, we intend to pay out a dividend of around €799 million. This equals a dividend per share of €0.80.

Fiscal year 2019 was notable for the payment of the first dividend to our shareholders, in the amount of €699 million, and for the positive performance of income from investments. A further significant influence on net assets, financial position and results of operations was the assumption of loan liabilities to the Siemens Group denominated in U.S. dollars which were covered in full by currency hedges.

As of September 30, 2019, Siemens Healthineers AG had 55 employees.

A.7.1 Results of operations

(in millions of €)	Fiscal year 2019	Short fiscal year 2018
Revenue	14	7
Cost of sales	−13	−7
Gross profit	1	–
General administrative expenses	−23	−9
Other operating income/expenses, net	6	1
Financial income/expenses, net	1,405	467
Therein: Income from investments	1,415	472
Income from business activity	**1,389**	**459**
Income taxes	−356	−126
Net income	**1,034**	333
Profit carried forward	24	–
Transfer from capital reserves	–	390
Unappropriated net income	**1,057**	723

The prior year was a short fiscal year covering the period from the founding of Siemens Healthineers AG on December 1, 2017, to September 30, 2018. This limits the comparability of the prior year's figures in the income statement.

Revenue resulted only from providing management services for affiliates, which have been provided since April 1, 2018. The increase of 100 % in revenue from the prior year was primarily a consequence of the longer service period in fiscal year 2019.

Net financial income/expenses in the amount of €1,405 million stemmed mainly from income from investments, which resulted only from the profit transfer agreement with Siemens Healthcare GmbH. The profit transfer from Siemens Healthcare GmbH increased by €944 million, to €1,415 million, mainly because the profit transferred in the prior year derived solely from Siemens Healthcare GmbH's short fiscal year from April 1 to September 30, 2018.

Income taxes included only current income taxes from corporation tax and trade tax because the excess of deferred tax assets was not recognized due to the exercise of the option under Section 274 (1) sentence 2 of the German Commercial Code. The increase in income taxes compared to prior year resulted primarily from the shorter prior year period. In the prior year, the income tax group formed with Siemens Healthcare GmbH did not exist until April 1, 2018.

A.7.2 Net assets and financial position

(in millions of €)	Sept 30, 2019	2018
Non-current assets		
Property, plant and equipment	–	–
Financial assets	16,185	14,399
Current assets		
Receivables and other assets	1,524	566
Cash and cash equivalents	4	–
Prepaid expenses	**33**	–
Total assets	**17,747**	14,965
Shareholders' Equity	**12,811**	12,493
Provisions		
Pensions and similar commitments	19	16
Other provisions	143	38
Liabilities		
Liabilities to affiliated companies and other liabilities	4,774	2,418
Total liabilities and equity	**17,747**	14,965

Non-current assets

The increase in financial assets pertained entirely to the shares of Siemens Healthineers Beteiligungen GmbH & Co. KG.

Siemens Healthineers AG assumed loans from Siemens Healthineers Beteiligungen GmbH & Co. KG under a debt assumption with full discharge of the debtor, waiving ex ante any recourse. This relates to two loan liabilities of US$ 0.9 billion and US$ 0.7 billion that increased the carrying amount of the investment by the amount of their fair value at the time of assumption. Please see →***A.3.3 Net assets and financial position*** for further information about this intra-group restructuring of financial liabilities.

Siemens Healthineers AG promised an additional cash payment to Siemens Healthineers Beteiligungen GmbH & Co. KG, which the subsidiary has requested. The background for this additional payment was that the financing for the planned acquisition of Corindus Vascular Robotics, Inc. was passed along to a subsidiary. This additional cash payment will be financed through the cash pooling.

During fiscal year 2019, Siemens Healthineers Beteiligungen GmbH & Co. KG also carried out a cash distribution that was classified entirely as a return of capital, which reduced the carrying amount of this affiliate accordingly.

These transactions resulted in the recognition of additions of €2,400 million and disposals of €613 million in the financial assets.

Current assets

The increase of €958 million in receivables and other assets resulted primarily from the profit transfer receivable from Siemens Healthcare GmbH which rose by €944 million compared to the prior year.

Prepaid expenses

The €33 million increase in prepaid expenses relates primarily to discounts on the loan liabilities assumed from Siemens Healthineers Beteiligungen GmbH & Co. KG. The difference between the lower fair value at the date of assumption of the debt and the fulfillment amount of the assumed loans was recognized as a discount. These discounts will be reversed over the term of the loans.

Shareholders' equity

The €318 million increase in equity is the result of contrary developments. The capital reserve under Section 272 (2) number 4 of the German Commercial Code that remained from the prior year was used again in fiscal year 2019 to acquire treasury shares, of which 651,158 were held as of September 30, 2019 (September 30, 2018: 247,763). For information about the acquisition of treasury shares pursuant to Section 160 (1) number 2 of the German Stock Corporation Act ("Aktiengesetz"), please see Note 12 Equity in the notes to the annual financial statements of Siemens Healthineers AG for the year ended September 30, 2019. As of September 30, 2019, before allowing for amounts subject to dividend payout restrictions, €350 million of the capital reserve (September 30, 2018: €367 million) could be distributed. In addition, the dividend distributed for the short fiscal year 2018 decreased equity by €699 million. These two negative effects were more than offset by net income, which increased by €701 million. Nevertheless, the equity ratio decreased from 83% to 72%. This decrease was largely the result of the increase of €2,345 million in liabilities to affiliated companies.

Liabilities

Liabilities to affiliated companies and other liabilities almost exclusively included liabilities to affiliated companies. Liabilities from cash pooling decreased by €101 million, to €2,222 million, because the cash generated by operating activities and investing activities more than compensated for the cash used for financing activities. Cash pooling liabilities carried an average interest rate of 0.33% in fiscal year 2019. The loans resulting from the US$1.6 billion debt assumption and the liability to Siemens Healthineers Beteiligungen GmbH & Co. KG as a result of the promised additional cash payment of €1.0 billion were incurred in fiscal year 2019. The nominal amounts of the loans denominated in U.S. dollars and all interest payments for the debt assumption were hedged with forward exchange contracts. Concerning the currency hedging of the loans, please also see Note 22 Financial instruments and hedging activities in the notes to the annual financial statements of Siemens Healthineers AG for the year ended September 30, 2019. The contractual interest rates for the fixed-rate loans were 1.9% for the US$0.9 billion loan due in 2021 and 2.2% for the US$0.7 billion loan due in 2023 respectively. The other liabilities to affiliated companies, which largely result from a value-added tax group with several subsidiaries, increased by €8 million, to €99 million. Other than the loan liabilities from the debt assumption, the liabilities had a remaining term of less than one year.

A.7.3 Cash flows and liquidity

(in millions of €)	Fiscal year 2019	Short fiscal year 2018
Cash flows from:		
Operating activities	223	−71
Investing activities	613	−2,230
Financing activities	−731	−22

The profit transfer received from Siemens Healthcare GmbH is presented under operating activities in the table above, because that categorization better reflects the activity of Siemens Healthineers AG as a management holding company than would a presentation under investing activities.

Cash generated from operating activities largely resulted from the payment of the profit transfer from Siemens Healthcare GmbH for the prior year. The payments of income taxes had a contrary effect. The significant cash flow from investing activities in fiscal year 2019 resulted from the return of capital by Siemens Healthineers Beteiligungen GmbH & Co. KG. An additional cash payment had been made to this subsidiary in the prior year. The cash used in financing activities comprised mainly the dividend payment, the repurchase of treasury shares, and an increase in interest paid.

The availability of cash to Siemens Healthineers AG is essentially ensured by cash pooling. Concerning special credit terms that may result in early maturity of the assumed loans, please see → ***A.9.5 Significant agreements which take effect, alter or terminate upon a change of control of Siemens Healthineers AG following a takeover bid***.

A.7.4 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 → ***C.3.2 Corporate Governance statement pursuant to Sections 289f and 315d of the German Commercial Code***.

A.7.5 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 fiscal year 2019 and issued the following concluding declaration:

"We declare that, in the legal transactions and other measures in fiscal year 2019 outlined in the report on relationships with affiliated companies, based on the circumstances which we were aware of at the point in time when 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.8 Compensation report

This report is based on the recommendations of the German Corporate Governance Code ("Deutscher Corporate Governance Kodex", hereinafter "DCGK") in the version dated February 7, 2017 and the requirements of the German Commercial Code ("Handelsgesetzbuch"), the German Accounting Standards ("Deutsche Rechnungslegungsstandards") and International Financial Reporting Standards (IFRS).

The report details the compensation of the members of the Managing Board and Supervisory Board of Siemens Healthineers AG for the period from October 1, 2018, to September 30, 2019 (fiscal year 2019). The previous year's report describes the compensation of the members of the Managing Board and Supervisory Board for the period from December 1, 2017, to September 30, 2018 (the 2018 period of consideration). It describes the previous year's compensation of the members of the Managing Board and Supervisory Board in office as of September 30, 2018, for the period from March 1, 2018, to September 30, 2018 (the 2018 term of office). The members of the Managing Board in office from December 1, 2017, to February 28, 2018, received no compensation.

A.8.1 Compensation of Managing Board members

A.8.1.1 Compensation system

Principles and objectives

The Supervisory Board decides on the compensation system, based on proposals by the Chairman's Committee. The Supervisory Board regularly evaluates the appropriateness of the compensation system and determines the total compensation paid to members of the Managing Board, taking into account the requirements of law and the recommendations of the DCGK. If necessary, it revises the compensation system. In October 2018, an independent external consultant confirmed that the compensation is appropriate. The current compensation system for members of the Siemens Healthineers AG's Managing Board has been applicable since March 2018. The Supervisory Board intends to conduct a review of the compensation system once Germany's Act Implementing Shareholder Rights Directive II, and thus the new version of the DCGK, come into effect, which will have an impact on this system.

In particular, the following principles guide the Supervisory Board in designing the compensation system and determining the amount and structure of compensation:

The Company's economic situation, performance and outlook: In deciding on the design and implementation of the compensation system, the Supervisory Board takes account of both the Company's size and its current and future economic position.

Sustainable growth of the Company: The compensation system is intended to provide an incentive for successful corporate management and sustainable growth of the Company. The performance-based components allow for both positive and negative future developments. 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 compensation is linked to the long-term performance of Siemens Healthineers AG share.

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

Compensation linked to duties and performance: Compensation depends on the duties, responsibilities and performance of each Managing Board member. The amount of performance-based compensation is dependent on the achievement of demanding targets agreed upon in advance. Performance-based compensation accounts for a significant portion of the total compensation.

Customary level of remuneration: The Supervisory Board is particularly concerned with ensuring that the compensation system is in line with market practice and at the same time responds to the contending needs of international competition in the healthcare market, German market practice, and the Siemens Group as a strong anchor shareholder. The Supervisory Board takes into consideration the compensation system of Siemens AG and also the position of Siemens Healthineers AG as a consolidated company of Siemens AG. It further considers the customary level of Managing Board compensation at peer companies. For this purpose, the Supervisory Board also obtains recommendations from an independent external compensation expert. Compensation is intended to be attractive in comparison to competitors and thus incentivizes qualified executives to join and remain with the Company for the long term. Furthermore, the Supervisory Board considers the compensation structure prevailing in other areas of the Company. It also takes due account of the relationship between the Managing Board's compensation and that of senior management and staff, including development over time; in this effort, the Supervisory Board also determines how senior management and the relevant staff are to be differentiated.

In fiscal year 2019, the compensation system consisted of the following components:

Compensation

Share ownership guidelines
Requirement to hold Siemens Healthineers AG shares worth a multiple of base compensation throughout the term of office.

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

Fringe benefits
For example, company car, contribution to insurance costs, housing costs and moving expenses.

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

Non-performance-based components

Fixed base compensation

The fixed base compensation is paid as a monthly salary in cash. Since October 1, 2018, it amounted to €1,050,000 p.a. for the Chief Executive Officer and €735,000 p.a. for the other Managing Board members.

Fringe benefits

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 costs, housing costs and moving expenses, including taxes incurred on these (if applicable), and costs related to preventive medical examinations.

Performance-based components

Performance-based components consist of the variable compensation (bonus) and the long-term share-based compensation.

Variable compensation (bonus)

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

- achievement of the target parameter ***earnings per share*** (adjusted by material currency effects) during the past fiscal year,
- achievement of the target parameter ***comparable revenue growth*** in percent compared to the previous fiscal year,
- achievement of individual targets.

For fiscal year 2020, the Supervisory Board defined, besides the achievement of individual targets, the target parameters ***adjusted basic earnings per share*** and ***comparable revenue growth***.

For fiscal year 2019, the Supervisory Board defined the following bonus target amounts based on a target achievement of 100%:

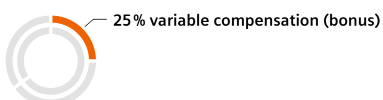
- €750,000 for the Chief Executive Officer,
- €525,000 for the other Managing Board members.

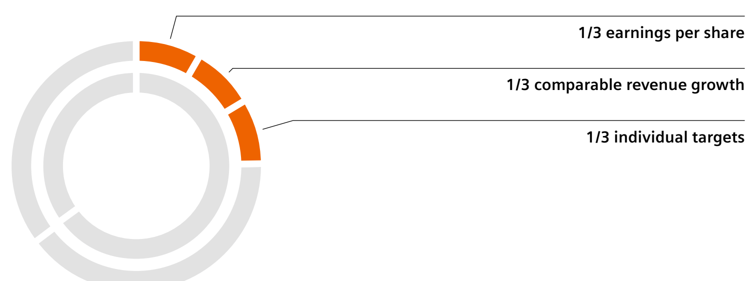
The bonus is not paid if target achievement is 0%, and is capped at 200% of the respective target amount.

For some or all of the Managing Board members, the Supervisory Board may increase or decrease the amount of the bonus paid by up to 20%. The related calculations take account of the previous year, growth, market, the results of a customer satisfaction survey, and the results of an employee survey if one is conducted, as well as individual contribution. The maximum adjusted bonus amount is 240% of the target amount.

Under a malus clause, the Supervisory Board can reduce the payout amount (down to zero) in the event of a severe breach of duty, a severe compliance violation, or seriously unethical behavior of a Managing Board member.

Calculation of variable compensation (bonus)





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

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

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

Long-term share-based compensation
At the beginning of a fiscal year, forfeitable stock awards are granted as long-term share-based compensation. For fiscal year 2019, based on a target achievement of 100 %, the annual target amount for the monetary value of the stock awards was

- € 1,200,000 for the Chief Executive Officer and
- € 840,000 for the other Managing Board members.

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 performance and experience, as well as the scope and demands of his or her position, the target of a long-term, sustainable development of the Company and also to ensure that the compensation system remains internationally competitive. In fiscal year 2019, the Supervisory Board did not exercise this option.

Calculation of long-term share-based compensation

40 % long-term share-based compensation

[Target amount in € / Closing price of the Siemens Healthineers AG share in Xetra trading at grant date[1] in €] x Target achievement depends on TSR[2] (0 – 200 %) Siemens Healthineers AG's TSR compared to competitors' TSR in quartiles (100 % target achievement = median performance) = Final number of Siemens Healthineers' stock awards to be converted into Siemens Healthineers AG shares[3] x Share price at end of restriction period = **Actual amount in € (cap: 300 %)**

Grant (number) | **End of restriction period**

[1] Less discounted estimated dividends during the restriction period.

[2] $\text{Total shareholder return (TSR)} = \dfrac{\text{(Performance price – Reference price) + dividends}}{\text{Reference price}}$

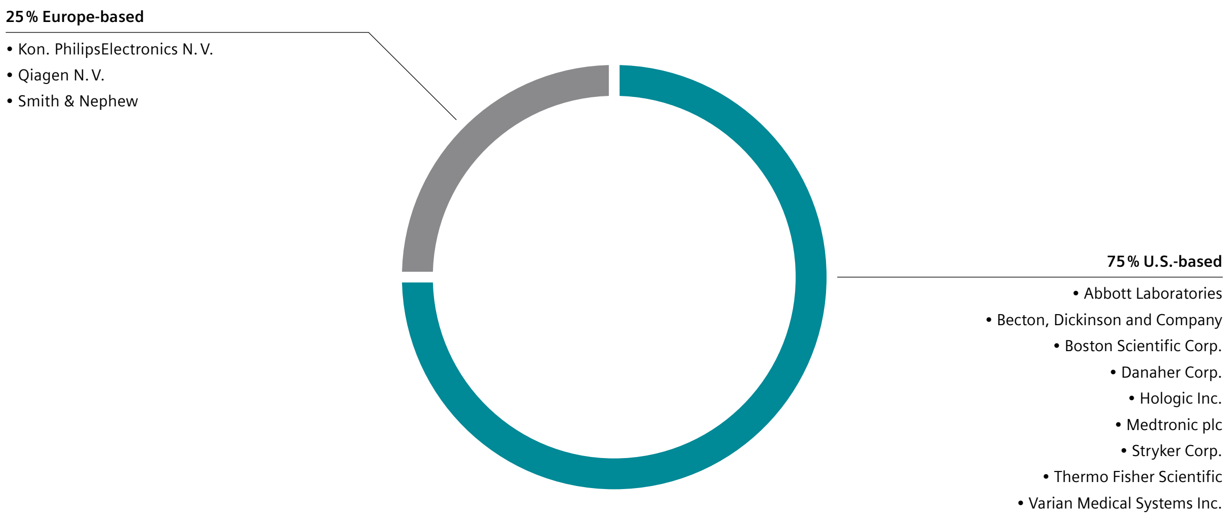
[3] If target achievement of the stock awards granted in the 2018 term of office is above 100 %, the Managing Board members receive a cash payment for the target achievement above 100 % in addition to the transfer of share with the total of both being capped at 300 % of the relevant target amount.

After an approximately four-year restriction period, beneficiaries receive one free Siemens Healthineers AG share per stock award, subject to target achievement. The number of stock awards granted is calculated by dividing the target amount by the closing price of the Siemens Healthineers AG share in Xetra trading on the grant date (less the discounted estimated dividends during the restriction period). Stock awards are granted based on a target achievement of 200 %. If actual target achievement at the end of the restriction period is below 200 %, the corresponding number of stock awards will be forfeited without replacement.

The target achievement for the stock awards depends on the total shareholder return performance of the Siemens-Healthineers AG share compared with competitors during the restriction period. To calculate target achievement, in the first twelve months of the restriction period a reference price (average price) is determined for the total shareholder return of the Siemens Healthineers AG share and the relevant competitors, which is then compared with the so-called performance price for each share over the three-year performance period. After the end of the approximately four-year restriction period, this determination yields a target achievement of not less than 0 % and not more than 200 % (cap). The actual amount, defined as the final number of Siemens Healthineers AG shares to be transferred multiplied by the Siemens Healthineers AG share price at the end of the restriction period, may not exceed 300 % of the originally granted target amount (absolute payout limit). If the actual amount is higher, the corresponding number of stock awards will be forfeited without replacement.

At the beginning of each fiscal year, the Supervisory Board decides on the target system and the relevant competitors. Adjustments can be made in case of significant changes in the relevant competitors and/or extraordinary unforeseen developments impacting the share price. The following twelve competitors were determined for calculating the target achievement for the awards granted in fiscal year 2019:

Competitors



The Supervisory Board can revoke all or some of a Managing Board member's stock awards without replacement in the event of compliance violations by that 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 more detail in ***→Note 27 Share-based payment*** in the notes to the consolidated financial statements.

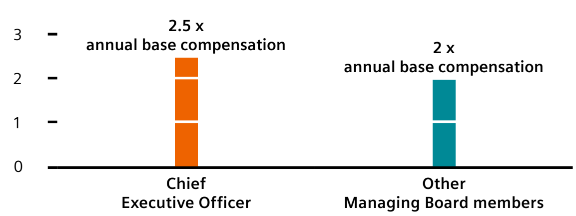
Maximum amount of total compensation

In addition to the caps on performance-based compensation, the maximum amount of total compensation is 1.7 times the target compensation (i.e. the fixed base compensation, the target amounts for variable compensation (bonus) and long-term share-based compensation; excluding the IPO Incentive (described in ***→A.8.1.3 Additional information on share-based compensation instruments***) and excluding fringe benefits and pension benefit commitments). If the IPO Incentive, fringe benefits and pension benefit commitments are included, the maximum amount of total compensation will increase accordingly.

Share ownership guidelines

The share ownership guidelines form an integral part of the compensation system for the Managing Board. The Managing Board members' contracts require that during their term of office on the Managing Board, the members must continuously hold Siemens Healthineers AG shares worth a percentage of their average annual base compensation paid over the last four years. The defined figures are 250 % for the Chief Executive Officer and 200 % for the other Managing Board members. Each Managing Board member must provide evidence of having met this requirement after a buildup period of up to four years (i.e., for the first time in March 2022) and then annually. The Managing Board member must acquire additional shares if the value of his or her shares falls below the required minimum level due to a decline in the price of Siemens Healthineers AG share.

Share ownership target
referred to annual base compensation



Pension benefit commitments

The Managing Board members participate in the Siemens Healthineers Beitragsorientierte Siemens Altersversorgung (Siemens Healthineers BSAV). 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 paid, and decides the amount as a percentage of the sum of the base compensation 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 the intended level of benefits for each Managing Board member, the length of time he or she has been a member and the annual and long-term expense resulting from providing for those benefits into account. Managing Board members are eligible to receive benefits at the age of 62. 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 Siemens Healthineers AG's consent.

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

Other rules of the compensation system

Commitments in connection with the termination of Managing Board membership

The following provisions apply if a Managing Board membership is terminated prematurely:

- ***Termination by mutual agreement without serious cause:*** The Managing Board contracts provide for a compensatory payment in this case (severance payment). The severance payment can compensate no more than the remaining term of the board member's contract, and cannot exceed two years' compensation in any case. It is payable in the month the member leaves the Managing Board. The amount of the severance payment is calculated based on the fixed base compensation together with the bonus and stock awards actually granted in the last fiscal year before termination. If the remaining term of the member's appointment 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 excluding the first six months of the remaining contract term. To cover non-monetary benefits, a flat amount of 5% of the severance payment is paid. A one-time special contribution is also made to the Siemens Healthineers BSAV. The amount is based on the contribution from the previous year and on the remaining term of the Managing Board member's appointment, with a cap of two years' contribution.
- ***Premature termination at the Managing Board member's request, or termination by Siemens Healthineers AG for serious cause:*** None of the above payments are made.
- ***Serious breach of fundamental contractual duties by a Managing Board member:*** None of the above payments are made. Siemens Healthineers AG reserves the right to claim damages.
- ***Change of control:*** If a change of control (controlling influence of a shareholder outside the Siemens Group as a result of a majority voting interest, intercompany agreement or merger) takes place which leads to a material change in the Managing Board member's position, the Managing Board member has a right of termination. This right is excluded if the change of control occurs during the twelve months before the member's retirement. If the Managing Board member exercises this right, he or she is entitled to a severance payment for the remaining term, capped at two years' compensation. The calculation is based on the fixed base compensation, the target amount for the bonus, and the target amount for the stock awards (each for the last fiscal year completed prior to the termination). The entitlement lapses if 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 awards 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 is present that would have entitled Siemens Healthineers AG to revoke the appointment or terminate the contract.
- However, stock awards will not be forfeited if the contract is terminated by mutual agreement at Siemens Healthineers AG's request, or because of retirement, disability, or a change of role within Siemens Healthineers.
- On termination of the employment agreement because of a structural measure (e.g., merger, spinoff), the Managing Board member is entitled to a cash settlement.
- If a beneficiary dies, his or her heir is entitled to a cash settlement.

Secondary activities of Managing Board members

Managing Board members may take on secondary activities, in particular, supervisory board memberships outside Siemens Healthineers, only with the approval of the Chairman's Committee of the Supervisory Board. It is up to the Supervisory Board to decide on any adjustments of compensation to take account of possible compensation for secondary activities.

The Managing Board's compensation is considered to include positions held in other Siemens Healthineers companies. Generally, Managing Board members are obliged to waive any compensation that may be due to them for these positions. If this is not possible, the compensation paid by the Siemens Healthineers company will be set off against the Managing Board's compensation.

Memberships in supervisory boards or in comparable domestic or foreign controlling bodies of business enterprises can be found in the further information in →***C.3.1.1 Managing Board.***

A.8.1.2 Compensation of Managing Board members for the fiscal year

The following describes the compensation the Managing Board members of Siemens Healthineers AG received during the fiscal year.

After the Supervisory Board had assessed the achievement of the targets it set in November 2018, the Supervisory Board established the amounts of the variable compensation, long-term share-based compensation, and pension benefit commitments for the Managing Board members in office as of September 30, 2019 as follows:

Variable compensation (bonus)

The Supervisory Board set the target parameters earnings per share and comparable revenue growth for all Managing Board members. In order to take comprehensive account of each Managing Board member's individual performance, it also set individual targets, each consisting of three focus topics. The figures set for a 100% target achievement are shown below, together with the figures actually achieved:

Target parameter (each weighting 1/3)	Target value for 100%	Actual figure for fiscal year 2019
Earnings per share	1.59 €	1.50 €[1]
Comparable revenue growth	4.5%	5.8%
Individual targets	2019 focus topics: Strategy 2025, operational performance, people	

[1] In fiscal year 2019, earnings per share were adjusted by currency effects of €0.07.

In fiscal year 2019, target achievement was between 105.5% and 107.8%. In its overall assessment, the Supervisory Board decided not to make any adjustments to the bonus payout amounts.

Long-term share-based compensation

Starting with fiscal year 2019, the number of stock awards granted is based on a 200% target achievement. The number of stock awards granted was determined based on the price of Siemens Healthineers AG share in Xetra trading on the Frankfurt Stock Exchange on the date of the grant of Siemens Healthineers AG shares, less the discounted estimated dividends during the restriction period. The value used to determine the number of stock awards was €35.29.

Total compensation

Based on the Supervisory Board's decisions described above, the Managing Board's compensation for fiscal year 2019 totaled €7,973,229. Of this total, cash compensation accounted for €4,122,127 and share-based compensation accounted for €3,851,102. The compensation granted to the Managing Board members in fiscal year 2019 and in 2018 term of office is presented below.

Managing Board members in office as of September 30, 2019

(Amounts in thousands of €)

Non-perfomance-based components	Fixed base compensation		
	Fringe benefits [1]		
	Total		
Performance-based components	without long-term incentive effect, non-share-based	One-year variable compensation (bonus) [2] – target amount	
	with long-term incentive effect, share-based	Multi-year variable compensation [3, 4] stock awards [5] (restriction period: four years)	
		IPO incentive [6] (restriction period: three years)	
	Total [7]		
	Service Cost		
	Total (DCGK)		
Total compensation of all Managing Board members for fiscal year 2019, in accordance with the applicable reporting standards, amounted to €7.97 million. The payout amount presented below is to be used instead of the target value according to the DCGK for one-year variable compensation. Service costs for pension benefits are not included.			
Performance-based components	without long-term incentive effect, non-share-based	One year variable compensation (bonus) – payout amount	
Total compensation [8]			

[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 toward insurance costs, moving and housing costs, including taxes incurred on these, and costs related to preventive medical examinations.

[2] The bonus during the 2018 term of office was based 1/3 each on adjusted profit margin, comparable revenue growth and individual targets.

[3] The figures for individual maximums for multi-year variable compensation reflect the possible maximum value in accordance with the maximum amount agreed upon for fiscal year 2019 and the 2018 term of office, i.e. 300% of the applicable target amount.

[4] In fiscal year 2019, the expenses recognized for share-based compensation for Managing Board members in accordance with IFRS amounted to €1,968,959 (2018 term of office: €876,845). The following amounts pertained to the Managing Board members in fiscal year 2019: Dr. Bernhard Montag €591,285 (2018 term of office: €365,112), Dr. Jochen Schmitz €437,071 (2018 term of office: €261,114) and Michael Reitermann €957,953 (2018 term of office: €250,619) due to his premature termination. If the plan conditions are met, Managing Board members are entitled to 2.264 Siemens AG shares from participation in Siemens share programs, which are transferred after expiry of the respective holding or vesting period. For these shares expenses of €50,623 were recognized according to IFRS in fiscal year 2019.

[5] The monetary values of stock awards referred to a 100% target achievement were €2,880,017 (2018 term of office: €2,397,388). The amounts for individual Managing Board members were as follows: Dr. Bernhard Montag €1,200,001 (2018 term of office: €997,538), Dr. Jochen Schmitz €840,008 (2018 term of office: €684,739) and Michael Reitermann €840,008 (2018 term of office: €715,111).

[6] The monetary values of the IPO incentive stock awards (second tranche) referred to a 100% target achievement were €1,089,040. The amounts for individual Managing Board members were as follows: Dr. Bernhard Montag €472,516, Dr. Jochen Schmitz €322,511 and Michael Reitermann €294,013. Further information about the IPO Incentive can be found in ➔ ***A.8.1.3 Additional information on share-based compensation instruments.***

[7] The total maximum compensation for fiscal year 2019 represents the contractual maximum amount for total compensation, excluding fringe benefits and pension benefit commitments. At 1.7 times target compensation (base compensation, target amount for the bonus and target amount for long-term share-based compensation, 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 Chief Executive Officer				Dr. Jochen Schmitz Chief Financial Officer				Michael Reitermann[9, 10] Managing Board Member			
Fiscal year			Term of office	Fiscal year			Term of office	Fiscal year			Term of office
2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)	2018
1,050	1,050	1,050	613	735	735	735	376	735	735	735	429
65	65	65	38	33	33	33	17	146	146	146	90
1,115	**1,115**	**1,115**	**650**	**768**	**768**	**768**	**393**	**881**	**881**	**881**	**519**
750	–	1,800	438	525	–	1,260	274	525	–	1,260	306
1,147	–	3,600	901[11]	803	–	2,520	618	830	–	2,520	646[11]
465	465	465	550	317	317	317	371	289	289	289	327
3,477	**1,580**	**5,565**	**2,538**	**2,413**	**1,085**	**3,887**	**1,657**	**2,525**	**1,170**	**3,859**	**1,798**
519	519	519	182	358	358	358	103	385	385	385	–
3,996	2,099	6,083	**2,720**	2,771	**1,443**	**4,245**	**1,760**	**2,910**	**1,555**	**4,244**	**1,798**
791			396	566			253	–			272
3,518			**2,496**	**2,454**			**1,635**	**2,000**			**1,764**

[8] The total compensation reflects the current fair value of share-based compensation components on the grant date. On the basis of the current monetary value of share-based compensation components, total compensation amounted to €8,091,184 (2018 period of consideration: €6,072,239).

[9] Michael Reitermann was also Head of Diagnostics for the United States and, in that role, received compensation from Siemens Medical Solutions USA, Inc. Of the fixed compensation and one-year variable compensation (payout amount) reported here, an amount of €478,198 (2018 term of office: €432,765) (including a bonus of US$124,507 converted to euros in January 2019; 2018 term of office: US$268,781) was granted and paid by Siemens Medical Solutions USA, Inc. and set off against the compensation for Michael Reitermann's Managing Board activities at Siemens Healthineers AG. Of the fringe benefits reported here, an amount of €103,232 (2018 term of office: €84,683) was granted and paid by Siemens Medical Solutions USA, Inc. In addition, it has been agreed that Siemens Healthineers AG will offset any personal tax burden on the compensation and fringe benefits (excluding deferred compensation) provided under the contract with Siemens Healthineers AG that exceeds the burden Michael Reitermann would incur if he paid tax solely in the U.S.

[10] Michael Reitermann's term of office as a member of the Managing Board of Siemens Healthineers AG ended by mutual consent at the end of the fiscal year on September 30, 2019. More information regarding terms of the termination agreement can be found in paragraph → ***Benefits in connection with termination of activity on the Managing Board***. The IPO Incentive forfeited according to plan rules and the one-year variable compensation for fiscal year 2019 was settled in the termination contract; a contribution to the Siemens Healthineers BSAV has not been granted.

[11] For the 2018 term of office this includes Siemens Healthineers phantom stock awards in the amounts of €255,970 granted to Dr. Bernhard Montag and €157,900 granted to Michael Reitermann. In lieu of a transfer of shares, 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.

Allocations

The following table shows allocations for fiscal year 2019 for fixed base compensation, fringe benefits, and one-year and multi-year variable compensation, as well as the service costs for pension benefits:

Managing Board members in office as of September 30, 2019

			Dr. Bernhard Montag [4] Chief Executive Officer		Dr. Jochen Schmitz [4] Chief Financial Officer		Michael Reitermann [5,6] Managing Board Member	
(Amounts in thousands of €)			**Fiscal year 2019**	**Term of office 2018**	**Fiscal year 2019**	**Term of office 2018**	**Fiscal year 2019**	**Term of office 2018**
Non-perfomance-based components	Fixed base compensation		1,050	613	735	376	735	429
	Fringe benefits [1]		65	38	33	17	146	90
	Total		**1,115**	650	**768**	393	**881**	519
Performance-based components	without long-term incentive effect, non-share-based	One-year variable compensation (bonus) [2] – payout amount [3]	791	396	566	253	–	272
	with long-term incentive effect, share-based	Multi-year variable compensation	–	–	–	–	–	–
	Total		**1,907**	1,046	**1,334**	646	**881**	791
	Service Cost		519	182	358	103	385	–
	Total (DCGK)		**2,425**	1,228	**1,693**	749	**1,266**	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 toward insurance costs, moving and housing costs, including taxes incurred on these, and costs related to preventive medical examinations.

[2] The bonus during the 2018 term of office was based 1/3 each on adjusted profit margin, comparable revenue growth and individual targets.

[3] The payout amount of one-year variable compensation (bonus) presented above represents the amount awarded for fiscal year 2019, which will be paid out in January 2020, and for the 2018 term of office, which was paid out in January 2019.

[4] In fiscal year 2019, the members of the Managing Board received the following additional amounts from participation in Siemens share programs granted prior to their appointment to the Managing Board of Siemens Healthineers AG: Dr. Bernhard Montag €147,501; Dr. Jochen Schmitz €283.

[5] Michael Reitermann's term of office as a member of the Managing Board of Siemens Healthineers AG ended by mutual consent at the end of the fiscal year on September 30, 2019. More information regarding the terms of the termination agreement can be found in paragraph → ***Benefits in connection with termination of activity on the Managing Board***.

[6] Michael Reitermann was also Head of Diagnostics for the United States and, in that role, received compensation from Siemens Medical Solutions USA, Inc. Of the fixed compensation and one-year variable compensation (payout amount) reported here, an amount of €478,198 (2018 term of office: €432,765) (including a bonus of US$124,507 converted to euros in January 2019; 2018 term of office: US$268,781) was granted and paid by Siemens Medical Solutions USA, Inc. and set off against the compensation for Michael Reitermann's Managing Board activities at Siemens Healthineers AG. Of the fringe benefits reported here, an amount of €103,232 (2018 term of office: €84,683) was granted and paid by Siemens Medical Solutions USA, Inc. In addition, it has been agreed that Siemens Healthineers AG will offset any personal tax burden on the compensation and fringe benefits (excluding deferred compensation) provided under 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

For fiscal year 2019, the Managing Board members were granted contributions under the Siemens Healthineers BSAV totaling €856,800 (2018 term of office: €681,917) based on the resolution by the Supervisory Board on October 31, 2019.

Of the above amount, €12,410 related to the funding of pension commitments earned prior to transfer to the Siemens Healthineers BSAV. 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 or her 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 (additions) for fiscal 2019, as well as the defined benefit obligations for pension commitments.

Managing Board members in office as of September 30, 2019

(Amounts in thousands of €)	Contributions in [2]		Defined benefit obligations for all pension commitments excluding deferred compensation [3]	
	fiscal year 2019	term of office 2018	Sept 30, 2019	Sept 30, 2018
Dr. Bernhard Montag	504	294	3,328	2,725
Dr. Jochen Schmitz	353	182	2,585	2,056
Michael Reitermann [1]	–	206	–	206
Total	**857**	**682**	**5,913**	**4,987**

[1] Michael Reitermann's pension benefit commitments for his activity on the Managing Board forfeit as a result of his departure at the end of the day on September 30, 2019.

[2] The expenses (service cost) recognized in accordance with IFRS in fiscal year 2019 for Managing Board members' entitlement under the Siemens Healthineers BSAV amounted to €1,262,061 (2018 term of office: €284,678).

[3] There was no contribution to deferred compensation in fiscal year 2019 or in the 2018 term of office.

Benefits in connection with termination of activity on the Managing Board

Michael Reitermann's term of office as a member of the Managing Board of Siemens Healthineers AG ended by mutual consent at the end of the fiscal year on September 30, 2019. As compensation for his entitlements (base compensation, bonus, long-term share-based compensation and fringe benefits) from his employment contract, which would have run until the end of February 2021, Michael Reitermann received a severance payment of €2,430,572. Pursuant to the terms of the termination agreement, this amount will be paid out in January 2020. The calculation of the severance amount complied with the severance cap recommended in the DCGK, which provides that a severance payment should not exceed two years' compensation (base compensation, bonus, Siemens Healthineers' stock awards and fringe benefits) and should not provide compensation for more than the remaining term of the employment contract. The pension benefit entitlements granted to Michael Reitermann during his term as a member of the Managing Board forfeited without replacement. There was also no provision of a one-time special contribution to his pension account. The Siemens Healthineers stock awards granted during Michael Reitermann's term of service that are still under a restriction period remain in force unaltered, in compliance with the recommendation of the DCGK, and will be transferred at the regular end of the restriction period. The stock awards awarded to Michael Reitermann in connection with the IPO Incentive forfeited without replacement, in accordance with the terms of the plan.

Loans and advances

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

A.8.1.3 Additional information on share-based compensation instruments

Grant of IPO Incentive

The Company granted a one-time conditional equity incentive (IPO Incentive) to the three Managing Board members in office in fiscal year 2019, in two tranches:

- 50% following the closing of the IPO (grant in 2018 term of office) and
- 50% one year later (grant in fiscal year 2019).

The total target amount for both tranches (at 100% target achievement) equals one year's base compensation. Target achievement can vary between 50% (floor) and 150% (cap). The grant is in forfeitable stock awards with a restriction period of three years. The beneficiaries receive one Siemens Healthineers AG share or an equivalent cash payment for each stock awards. The actual target amount divided by the fair market value of Siemens Healthineers AG shares equals the number of stock awards.

Based on the evaluation criteria of share price performance of Siemens Healthineers AG share in comparison to competitors, general price performance in international stock markets, and personal contribution to the Company's performance, the Supervisory Board has determined the target achievement for the second tranche granted on May 15, 2019, resulting in the following amounts and numbers of shares:

Managing Board members in office as of September 30, 2019

Monetary value and number of IPO Incentive stock awards	Fiscal year 2019			Term of office 2018		
	Target amount in €	Actual target amount in € [4]	Number of IPO Incentive stock awards (second tranche) [1]	Target amount in €	Actual target amount in € [4]	Number of IPO Incentive stock awards (first tranche) [2]
Dr. Bernhard Montag	525,000	472,500	13,712	525,000	525,000	17,918
Dr. Jochen Schmitz	322,500	322,500	9,359	322,500	354,750	12,108
Michael Reitermann [3]	367,500	294,000	8,532	367,500	312,375	10,661
Total	**1,215,000**	**1,089,000**	**31,603**	**1,215,000**	**1,192,125**	**40,687**

[1] Fair market value of Siemens Healthineers share: €34.46. The fair market value is the volume-weighted average price of the Siemens Healthineers AG share in Xetra trading during the first twenty trading days after the first anniversary of the IPO, less the discounted estimated dividends during the restriction period.

[2] Fair market value of Siemens Healthineers AG share: €29.30. The fair market value is the volume-weighted average price of the Siemens Healthineers AG share in Xetra trading during the first twenty trading days, less the discounted estimated dividends during the restriction period.

[3] Michael Reitermann's term of office as a member of the Managing Board of Siemens Healthineers AG ended by mutual consent at the end of the fiscal year on September 30, 2019. More information regarding the terms of the termination agreement can be found in paragraph → ***Benefits in connection with termination of activity on the Managing Board***.

[4] The actual target amount is based on the target amount and the Supervisory Board's decision regarding target achievement.

A Managing Board member who terminates his or her employment contract will not receive any further stock awards. The forfeiture rules, including the malus clause outlined above for the stock awards, apply correspondingly.

Overview of stock awards

The following table shows the changes in stock awards held by Managing Board members in fiscal year 2019:

Managing Board members in office as of September 30, 2019

(Amounts in number of units of Siemens Healthineers' stock awards)	Balance at beginning of fiscal year 2019	Granted during fiscal year 2019		Balance at the end of fiscal year 2019
	Forfeitable stock awards [1]	Forfeitable other stock awards [2]	Forfeitable IPO Incentive stock awards (second tranche) [3]	Forfeitable stock awards
Dr. Bernhard Montag	50,960	68,008	13,712	132,680
Dr. Jochen Schmitz	34,789	47,606	9,359	91,754
Michael Reitermann [4]	34,348	47,606	8,532	90,486
Total	**120,097**	163,220	31,603	**314,920**

[1] Some of the 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 shares, a cash equivalent will be paid for the latter awards at the end of the restriction period. Otherwise, the same provisions apply as for the stock awards.

[2] The numbers of stock awards are based on a 200% target achievement. The weighted average fair value of the Siemens Healthineers AG share is €17.03 per share.

[3] Fair market value of the Siemens Healthineers AG share: €34.46.

[4] Michael Reitermann's term of office as a member of the Managing Board of Siemens Healthineers AG ended by mutual consent at the end of the fiscal year on September 30, 2019. More information regarding the terms of the termination agreement can be found in paragraph → ***Benefits in connection with termination of activity on the Managing Board***.

A.8.2 Compensation of Supervisory Board members

Section 12 of the articles of association of Siemens Healthineers AG governs the compensation of the Supervisory Board members and specifies the following base compensation for each fiscal year:

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

Additionally, for serving on the Supervisory Board committees:

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

Supervisory Board members who did not serve as a member or chairman of the Supervisory Board or of a committee for the full (12-month) fiscal year receive prorated compensation, rounding up to full months.

If a Supervisory Board member fails to attend a Supervisory Board meeting, one-third of the total compensation entitlement described above is reduced by a percentage equal to the percentage of the meetings that the Supervisory Board member did not attend relative to the total number of Supervisory Board meetings held in the fiscal year.

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

The above rules do not apply to the interim Supervisory Board. Its three members in office until February 28, 2018, did not receive any compensation. The Supervisory Board members in office as of September 30, 2019, were appointed with effect as of March 1, 2018 (Dr. Philipp Rösler, March 2, 2018).

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

Based on these provisions, the compensation was as follows:

Supervisory Board members in office as of September 30, 2019

	Fiscal year 2019				Term of office 2018			
(Amounts in €)	Base compensation	Additional compensation for committee work	Meeting attendance fee	Total	Base compensation	Additional compensation for committee work	Meeting attendance fee	Total
Michael Sen[1]	–	–	–	–	–	–	–	–
Dr. Norbert Gaus	110,000	50,000	33,000	193,000	64,167	29,167	12,000	105,333
Dr. Marion Helmes	110,000	40,000	21,000	171,000	54,444	23,333	6,000	83,778
Dr. Andreas C. Hoffmann	110,000	60,000	31,500	201,500	64,167	35,000	13,500	112,667
Dr. Philipp Rösler	110,000	–	13,500	123,500	57,037	–	3,000	60,037
Dr. Nathalie von Siemens	105,926	–	12,000	117,926	64,167	–	4,500	68,667
Dr. Gregory Sorensen	110,000	30,000	22,500	162,500	64,167	17,500	7,500	89,167
Karl-Heinz Streibich	101,852	27,778	18,000	147,630	64,167	17,500	7,500	89,167
Prof. Dr. Ralf P. Thomas[1]	–	–	–	–	–	–	–	–
Total	**757,778**	**207,778**	**151,500**	**1,117,056**	432,315	122,500	54,000	608,815

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

A.8.3 Other

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 subsidiaries. The policy is taken out for one year at a time or renewed annually. The related costs are charged by Siemens to Siemens Healthineers. The insurance 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 fiscal year 2019 includes a deductible for the members of the Managing Board and the Supervisory Board that complies with the terms of the German Stock Corporation Act and the DCGK.

A.9 Takeover-relevant information and explanatory report (pursuant to Sections 289a (1) and 315a (1) German Commercial Code)

A.9.1 Composition of issued capital

As of September 30, 2019, Siemens Healthineers AG'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. Details of the shareholders' rights and obligations are governed by the provisions of the German Stock Corporation Act, in particular by Sections 12, 53a et seqq., 118 et seqq. and 186 of that Act.

A.9.2 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' stake in Siemens Healthineers AG's net income. An exception to this rule applies to treasury shares held by Siemens Healthineers AG, which do not entitle it to any rights pursuant to Section 71b of the German Stock Corporation Act. Pursuant to Section 136 of the German Stock Corporation Act, voting rights of these shares are excluded by law.

In fiscal year 2019, stock programs were introduced under which certain employees are to receive Siemens Healthineers AG shares either at present or in the future. Such shares are not subject to any block on sale, except as provided under local law.

A.9.3 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 nonsubstantive 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 or utilization period that applies to each.

Resolutions of the Shareholders' Meeting are adopted by a simple majority vote, unless a larger majority is required by law or by the articles of association. 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 issued capital represented at the Shareholders' Meeting at the time of the vote, unless another capital majority is prescribed by the articles of association.

A.9.4 Powers of the Managing Board to issue and repurchase shares

Based on a resolution of Siemens Healthineers AG's extraordinary Shareholders' Meeting held on February 19, 2018, the Managing Board is authorized, subject to the Supervisory Board's prior consent, to increase Siemens Healthineers AG'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 in return for cash and/or contributions in kind (Authorized Capital 2018). As of September 30, 2019, Siemens Healthineers AG had not made use of the Authorized Capital 2018.

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 Conditional 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, or 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 or option rights attached, or a combination of these instruments, entitling the holders/creditors to subscribe for up to 100,000,000 new ordinary registered shares with no par value of Siemens Healthineers AG. As of September 30, 2019, Siemens Healthineers AG had not made use of the ability to issue bonds under this authorization.

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

- The issue price of the new shares/bonds is not significantly lower than the stock market price of Siemens Healthineers AG shares already listed or the theoretical market price of the bonds computed in accordance with generally accepted actuarial methods (exclusion of preemptive rights limited to 10% of the issued capital in accordance with or under a mutatis mutandis application of Section 186 (3) sentence 4 of the 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 bonds for the effects of dilution.

In the event of a capital increase from the Authorized Capital 2018 in return for a contribution in cash, preemptive rights may be excluded with the approval of the Supervisory Board if the new shares are offered exclusively to employees of Siemens Healthineers AG and any of its subsidiaries (employee shares). To the extent permitted by law, such employee shares may also be issued by effecting the contribution with those parts of the net income that the Managing Board and the Supervisory Board may transfer to retained earnings in accordance with Section 58 (2) of the German Stock Corporation Act.

Siemens Healthineers AG cannot repurchase its own shares unless so authorized by a resolution of the Shareholders' Meeting or under the limited circumstances explicitly set forth in the German Stock Corporation Act. On February 19, 2018, an extraordinary Shareholders' Meeting authorized the Managing Board to repurchase Siemens Healthineers AG shares 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 Siemens Healthineers AG shares repurchased under this authorization and any other of Siemens Healthineers AG shares previously acquired and still held in treasury by it or attributable to it pursuant to Sections 71d and 71e of the German Stock Corporation Act may at no time exceed 10% of the issued capital then in existence. Any repurchase of Siemens Healthineers AG 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 Siemens Healthineers AG shares repurchased on the basis of this authorization for any permissible purpose. Such shares may in particular be

- cancelled,
- used in connection with share-based payment programs and/or employee share programs of Siemens Healthineers AG or any of its affiliated companies and issued to individuals currently or formerly employed by Siemens Healthineers AG or any of its affiliated companies, as well as to board members of any of Siemens Healthineers AG's affiliated companies,
- offered and transferred, subject to the approval of the Supervisory Board, to third parties in return for contributions in kind,
- sold, subject to the approval of the Supervisory Board, in return for payment in cash if the price at which such Siemens Healthineers AG shares are sold is not significantly lower than the market price of Siemens Healthineers AG shares (exclusion of preemptive rights limited to 10% of the issued capital under a mutatis mutandis application of Section 186 (3) sentence 4 of the German Stock Corporation Act) or
- used to service or secure obligations or rights to acquire Siemens Healthineers AG shares arising particularly from or in connection with convertible bonds or warrant bonds issued by Siemens Healthineers AG or any of its affiliated companies (exclusion of preemptive rights limited to 10% of the issued capital under a mutatis mutandis application of Section 186 (3) sentence 4 of the 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 Siemens Healthineers AG shares that were or will be agreed upon with members of the Managing Board under the rules governing Managing Board compensation.

Exercising the authorization given by the extraordinary Shareholders' Meeting on February 19, 2018, three share buybacks have been carried out. In September 2019, Siemens Healthineers AG announced a share buyback with a volume of up to €70 million in the time period up to January 31, 2020. The buyback commenced on September 24, 2019. Up to September 30, 2019, Siemens Healthineers AG had repurchased 241,442 shares under the buyback, for a total consideration of €8.6 million (excluding incidental transaction charges). In November 2018, Siemens Healthineers AG had announced that it would carry out a share buyback with a volume of up to €45 million in the time period up to January 25, 2019. The buyback commenced on November 26, 2018. Under this share buyback, which ended on January 2, 2019, Siemens Healthineers AG repurchased 1,205,012 shares. The total consideration paid for these shares amounted to €45 million (excluding incidental transaction charges). Additionally, in the fiscal year 2018, Siemens Healthineers AG repurchased 1,440,861 shares for a total consideration in an amount of €55 million (excluding incidental transaction charges).

The purpose of the buybacks is the issuance of shares to Siemens Healthineers employees and board members of Siemens Healthineers AG's subsidiaries, particularly under share programs. To the extent that the repurchased shares are not required for such purpose, they may be used for other purposes permitted by law. As of September 30, 2019, Siemens Healthineers AG held 651,158 shares in treasury.

A.9.5 Significant agreements which take effect, alter or terminate upon a change of control of Siemens Healthineers AG following a takeover bid

Various agreements have been entered into between the Siemens Group and Siemens Healthineers, 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, a U.S. subsidiary of Siemens Healthineers AG, as borrower, entered into a bilateral framework loan agreement with a subsidiary of Siemens AG, as lender, in the amount of US$ 6.0 billion. Four individual loan agreements amounting to US$ 4.3 billion have been drawn upon under this framework. Each agreement provides the lender with a right of termination in the event that the borrower ceases to be an affiliate of Siemens AG. An affiliate is defined as a company in which Siemens AG (directly or indirectly) holds a majority of shares or voting rights. In fiscal year 2019, Siemens Healthineers AG assumed two tranches for a total of US$ 1.6 billion under the above individual loan agreements. A German subsidiary of Siemens Healthineers AG assumed a tranche of US$ 1.7 billion. Furthermore, Siemens Healthcare GmbH, as borrower, maintains a multicurrency revolving credit facility with Siemens AG, as lender, in the amount of €1.0 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 Siemens AG with a right of termination in the event that it no longer controls Siemens Healthineers AG. In fiscal year 2019, Siemens Healthcare GmbH and Siemens AG entered into a contractual financing commitment of €1.0 billion, under which Siemens AG agreed to provide financing for an acquisition by another subsidiary of Siemens Healthineers AG after the conclusion of a loan agreement. The announced loan agreement provides that the lender may call in the loan in the event that Siemens Healthineers AG is no longer controlled by Siemens 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 one of its U.S.-subsidiaries on the other hand grant Siemens AG and its subsidiary a right of termination if Siemens AG either ceases to (directly or indirectly) hold the majority of the shares or voting rights in the relevant counterparty and/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 relevant subsidiary, as the counterparty, is consolidated by, merges into, or transfers substantially all of its assets to a third party. However, the latter right of termination applies only if the resulting company's creditworthiness is materially weaker than the relevant counterparty's creditworthiness immediately prior to such an event or the resulting company does not simultaneously assume the relevant counterparty's obligations under the ISDA agreements.

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 the Siemens Group's bank accounts for external incoming and outgoing payment transactions, provision of internal accounts with credit lines (the latter only under separate agreements), participation in Siemens Group's cash pools, and 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 a subsidiary of Siemens AG that Siemens Healthineers may use a central treasury IT application for the Company's finance management. The agreement may be terminated by the subsidiary of Siemens AG 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

In addition, Siemens Healthineers AG or some of its subsidiaries have entered into various service agreements, some of which are long-term, 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 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 Siemens Healthineers AG 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 relevant 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 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 Siemens Healthineers AG, 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, termination of lease, or a physical separation in cases where premises are shared between entities of the Siemens Group and entities of Siemens Healthineers.

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 designations "Siemens" and "Siemens Healthineers" as a product brand, corporate brand and part of the company name, business designation and domain name, among other purposes. The agreements will automatically expire after a transitional period if Siemens Healthineers AG 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.9.6 Severance agreements with members of the Managing Board or employees in the event of a takeover bid

If a change of control (controlling influence of a shareholder outside the Siemens Group as a result of a majority voting interest, intercompany agreement or merger) occurs leading to a material change in a Managing Board member's position, that 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. This payment is capped at two years' compensation. The amount of this payment is calculated on the basis of the fixed base compensation, the target amount for the bonus, and the target amount for share-based compensation (each for the last fiscal year completed prior to termination). 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. Stock awards granted by Siemens Healthineers AG will be transferred at the relevant date.

A.9.7 Other takeover-relevant information

We are not aware of, nor during the last fiscal year have we been notified of, any shareholder (directly or indirectly) holding interests in Siemens Healthineers AG's issued capital that entitle it to 10% or more of the voting rights except for Siemens AG, with its registered seat in Berlin and Munich, Germany, 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 compensation are transferred directly to the employees. The beneficiary employees may exercise their shareholder rights resulting from the employee shares directly in the same way as any other shareholder, 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 2019	Fiscal year 2018
Revenue	29, 30	14,518	13,429
Cost of sales		−8,722	−7,961
Gross profit		**5,796**	**5,468**
Research and development expenses		−1,328	−1,281
Selling and general administrative expenses		−2,214	−2,153
Other operating income	4	65	48
Other operating expenses	31	−23	−121
Income from investments accounted for using the equity method, net		3	7
Interest income	16	38	41
Interest expenses	16, 21, 25	−123	−205
Other financial income, net	25	−22	−5
Income before income taxes		**2,193**	**1,799**
Income tax expenses	5	−607	−515
Net income		**1,586**	**1,284**
Thereof attributable to:			
Non-controlling interests		18	19
Shareholders of Siemens Healthineers AG		1,567	1,265
Basic earnings per share	**6**	**1.57**	**1.26**
Diluted earnings per share	**6**	**1.57**	**1.26**

B.2 Consolidated statements of comprehensive income

(in millions of €)	Note	Fiscal year 2019	2018
Net income		**1,586**	1,284
Remeasurements of defined benefit plans	21	−122	19
Therein: Income tax effects		55	−57
Equity instruments measured at fair value through other comprehensive income	25	1	–
Therein: Income tax effects		–	–
Other comprehensive income that will not be reclassified to profit or loss		**−121**	19
Currency translation differences		398	265
Available-for-sale financial assets	25	–	1
Therein: Income tax effects		–	–
Cash flow hedges	25	−26	4
Therein: Income tax effects		11	−3
Cost/Income from hedging	25	3	–
Therein: Income tax effects		−1	–
Other comprehensive income that may be reclassified subsequently to profit or loss		**375**	270
Other comprehensive income, net of taxes		**254**	289
Comprehensive income		**1,840**	1,573
Thereof attributable to:			
Non-controlling interests		16	15
Shareholders of Siemens Healthineers AG		1,824	1,558

B.3 Consolidated statements of financial position

(in millions of €)	Note	Sept 30, 2019	Sept 30, 2018
Cash and cash equivalents	25	920	519
Trade and other receivables	7, 25	2,779	2,419
Other current financial assets	8, 25	78	77
Receivables from Siemens Group	16, 25, 31	686	1,396
Contract assets	9	839	600
Inventories	10	2,064	1,829
Current income tax assets	5	92	56
Other current assets	11	321	303
Total current assets		**7,779**	**7,199**
Goodwill	12	8,590	8,176
Other intangible assets	13	1,576	1,571
Property, plant and equipment	13	2,318	1,919
Investments accounted for using the equity method		45	38
Other financial assets	14, 25	339	174
Deferred tax assets	5	462	394
Other assets	15	320	287
Total non-current assets		**13,650**	**12,559**
Total assets		**21,429**	**19,758**
Short-term financial debt and current maturities of long-term financial debt	16, 25	80	57
Trade payables	25	1,403	1,278
Other current financial liabilities	25	152	82
Payables to Siemens Group	16, 25, 31	364	639
Contract liabilities	18	1,741	1,524
Current provisions	19	282	295
Current income tax liabilities	5	346	206
Other current liabilities	20	1,236	1,223
Total current liabilities		**5,605**	**5,303**
Long-term financial debt	16, 25	62	17
Provisions for pensions and similar obligations	21	1,045	845
Deferred tax liabilities	5	375	348
Provisions	19	147	157
Other financial liabilities	25	16	26
Other liabilities	22	368	386
Other liabilities to Siemens Group	16, 25, 31	4,030	4,002
Total non-current liabilities		**6,043**	**5,780**
Total liabilities		**11,648**	**11,083**
Issued capital		1,000	1,000
Capital reserve		10,801	11,174
Retained earnings		–1,859	–3,019
Other components of equity		–174	–500
Total equity attributable to shareholders of Siemens Healthineers AG	**23**	**9,769**	**8,656**
Non-controlling interests		13	20
Total equity		**9,782**	**8,675**
Total liabilities and equity		**21,429**	**19,758**

B.4 Consolidated statements of cash flows

(in millions of €)	Fiscal year 2019	2018
Net income	**1,586**	1,284
Adjustments to reconcile net income to cash flows from operating activities:		
Amortization, depreciation and impairments	620	530
Income tax expenses	607	515
Interest income/expenses, net	85	164
Income related to investing activities	−7	−7
Other non-cash income/expenses, net	10	35
Change in operating net working capital		
Contract assets	−220	−307
Inventories	−124	−194
Trade and other receivables	−265	14
Trade payables	90	168
Contract liabilities	178	105
Change in other assets and liabilities	−140	−190
Additions to equipment leased to others in operating leases	−345	−276
Income taxes paid	−493	−144
Income taxes paid by Siemens Group on behalf of Siemens Healthineers	–	−122
Dividends received	7	6
Interest received	27	13
Cash flows from operating activities	**1,617**	1,595
Additions to intangible assets and property, plant and equipment	−579	−530
Purchase of investments and financial assets for investment purposes	−6	−2
Acquisitions of businesses, net of cash acquired	−76	−226
Disposal of investments, intangible assets and property, plant and equipment	6	14
Disposal of businesses, net of cash disposed	7	–
Cash flows from investing activities	**−647**	−743
Purchase of treasury shares	−51	−55
Change in short-term financial debt and other financing activities	52	−1
Interest paid	−6	−6
Dividends paid to shareholders of Siemens Healthineers AG[1]	−699	−1,008
Dividends paid to non-controlling interests	−15	−9
Equity transactions with non-controlling interests	−15	–
Interest paid to Siemens Group	−113	−149
Other transactions/financing with Siemens Group	245	740
Cash flows from financing activities	**−603**	−489
Effect of changes in exchange rates on cash and cash equivalents	35	−28
Change in cash and cash equivalents	401	335
Cash and cash equivalents at beginning of period	**519**	184
Cash and cash equivalents at end of period	**920**	519

[1] Dividends and profit transfer to the Siemens Group in fiscal year 2018.

B.5 Consolidated statements of changes in equity

				Other components of equity							
(in millions of €)	Issued capital	Capital reserve	Retained earnings/ Net assets[1]	Currency translation differences	Reserve of equity instruments measured at fair value through other comprehensive income[2]	Cash flow hedges reserve	Cost of hedging reserve	Treasury shares at cost	Total equity attributable to shareholders of Siemens Healthineers AG[3]	Non-controlling interests	Total equity
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	1	4	–	–	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	1	2	–	−10	8,656	20	**8,675**
Balance as of September 30, 2018	1,000	11,174	−3,019	−493	1	2	–	−10	8,656	20	**8,675**
Effect of retrospectively adopting IFRS 9, Financial Instruments	–	–	39	–	−35	–	–	–	4	–	4
Balance as of October 1, 2018	1,000	11,174	−2,980	−493	−34	2	–	−10	8,659	20	**8,679**
Net income	–	–	1,567	–	–	–	–	–	1,567	18	1,586
Other comprehensive income, net of taxes	–	–	−120	398	1	−26	3	–	256	−2	254
Dividends	–	–	−699	–	–	–	–	–	−699	−15	−714
Share-based payment	–	17	−1	–	–	–	–	–	16	–	16
Purchase of treasury shares	–	–	–	–	–	–	–	−54	−54	–	−54
Reissuance of treasury shares	–	–	−2	–	–	–	–	39	37	–	37
Other changes in equity	–	−390	376	–	–	–	–	–	−14	−8	−22
Balance as of September 30, 2019	1,000	10,801	−1,859	−95	−33	−24	3	−24	9,769	13	**9,782**

[1] As of October 1, 2017, Siemens Healthineers was not a 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 Siemens Group were presented.

[2] Reserve of available-for-sale financial assets in fiscal year 2018.

[3] Siemens Group as of October 1, 2017.

B.6 Notes to consolidated financial statements

Note 1 Basis of presentation

The consolidated financial statements as of September 30, 2019, present the operations of Siemens Healthineers AG, registered in Munich (commercial register number HRB 237558), Germany, and its subsidiaries (collectively, "Group" or "Siemens Healthineers"). They have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and adopted by the EU, as well as with the additional requirements set forth in Section 315e (1) of the German Commercial Code ("Handelsgesetzbuch"). On November 25, 2019, the Managing Board of Siemens Healthineers AG authorized the consolidated financial statements for issue.

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

Note 2 Accounting policies

The below-mentioned accounting policies, unless stated otherwise, have been applied consistently for all presented periods.

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 could have a material impact on the results of operations as well as on the assets and financial positions. In addition, Siemens Healthineers could reasonably have made accounting 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 accounting 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, whereas 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. This requires, among others, that a contract with enforceable rights and obligations exists, 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 accounting 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, Siemens Healthineers 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.

Revenue from the sale of goods: Revenue is recognized at a point in time when control of the goods (esp. equipment, reagents and consumables) passes to the customer, usually upon delivery of the goods. Payment terms typically do not exceed 90 days after customer acceptance.

Revenue from services: When 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 goods for which transfer of control occurs before Siemens Healthineers has an unconditional right to consideration. Contract liabilities mainly result from customer advances on services 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 arise 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 financial assets measured at amortized cost.

Income from leases

Income from operating leases for equipment 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 functional areas according to their 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

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

Income taxes

Recognition and measurement of tax positions are determined by respective local tax laws and applicable tax authorities' regulations. These can be complex and may be interpreted differently by taxpayers and local tax authorities. Thus, additional current tax payments or refunds for prior years are possible. These uncertainties are taken into account based on management's considerations.

Deferred tax assets and liabilities for temporary differences between accounting and tax valuations for assets and liabilities, and also deferred tax assets for loss carryforwards, are measured at the tax rates that were expected to apply in the period when the asset is realized or the liability is settled using the liability method. Deferred tax assets are recognized if sufficient taxable profit is projected for the periods, in which the underlying temporary difference is reversed. The projection includes in particular future results from operating activities, reversals of taxable temporary differences and substantiated tax planning opportunities. At each reporting date, Siemens Healthineers reassesses the recoverability of deferred tax assets based on the projected taxable profit. As future developments are uncertain and partly beyond Siemens Healthineers' control, assumptions are necessary to estimate future taxable profit as well as the period in which deferred tax assets will be recovered. Estimates are updated on a regular basis and resulting adjustments are made in the respective period. Deferred tax assets and liabilities are offset if they relate to income taxes levied by the same tax authority and there is a legal right to set off current tax assets against liabilities.

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

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 quarter 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 segment's recoverable amount is based on discounted cash flow calculations and involves the use of accounting estimates. The amount is influenced by, for example, the market launch of new goods and services, the successful integration of acquisitions, 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 based on 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 detailed 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. Key assumptions on which the determinations of fair values less costs of disposal are based include estimated terminal value growth rates and discount rates. 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 interest rate 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 consider external macroeconomic data and industry-specific trends. The accounting 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, especially customer relationships, trademarks and technology. For customer relationships and trademarks the useful life ranges from eight to 20 years, for technology from two to 15 years.

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 7 to 8 years

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 judgment. In addition, impairment testing of other intangible assets and property, plant and equipment involves the use of accounting 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 if all the following conditions are met: (1) It is probable that Siemens Healthineers has a present legal or constructive obligation as a result of a past event, (2) it is probable that an outflow of economic benefits will be required to settle the obligation and (3) 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 corresponds to the risk-free market interest rate.

The determination of provisions related to onerous contracts with customers, warranty costs, asset retirement obligations, legal and regulatory proceedings and governmental investigations (hereinafter, collectively, "legal proceedings") involves significant accounting estimates. Siemens Healthineers recognizes a provision for onerous contracts with customers when estimated unavoidable 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 the results of operations as well as on the assets and financial positions.

Defined benefit plans

Siemens Healthineers measures entitlements from defined benefit plans by applying the projected unit credit method. Thereby, the obligation from defined benefit plans reflects an actuarial calculated present value of the future benefit entitlement for services already rendered (defined benefit obligation, DBO). Actuarial valuations rely on key assumptions including discount rates, expected compensation increases, pension progression and mortality rates. Discount rates are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the end of the reporting period. High-quality corporate bonds have an issuing volume of more than 100 million units in the respective currency zones and 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. In case such yields are not available, discount rates are based on government bond yields. For significant plans, individual spot rates from full yield curves are applied. Due to changing market, economic and social conditions, the underlying actuarial assumptions may differ from actual developments.

For funded plans, Siemens Healthineers offsets the fair value of the plan assets with the defined benefit obligation. The net amount is presented, after adjustments for effects relating to any asset ceiling.

Current and past service cost, settlement gains and losses for pensions and similar obligations and administration costs unrelated to the management of plan assets are allocated to functional costs. Thereby, past service cost and settlement gains and losses are recognized immediately in net income. Current service cost and interest income and expenses are determined based on the assumptions used for the calculation of the defined benefit obligation as of the reporting date of the previous fiscal year and recognized in net income. Net interest is thus calculated by multiplying the discount rate for the respective fiscal year by the net defined benefit asset or liability as of the reporting date of the previous fiscal year. At the reporting date, remeasurements are recognized in other comprehensive income. These comprise actuarial gains and losses as well as the difference between the return on plan assets and the interest income on plan assets, which is included in net interest.

Entitlements resulting from plans based on asset returns are generally measured at the fair value of the underlying assets at the reporting date. If the performance of the underlying assets is lower than a guaranteed return, the DBO is measured by projecting forward the contributions at the guaranteed fixed return and discounting back to a present value.

Termination benefits

Termination benefits are provided when Siemens Healthineers makes an offer to enable an employee to resign from its employment voluntarily before his or her normal retirement date or decides to terminate employment. Termination benefits in accordance with IAS 19, Employee Benefits, are recognized as liabilities and expenses when the offer of those benefits can no longer be withdrawn.

Financial instruments

Initially, financial instruments are generally recognized at their fair value. Receivables from finance leases are measured at an amount equal to the net investment in the lease. Regular way purchases or sales of financial assets are recognized at the trade date. Subsequently, financial instruments are measured according to the category to which they are assigned: financial assets and liabilities measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and financial assets and liabilities measured at amortized cost.

Financial assets and liabilities measured at fair value through profit or loss: Debt instruments are measured at fair value through profit or loss if the business model they are held in is neither a hold-to-collect nor a hold-and-sell business model or if their contractual cash flows do not represent solely payments of principal and interest. Equity instruments are measured at fair value through profit or loss unless the option to measure them at fair value through other comprehensive income was elected. Derivatives are measured at fair value through profit or loss unless they are designated as hedging instruments. Financial liabilities measured at fair value through profit or loss include contingent consideration recognized in a business combination. Siemens Healthineers does not use the option to designate financial assets or financial liabilities at fair value through profit or loss at initial recognition (fair value option).

Financial assets measured at fair value through other comprehensive income: Siemens Healthineers irrevocably elected to present changes in the fair value of its investment in Medical Systems S.p.A. in other comprehensive income to avoid earnings volatility. Accordingly, unrealized gains and losses as well as gains and losses on the subsequent sale of the investment are recognized in other comprehensive income.

Financial assets measured at amortized cost: Loans, receivables and other debt instruments held in a hold-to-collect business model with contractual cash flows that represent solely payments of principal and interest are measured at amortized cost. Interest income is calculated using the effective interest method.

Valuation allowances are set up for expected credit losses, representing a forward-looking estimate of future credit losses and involving significant judgment. Expected credit losses are calculated based on the gross carrying amount of the financial asset less collateral, multiplied by a factor reflecting the probability of default and the loss in the event of default. Probabilities of default and losses in the event of default are mainly derived from rating grades determined by Siemens Financial Services. Valuation allowances for receivables from Siemens Group are measured according to the general three-stage impairment approach. For trade receivables, lease receivables and contract assets, Siemens Healthineers uses the simplified impairment model to measure valuation allowances at an amount equal to the lifetime expected credit losses.

Financial assets are considered defaulted if the obligor is unwilling or unable to pay its credit obligations. A range of internally defined events can trigger a default rating, including the opening of bankruptcy proceedings or a default rating by an external rating agency. Financial assets are written off as uncollectible when it appears unlikely that they will be recovered. Generally, this applies after the limitation period has expired, when bankruptcy proceedings have been closed or when the receivable is no longer pursued due to its insignificance.

Financial liabilities measured at amortized cost: Siemens Healthineers measures financial liabilities, except for derivatives and contingent consideration, at amortized cost using the effective interest method.

Cash and cash equivalents: Cash and cash equivalents are measured at cost. Siemens Healthineers considers all highly liquid investments with a maturity of three months or less 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.

Cash flow hedges: The effective portion of changes in the fair value of derivatives which are designated as hedging instruments in cash flow hedges is recognized in other comprehensive income. Amounts accumulated in the cash flow hedge reserve 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. For certain time-period-related cash flow hedges, Siemens

Healthineers designates only the change in the fair value of the spot element of forward exchange contracts as a hedging instrument. Changes in the fair value of the forward element are recognized in other comprehensive income and accumulated separately in a cost of hedging reserve. The value of the forward element at the time of designation is amortized into net income on a straight-line basis over the hedging period.

Share-based payment

Share-based payment awards may be settled in shares of Siemens Healthineers AG or Siemens AG, depending on which shares are the basis, or in cash. Share-based payment awards that are based on Siemens Healthineers AG shares are classified predominately as equity-settled. Share-based payment awards that are based on Siemens AG shares are classified as cash-settled to fulfill the specific requirements for share-based payment transactions among group entities, as Siemens Healthineers is controlled by Siemens AG.

The fair value of equity instruments for equity-settled plans and of liabilities for cash-settled plans is measured at the grant date and recognized as an expense over the vesting period. For cash-settled plans, the fair value is updated each quarter. The fair value is based on 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 as well as market and non-vesting conditions, if applicable. Therefore, the fair value is based on market parameters, assumptions and estimates. Their changes could necessitate material adjustments to the carrying amount of the liabilities.

Prior-year information

The presentation of certain prior-year information has been reclassified to conform to the current presentation.

Recently adopted accounting pronouncements

IFRS 9, Financial Instruments, was adopted for the first time as of October 1, 2018. IFRS 9 introduces a single approach for the classification and measurement of financial assets, provides a new impairment model and includes new provisions regarding hedge accounting. IFRS 9 was applied retrospectively except for the new hedge accounting rules. Comparative prior-year information was not restated and continues to be presented in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

The new regulations of IFRS 9 had only very limited impact on the consolidated financial statements. Available-for-sale financial assets in accordance with IAS 39 were reclassified and measured at fair value through profit or loss, except for the investment in Medical Systems S.p.A. (formerly measured at cost) for which changes in the fair value are recognized in other comprehensive income.

(in millions of €)	AC[1]	FVtOCI[2]	FVtPL[3]
Balance of financial assets at end of fiscal year 2018 (IAS 39)	**4,372**	**47**	**12**
Reclassification of equity instruments and fund shares from AfS[2] (IAS 39) to FVtPL[3] (IFRS 9)	–	−13	13
Remeasurement of equity instruments formerly measured at cost	–	6	–
Balance of financial assets at beginning of fiscal year 2019 (IFRS 9)	**4,372**	**40**	**25**

[1] Financial Assets at Amortized Cost (IAS 39: LaR – Loans and Receivables, including cash and cash equivalents).
[2] Financial Assets at Fair Value through Other Comprehensive Income (IAS 39: AfS – Available-for-Sale Financial Assets).
[3] Financial Assets at Fair Value through Profit or Loss (IAS 39: FAHfT – Financial Assets Held-for-Trading).

The new impairment model did not have any material effect on the amount of valuation allowances on debt instruments. All previously existing hedging relationships also met the hedge accounting requirements under IFRS 9.

Transition effects from the first-time adoption of IFRS 9 were recognized cumulatively in equity as of October 1, 2018. Equity increased in total by €4 million. Retained earnings increased by €39 million whereas other components of equity decreased by €35 million.

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 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 previous off-balance-sheet operating leases onto the balance sheet in a manner largely comparable to current finance lease accounting. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Siemens Healthineers will apply the standard for the first time for the fiscal year beginning as of October 1, 2019 using the modified retrospective approach, that is, comparative figures for the preceding year will not be adjusted. The intention is to use most of the simplifications available under IFRS 16. The majority of the transition effect relates to real estate leased by Siemens Healthineers. The on-balance sheet accounting of all leases is expected to result in an increase in total assets as well as total liabilities and equity as of October 1, 2019, of approximately 2%. In addition, expenses for current operating leases will no longer be recognized on a straight-line basis, but depreciation for the right-of-use assets and interest expenses for the lease liabilities will be recorded. This results in an improvement in cash flows from operating activities of approximately €0.1 billion, a corresponding deterioration in cash flows from financing activities and a corresponding increase in free cash flow. Impacts of the conclusion or termination of lease contracts in fiscal year 2020 were not considered in the estimate. Net income will not be significantly impacted.

In addition to the standard 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 (including IFRIC 23, Uncertainty over Income Tax Treatments) and amendments will not have a material impact on the presentation of the consolidated financial statements.

Note 3 Acquisitions

Acquisition of Minicare

On July 2, 2019, Siemens Healthineers successfully completed the acquisition of all shares in Minicare B.V. (hereinafter "Minicare"). Minicare is developing technology for point-of-care immunoassay testing. The business is being integrated into the Diagnostics segment and will allow Siemens Healthineers to strengthen its portfolio in point-of-care testing.

The purchase price amounted to €66 million and was paid in cash. The preliminary purchase price allocation as of the acquisition date resulted in other intangible assets of €14 million and deferred tax liabilities of €4 million. The goodwill of €55 million comprised intangible assets that were not separable, such as employee know-how and expected synergy effects. The purchase price allocation is preliminary as the detailed analysis of the assets and liabilities has not yet been finalized.

Note 4 Other operating income

In fiscal year 2019, other operating income included settlement gains of €24 million. In fiscal year 2018, Siemens Healthineers realized other operating income of €19 million due to the use of certain transition rules of the U.S. tax reform in relation to U.S. pension funding.

Note 5 Income taxes

Income taxes consisted of the following:

	Fiscal year	
(in millions of €)	**2019**	**2018**
Current tax	600	465
Deferred tax	7	50
Income tax expenses recognized in the consolidated statements of income	**607**	515
Effective tax rate	27.7%	28.6%
Income tax effects recognized in other comprehensive income or directly in equity	−64	70
Total income taxes included in the consolidated statements of comprehensive income or directly recognized in equity	**543**	585

The current tax in fiscal year 2019 included expenses of €7 million (2018: benefits of €84 million) for adjustments of current tax from prior fiscal years. The deferred tax included expenses of €50 million (2018: €132 million) from the origination and reversal of temporary differences. The effective tax rate for fiscal year 2019 was positively impacted by the settlement of international proceedings on the avoidance of double taxation, by a change of jurisdiction in Brazil, which led to tax-free income for prior fiscal years, and by the transfer of loans within the Group. In fiscal year 2018, the tax rate was already positively influenced by income resulting from the U.S. tax reform.

In Germany, the calculation of taxes in fiscal year 2019 was based on a combined tax rate of 29.5% (2018: 29.6%), consisting of the corporate tax rate of 15.0% (2018: 15.0%), the solidarity surcharge thereon of 5.5% (2018: 5.5%) and an average trade tax rate of 13.7% (2018: 13.8%). For foreign subsidiaries, taxes were calculated based on local tax law and applicable tax rates in the individual countries.

In fiscal year 2019, income tax expenses differed from the expected income tax expenses based on the combined German tax rate of 29.5% (2018: 29.6%) as follows:

	Fiscal year	
(in millions of €)	**2019**	**2018**
Expected income tax expenses	648	533
Nondeductible expenses	98	87
Tax-free income	−56	−12
Taxes for prior years	−5	7
Change in realizability of deferred tax assets and tax credits	−12	9
Change in tax rates	3	−36
Foreign tax rate differential	−71	−67
Other	2	−6
Total income tax expenses	**607**	515

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

(in millions of €)	Sept 30, 2019	2018
Deferred taxes on temporary differences	– 76	– 55
Thereof:		
Current assets and liabilities	232	207
Intangible assets	– 680	– 613
Provisions for pensions and similar obligations	312	259
Other non-current assets and liabilities	60	92
Deferred taxes on tax loss carryforwards	132	81
Deferred taxes on tax credits	31	20
Total deferred tax assets and liabilities, net	**87**	**46**

Deferred tax assets and liabilities, net, developed as follows:

(in millions of €)	Fiscal year 2019	2018
Balance at beginning of fiscal year	**46**	**149**
Changes recognized in the consolidated statements of income	–7	–50
Changes recognized in the consolidated statements of comprehensive income	64	–56
Additions from acquisitions directly recognized in equity	–4	–10
Other	–12	13
Balance at fiscal year-end	**87**	**46**

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

(in millions of €)	Sept 30, 2019	2018
Deductible temporary differences	187	214
Tax loss carryforwards	274	228
Total items (gross amounts) for which no deferred tax assets have been recognized	**461**	**442**

€89 million of the tax loss carryforwards not recognized as of September 30, 2019, will expire in the periods up to 2037 (September 30, 2018: €78 million expiring by 2037). Siemens Healthineers did not recognize deferred tax liabilities on €3,228 million cumulative earnings of subsidiaries (2018: €2,965 million) because the earnings are intended to be permanently reinvested in the subsidiaries.

Uncertainties in the interpretation of a tax regulation in the context of an enacted foreign tax reform may potentially result in future tax payments in a middle two-digit-million range. Due to low probability of occurrence no current income tax liability was recognized.

Note 6 Earnings per share

(in millions of €; shares in thousands; earnings per share in €)	Fiscal year 2019	2018
Net income	1,586	1,284
Portion attributable to non-controlling interests	–18	–19
Net income attributable to shareholders of Siemens Healthineers AG	1,567	1,265
Weighted average shares outstanding (basic)	999,245	999,901
Effect of dilutive share-based payment	893	160
Weighted average shares outstanding (diluted)	1,000,138	1,000,061
Basic earnings per share	**1.57**	**1.26**
Diluted earnings per share	**1.57**	**1.26**

When calculating earnings per share for fiscal year 2018, 1,000,000,000 shares were used until the completion of the legal separation of Siemens Healthineers in the first half of the fiscal year 2018.

Note 7 Trade and other receivables

(in millions of €)	Sept 30, 2019	2018	Oct 1, 2017
Receivables from the sale of goods and services	2,744	2,388	2,282
Receivables from finance leases	35	31	26
Total trade and other receivables	**2,779**	**2,419**	**2,308**

Receivables from finance leases particularly related to the leasing of imaging equipment in the Imaging segment. The corresponding long-term portion is reported in the line item other financial assets and amounted to €144 million as of the reporting date (September 30, 2018: €108 million). The following table shows a reconciliation of the total future minimum lease payments to be received 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, 2019	2018
Gross investment in finance leases	225	174
Unearned finance income	– 40	– 32
Net investment in finance leases	185	142
Valuation allowances for doubtful accounts	– 6	– 3
Present value of future minimum lease payments receivable from finance leases	**179**	**139**

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

	Gross investment in finance leases		Present value of future minimum lease payments receivable from finance leases	
	Sept 30,		Sept 30,	
(in millions of €)	2019	2018	2019	2018
Within 1 year	45	35	42	32
Between 1 and 5 years	128	99	102	80
After 5 years	53	40	35	27
Total	**225**	174	**179**	139

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

Note 8 Other current financial assets

	Sept 30,	
(in millions of €)	2019	2018
Receivables from employees	27	23
Derivatives	22	27
Other	28	28
Total other current financial assets	**78**	77

Note 9 Contract assets

As of the reporting date, contract assets amounted to €839 million (September 30, 2018: €600 million; October 1, 2017: €294 million). Thereof, contract assets amounting to €128 million (September 30, 2018: €80 million) had a remaining term of more than twelve months. The change in contract assets primarily related to the Imaging segment, with an increase by €153 million (2018: increase by €212 million), and mainly resulted from an increase in deliveries of imaging equipment for which control had already been transferred to the customer but for which the unconditional right to consideration was still dependent on the rendering of services outstanding as of the reporting date.

Note 10 Inventories

	Sept 30,	
(in millions of €)	2019	2018
Raw materials and supplies	500	450
Work in progress	565	485
Finished goods and products held for resale	981	866
Advances to suppliers	19	28
Total inventories	**2,064**	1,829

In fiscal year 2019, cost of sales included inventories recognized as expenses in the amount of €8,503 million (2018: €7,750 million). Write-offs of inventories increased by €35 million (2018: €15 million) compared to the prior year.

Note 11 Other current assets

	Sept 30,	
(in millions of €)	2019	2018
Miscellaneous tax receivables	253	250
Prepaid expenses	56	46
Other	12	7
Total other current assets	**321**	303

As of September 30, 2019, miscellaneous tax receivables mainly consisted of sales tax receivables amounting to €246 million (September 30, 2018: €247 million).

Note 12 Goodwill

	Fiscal year	
(in millions of €)	2019	2018
Cost		
Balance at beginning of fiscal year	9,433	9,231
Currency translation differences and other	416	92
Acquisitions and purchase accounting adjustments	57	110
Balance at fiscal year-end	9,906	9,433
Accumulated impairment losses		
Balance at beginning of fiscal year	−1,257	−1,239
Currency translation differences	−59	−18
Balance at fiscal year-end	−1,316	−1,257
Carrying amount		
Balance at beginning of fiscal year	8,176	7,992
Balance at fiscal year-end	8,590	8,176

The impairment testing of the goodwill at the level of the segments resulted in no impairment. The allocation of goodwill to the segments as well as the key assumptions for the calculation of the segments' fair value less costs of disposal were as follows:

	Goodwill		Terminal value growth rate		After-tax discount rate	
	Sept 30,		Sept 30,		Sept 30,	
(in millions of €)	2019	2018	2019	2018	2019	2018
Imaging	5,951	5,702	1.7%	1.7%	6.5%	6.5%
Diagnostics	1,714	1,588	1.7%	1.7%	7.0%	7.5%
Advanced Therapies	924	886	1.7%	1.7%	6.5%	7.0%
Total goodwill	**8,590**	8,176				

Revenue figures in the five-year detailed planning period included average revenue growth rates (excluding portfolio effects) of 5% to 8% (2018: 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 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**

(in millions of €)	Gross carrying amount at beginning of fiscal year 2019
Internally generated technology	1,452
Acquired technology including patents, licenses and similar rights	499
Customer relationships and trademarks	2,224
Total other intangible assets	**4,175**
Land and buildings	1,117
Technical machinery and equipment	808
Furniture and office equipment	1,021
Equipment leased to others	1,566
Advances to suppliers and construction in progress	287
Total property, plant and equipment	**4,799**

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**

Currency translation differences	Additions through business combinations	Additions	Reclassifications	Retirements	Gross carrying amount at end of fiscal year 2019	Accumulated amortization, depreciation and impairment	Carrying amount at end of fiscal year 2019	Amortization, depreciation and impairment in fiscal year 2019
50	–	155	–	−2	1,655	−590	1,065	−111
21	14	41	–	−9	567	−369	198	−35
103	–	–	–	–	2,327	−2,014	313	−117
174	**14**	**197**	**–**	**−11**	**4,549**	**−2,973**	**1,576**	**−263**
38	–	25	57	−16	1,221	−632	589	−34
30	–	30	35	−42	861	−605	256	−49
33	–	132	31	−100	1,117	−800	317	−125
28	–	346	21	−177	1,784	−1,002	782	−149
16	–	216	−144	−1	374	–	374	–
145	**–**	**750**	**–**	**−336**	**5,357**	**−3,039**	**2,318**	**−357**

The item equipment leased to others comprised predominately diagnostic instruments that were leased out under operating leases in the Diagnostics segment.

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

(in millions of €)	Sept 30, 2019	Sept 30, 2018
Within 1 year	28	24
Between 1 and 5 years	89	71
After 5 years	13	10
Total	**130**	**105**

In fiscal year 2019, the contingent rents recognized as income amounted to €85 million (2018: €89 million).

As of the reporting date, contractual commitments for purchases of property, plant and equipment amounted to €84 million (September 30, 2018: €81 million).

Note 14 Other financial assets

(in millions of €)	Sept 30, 2019	Sept 30, 2018
Receivables from finance leases	144	108
Derivatives	107	–
Equity instruments and fund shares	66	47
Other	21	19
Total other financial assets	**339**	**174**

The increase of the item derivatives mainly resulted from the hedging of the loans transferred from a U.S. entity to German entities. For further details please refer to ***→Note 16 Financial debt*** and to ***→Note 25 Financial instruments and hedging activities***.

Note 15 Other assets

(in millions of €)	Sept 30, 2019	Sept 30, 2018
Deferred compensation assets	250	234
Prepaid expenses	55	42
Other	15	11
Total other assets	**320**	**287**

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 Financial debt

(in millions of €)	Sept 30, 2019	Sept 30, 2018
Short-term financial debt and current maturities of long-term financial debt	80	57
Thereof:		
Loans from banks	70	48
Obligations under finance leases	10	9
Payables to Siemens Group from financing activities	359	632
Total current financial debt	**439**	**689**
Long-term financial debt	62	17
Thereof:		
Loans from banks	39	–
Obligations under finance leases	22	17
Other liabilities to Siemens Group from financing activities	4,030	4,002
Total non-current financial debt	**4,092**	**4,019**
Total financial debt	**4,531**	**4,707**

As of September 30, 2019, financing arrangements of Siemens Healthineers with Siemens AG consisted of a multicurrency revolving credit facility of up to €1.0 billion (September 30, 2018: €1.1 billion), which serves to finance net working capital and as a short-term loan facility, as well as a multicurrency revolving credit facility of up to €1.0 billion (September 30, 2018: €1.0 billion) as a financing reserve. As in prior year, these credit facilities were not utilized as of the reporting date. Moreover, Siemens AG committed itself to provide Siemens Healthineers with additional financing of €1.0 billion in case of the closing of the acquisition of Corindus Vascular Robotics, Inc.

In addition, the Siemens Group provided loans with various maturities and in various currencies. As of September 30, 2019 and 2018, existing term loans were mainly denominated in U.S. dollars with approximately US$0.9 billion maturing in fiscal year 2021, US$0.7 billion maturing in fiscal year 2023, US$1.7 billion maturing in fiscal year 2027 and US$1.0 billion maturing in fiscal year 2046. Contractual interest rates for these loans were 1.9% for the loan maturing in fiscal year 2021, 2.2% for the loan maturing in fiscal year 2023, 2.5% for the loan maturing in fiscal year 2027 and 3.4% for the loan maturing in fiscal year 2046. In fiscal year 2019, the loans maturing in fiscal years 2021, 2023 and 2027 were transferred from a U.S. entity to German entities. The resulting foreign currency risk was hedged by forward exchange contracts. As a result, the loans were effectively converted into synthetic euro-denominated loans and actual interest expenses decreased due to positive forward elements of the forward exchange contracts. In total, the actual volume-weighted average interest rate of the transferred loans decreased from approximately 2.3% to –0.1%. For further information about the hedging activities, please refer to ***→Note 25 Financial instruments and hedging activities***.

In fiscal year 2019, interest expenses from financing arrangements with Siemens AG amounted to € 31 million (2018: € 27 million) and from financing arrangements with other Siemens Group entities to € 73 million (2018: € 150 million). The decrease in interest expenses resulted from positive effects of the above-mentioned loan transfers and from the post-IPO capital structure. In fiscal year 2018, interest income included € 27 million from the early redemption of loans in the course of the legal separation of Siemens Healthineers.

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

			Non-cash changes		
(in millions of €)	Balance at beginning of fiscal year 2019	Cash flows[1]	Currency translation differences	Other	Balance at end of fiscal year 2019
Loans from banks	48	63	−1	–	109
Obligations under finance leases	26	−9	–	16	33
Payables and other liabilities to Siemens Group from financing activities	4,634	−473	243	−14	4,390
Total financial debt	**4,707**	**−419**	**242**	**1**	**4,531**
Receivables from Siemens Group from financing activities	−1,391	716	−8	–	−683
Total liabilities from financing activities	**3,317**	**297**	**234**	**1**	**3,849**

[1] Reported in the following line items of the consolidated statements of cash flows: Change in short-term financial debt and other financing activities and other transactions/financing with Siemens Group.

			Non-cash changes		
(in millions of €)	Balance at beginning of fiscal year 2018	Cash flows[1]	Currency translation differences	Other	Balance at 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 financial 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 financial debt and other financing activities, dividends and profit transfer to the Siemens Group and other transactions/financing with Siemens Group.

In fiscal year 2018, 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 financial debt to equity.

Note 17 Additional capital management disclosures

Siemens Healthineers generates consistent liquid funds from recurring revenue, supporting a strong cash position. Capital management aims 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. Siemens Healthineers actively manages its net debt position (including pensions) and ratio of net debt (including pensions) to EBITDA. This ratio indicates the approximate number of years that would be needed to cover the net debt (including pensions) with continuing income, without taking into account interest, taxes, depreciation and amortization. The net debt position (including pensions) and ratio of net debt (including pensions) to EBITDA are managed with a long-term outlook and with the intention that Siemens Healthineers would qualify for a solid investment grade rating at the minimum.

	Sept 30,	
(in millions of €)	2019	2018
Short-term financial debt and current maturities of long-term financial debt	80	57
Long-term financial debt	62	17
Payables to Siemens Group from financing activities	359	632
Other liabilities to Siemens Group from financing activities	4,030	4,002
Receivables from Siemens Group from financing activities	–683	–1,391
Cash and cash equivalents	–920	–519
Net debt	**2,929**	**2,798**
Provisions for pensions and similar obligations	1,045	845
Net debt (including pensions)	**3,974**	**3,643**
Income before income taxes	2,193	1,799
Interest income, interest expenses and other financial income, net	107	169
Amortization, depreciation and impairments	620	530
EBITDA	**2,920**	**2,498**
Net debt (including pensions)/EBITDA	**1.4**	**1.5**

Note 18 Contract liabilities

As of September 30, 2019, contract liabilities amounted to €1,741 million (September 30, 2018: €1,524 million; October 1, 2017: €1,406 million). Thereof, contract liabilities amounting to €440 million (September 30, 2018: €342 million) had a remaining term of more than twelve months. In fiscal year 2019, an amount of €1,070 million (2018: €947 million) included in contract liabilities at the beginning of the period was recognized as revenue.

Note 19 Provisions

(in millions of €)	Warranties	Order-related losses and risks	Other	Total
Balance at beginning of fiscal year 2019	**245**	**89**	**117**	**452**
Therein: Non-current	35	66	56	157
Additions	175	5	25	205
Usage	–147	–7	–11	–165
Reversals	–54	–18	–19	–91
Currency translation differences	5	12	4	21
Other	–	1	6	8
Balance at end of fiscal year 2019	**225**	**83**	**122**	**430**
Therein: Non-current	23	63	61	147

The majority of provisions is expected to result in cash outflows during the next one to 15 years. Warranties related to goods sold. Order-related losses and risks were primarily recognized for contracts in which the unavoidable costs of meeting the obligations under the contracts exceeded expected outstanding revenue. 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 ordinary course of business, Siemens Healthineers is involved in legal proceedings in various jurisdictions. At present, the Group 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

	Sept 30,	
(in millions of €)	2019	2018
Wage and salary obligations and other liabilities to employees	629	615
Employee-related accruals	268	260
Miscellaneous tax liabilities	192	205
Other	147	143
Total other current liabilities	**1,236**	**1,223**

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 €143 million (September 30, 2018: €147 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 cover around 45,000 participants. These are divided into 28,000 active employees for whom current service cost is recognized, 8,000 active and former employees with vested benefits for whom no more current service cost is recognized and 9,000 retirees and surviving dependents who receive benefits. The defined benefit plans are to a certain extent affected by longevity, inflation and compensation increases and take into account country-specific differences. Major plans are funded with assets in external segregated benefit trusts. In accordance with local laws, these plans are managed in the interest of the beneficiaries through trust agreements with the respective benefit trusts. The defined benefit plans open to new entrants are based predominantly on contributions made by Siemens Healthineers. The majority of the provisions for pensions derives from defined benefit plans in the following four countries:

Germany

In Germany, Siemens Healthineers provides pension benefits through the Siemens Healthineers BSAV ("Beitragsorientierte Siemens Altersversorgung"), frozen legacy plans and deferred compensation plans. The majority of active employees participates in the Siemens Healthineers BSAV. The benefits provided under this plan are predominantly based on notional contributions and their respective asset returns whereby a minimum return is guaranteed. The frozen plans expose Siemens Healthineers to investment risk, interest rate risk and longevity risk. The effects of compensation increases are substantially eliminated. The pension plans are funded via a contractual trust arrangement (CTA). No legal or regulatory minimum funding requirements apply in Germany.

United States

In the United States, defined benefit plans are sponsored by Siemens Healthineers which have been frozen to new entrants and future benefit accruals, except for interest credits on cash balance accounts. The plans' assets are held in trusts. The trustees of the trusts are responsible for the administration of the assets. They take directions from an investment committee to which Siemens Healthineers has delegated supervision of the investment of plan assets. The 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. Siemens Healthineers may, at its discretion, contribute in excess of this regulatory requirement.

United Kingdom

In the United Kingdom, Siemens Healthineers provides pension benefits through the Siemens Healthineers Benefit Scheme 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 so-called funding valuation carried out every third year according to legal requirements.

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 management of plan assets 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 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 €)	2019	2018	2019	2018	2019	2018	2019	2018
Balance at beginning of fiscal year	**3,376**	4,067	**2,574**	2,364	**13**	12	**815**	1,715
Current service cost	62	59	–	–	–	–	62	59
Interest expenses	83	81	–	–	–	–	83	81
Interest income	–	–	67	55	–	–	–67	–55
Other[1]	–	12	–2	–8	–	–	3	20
Defined benefit cost recognized in the consolidated statements of income	**145**	152	**65**	47	**–**	–	**81**	105
Return on plan assets excluding amounts included in net interest income and net interest expenses	–	–	220	67	–	–	–220	–67
Actuarial gains (–) and losses	397	–10	–	–	–	–	397	–10
Effects of asset ceiling	–	–	–	–	–	1	–	1
Remeasurements recognized in the consolidated statements of comprehensive income	**397**	–10	**220**	67	**–**	1	**177**	–76
Employer contributions	–	–	66	207	–	–	–66	–207
Plan participants' contributions	8	10	8	10	–	–	–	–
Benefits paid	–152	–158	–136	–135	–	–	–16	–24
Settlement payments	–	–87	–	–87	–	–	–	–
Business combinations, disposals and other	3	–610	–	89	–	–	3	–699
Currency translation differences	70	12	62	11	–	–	8	1
Other reconciliation items	**–71**	–833	**–1**	96	**–**	–	**–70**	–929
Balance at fiscal year-end	**3,847**	3,376	**2,858**	2,574	**13**	13	**1,002**	815
Thereof:								
Germany	2,001	1,765	1,204	1,109	–	–	798	656
United States	1,107	979	987	881	–	–	120	99
United Kingdom	371	332	423	370	13	12	–39	–26
Switzerland	105	85	95	84	–	–	10	2
Other countries	263	214	149	130	–	–	114	84
Thereof:								
Provisions for pensions and similar obligations							1,045	845
Net defined benefit assets[2]							43	30

[1] Included past service costs, settlement gains and losses as well as liability management costs for funded plans.
[2] Presented in the line item other assets.

Net interest expenses related to provisions for pensions and similar obligations amounted to €17 million in fiscal year 2019 (2018: €27 million). The defined benefit obligation was attributable to active employees 46% (2018: 46%), to active and former employees with vested benefits 15% (2018: 15%) and to retirees and surviving dependents 39% (2018: 39%). Employer contributions in fiscal year 2018 included U.S. pension funding of €126 million. In fiscal year 2018, the effects from business combinations, disposals and other relating to plan assets included the following offsetting effects related to the legal separation of Siemens Healthineers from the Siemens Group. In Germany, assets in the amount of €766 million were funded into the contractual trust arrangement. In the United Kingdom, changes in the expected scope of the population reduced the plan assets by €671 million and moreover the defined benefit obligation by €624 million. The actuarial gains (–) and losses resulted from:

	Fiscal year	
(in millions of €)	2019	2018
Changes in demographic assumptions	–19	–8
Changes in financial assumptions	426	–56
Experience gains and losses	–11	54
Total actuarial gains (–) and losses	**397**	–10

In fiscal year 2019, an actuarial gain of €83 million due to a change in financial assumptions in connection with payment options at the start of retirement in Germany was recognized.

Actuarial assumptions

The weighted-average discount rate was as follows:

	Sept 30,	
(in %)	2019	2018
Discount rate	1.8	2.9
Euro	0.9	2.0
U.S. dollar	3.0	4.2
British pound	2.0	2.9
Swiss franc	0.2	1.2

Mortality tables applied were:

	Sept 30,	
	2019	2018
Germany	Siemens specific tables (Siemens Bio 2017) mainly derived from data of the German Siemens population and to a lesser extent from data of the Federal Statistical Office in Germany by applying formulas in accordance with recognized actuarial standards	Siemens specific tables with mortality trends based on Heubeck Richttafeln 2005G
United States	Pri-2012 generational projection from the U.S. Social Security Administration's Long Range Demographic Assumptions	RP-2006 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	SAPS S2 Standard mortality tables for Self-Administered Pension Schemes with allowance for future mortality improvements
Switzerland	BVG 2015 G	BVG 2015 G

Compensation increase and pension progression for countries, in which these assumptions have a significant effect, are shown in the following table. If applicable, inflation effects were considered.

	Sept 30,	
(in %)	2019	2018
Compensation increase		
United Kingdom	3.5	3.7
Switzerland	1.4	1.3
Pension progression		
Germany	1.4	1.4
United Kingdom	2.7	2.9

Sensitivity analysis

A one-half percentage-point change of the above-mentioned assumptions would affect the defined benefit obligation as follows:

	Effect on defined benefit obligation due to a one-half percentage-point change			
	Sept 30, 2019		Sept 30, 2018	
(in millions of €)	Increase	Decrease	Increase	Decrease
Discount rate	−231	271	−195	218
Compensation increase	10	−10	13	−12
Pension progression	154	−136	123	−113

The effect on the defined benefit obligation of a 10% reduction in mortality rates for all beneficiaries would be an increase of €104 million as of September 30, 2019 (September 30, 2018: €78 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 management strategies

A decline in the pension plans' funded status due to an adverse development of plan assets or the defined benefit obligation is considered as a significant risk. The funded status can be affected by changes in actuarial assumptions, primarily the discount rate, as well as movements in financial markets. Accordingly, Siemens Healthineers implemented an investment strategy aligned with the defined benefit obligation (liability-driven investment approach). The management of the risks is based on a worldwide defined risk measure (value at risk, VaR) which considers both, plan assets and the defined benefit obligation. The risk assessment is combined with a stress test simulating the impact of a deterioration of the funded status in the amount of the VaR on net debt (including pensions). The risks mentioned above and the asset development are monitored on an ongoing basis, if necessary, the investment strategy is adjusted accordingly. 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

	Sept 30,	
(in millions of €)	**2019**	**2018**
Equity securities	560	375
Fixed income securities	1,522	1,431
Thereof:		
Government bonds	337	409
Corporate bonds	1,185	1,022
Alternative investments	200	170
Multi strategy funds	343	269
Derivatives	46	22
Cash and cash equivalents	122	252
Other	65	54
Total plan assets	**2,858**	**2,574**

Almost all equity securities had quoted prices in active markets. The fair value of fixed income securities was based on prices calculated by price service agencies. The fixed income securities were traded in active markets and almost all were rated as 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

As of the reporting date, employer contributions expected to be paid to defined benefit plans in fiscal year 2020 amounted to €76 million (2019: €66 million). Over the next ten fiscal years, average annual benefit payments of €181 million were expected (September 30, 2018: €177 million). The weighted average duration of the defined benefit obligation for Siemens Healthineers' defined benefit plans was 13 years (September 30, 2018: 13 years).

Defined contribution plans

The amount recognized as an expense for defined contribution plans amounted to €418 million in fiscal year 2019 (2018: €398 million). Therein, contributions to state plans of €284 million (2018: €248 million) were included.

Note 22 Other liabilities

(in millions of €)	Sept 30, 2019	2018
Deferred compensation liabilities	227	228
Employee-related accruals	127	138
Other	13	20
Total other liabilities	**368**	**386**

Employee-related accruals primarily included accruals for anniversary expenses, expenses for partial retirement in Germany and share-based payment. 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

Issued capital: As of September 30, 2019 and 2018, 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. 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.

Authorized capital: As of September 30, 2019 and 2018, 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 or contributions in kind. In addition, as of September 30, 2019 and 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.

Capital reserve and retained earnings: In fiscal year 2019, for the purpose of dividend distribution, an amount of €390 million was withdrawn from the free capital reserve and transferred to retained earnings. In fiscal year 2018, changes in retained earnings mainly resulted from transactions in connection with the formation and the funding of the Group and the application of the separate tax return approach.

Other components of equity: In fiscal year 2019, Siemens Healthineers repurchased 1,446,454 (2018: 1,440,861) treasury shares and transferred 1,043,059 (2018: 1,193,098) treasury shares. As of the reporting date, the Group held 651,158 (September 30, 2018: 247,763) treasury shares.

Dividends: Dividends paid per share were €0.70 in fiscal year 2019. The amount 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, which was terminated by way of a mutual termination agreement with effect as of March 31, 2018, had occurred in the six months ended March 31, 2018. The Managing Board and the Supervisory Board propose to distribute a dividend of €0.80 per share entitled to the dividend, in total representing approximately €799 million in expected payments. Payment of the proposed dividend is contingent upon approval at the Shareholders' Meeting on February 12, 2020.

Note 24 Other financial obligations

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

(in millions of €)	Sept 30, 2019	2018
Within 1 year	132	127
Between 1 and 5 years	265	245
After 5 years	79	77
Total	**475**	**449**

In fiscal year 2019, total operating lease expenses amounted to €201 million (2018: €203 million).

Furthermore, as of the reporting date, expected purchase price obligations from acquisitions not yet closed amounted to US$1.5 billion (€1.4 billion). For further information, please refer to → ***Note 34 Subsequent events***.

Note 25 Financial instruments and hedging activities

Financial instruments

The following tables show the carrying amounts and measurement details of each category of financial assets and liabilities:

Carrying amounts as of September 30, 2019

(in millions of €)	Category of financial assets and liabilities (IFRS 9)[1]	In scope of IFRS 9: Measured at amortized cost	Measured at fair value: Level 1	Level 2	Level 3	Not in scope of IFRS 9	Total
Cash and cash equivalents	AC	920	–	–	–	–	920
Trade receivables[2]	AC	2,744	–	–	–	–	2,744
Receivables from finance leases[3]	n.a.	–	–	–	–	179	179
Receivables from Siemens Group	AC	686	–	–	–	–	686
Other current and non-current financial assets[2]							
Derivatives included in hedge accounting	n.a.	–	–	113	–	–	113
Derivatives not included in hedge accounting	FVtPL	–	–	16	–	–	16
Equity instruments and fund shares measured at fair value through profit or loss	FVtPL	–	7	8	7	–	22
Equity instruments measured at fair value through other comprehensive income	FVtOCI	–	–	–	44	–	44
Other	AC	77	–	–	–	–	77
Total financial assets		**4,427**	**7**	**137**	**51**	**179**	**4,801**
Short-term and current maturities of long-term financial debt as well as long-term financial debt[4]	AC	109	–	–	–	–	109
Trade payables	AC	1,403	–	–	–	–	1,403
Obligations under finance leases[5]	n.a.	–	–	–	–	32	32
Payables and other liabilities to Siemens Group	AC	4,394	–	–	–	–	4,394
Other current and non-current financial liabilities							
Derivatives included in hedge accounting	n.a.	–	–	49	–	–	49
Derivatives not included in hedge accounting	FVtPL	–	–	13	–	–	13
Contingent consideration	FVtPL	–	–	–	27	–	27
Other	AC	61	–	–	–	17	78
Total financial liabilities		**5,967**	**–**	**62**	**27**	**49**	**6,105**

[1] AC = Financial Assets/Liabilities at Amortized Cost; FVtPL = Financial Assets/Liabilities at Fair Value through Profit or Loss; FVtOCI = Financial Assets at Fair Value through Other Comprehensive Income; n.a. = not applicable.
[2] Excluding separately disclosed receivables from finance leases.
[3] Reported in the line items trade and other receivables as well as other financial assets.
[4] Excluding separately disclosed obligations under finance leases.
[5] Reported in the line items short-term financial debt and current maturities of long-term financial debt as well as long-term financial debt.

- The carrying amounts of the items cash and cash equivalents, short-term and current maturities of long-term financial debt, trade payables, payables to Siemens Group as well as other current financial assets and other current financial liabilities measured at amortized cost approximated their fair value due to the short-term maturities of these instruments.
- Trade receivables, receivables from finance leases, receivables from Siemens Group and other non-current financial assets measured at amortized cost were evaluated taking into account various parameters, such as interest rates, country-specific risks and individual creditworthiness of the debtors. Based on this evaluation, valuation allowances for these items were recognized. The carrying amounts of the items net of valuation allowances approximated their fair values.
- The carrying amount of other liabilities to Siemens Group from U.S. dollar denominated long-term loans was €3,932 million as of September 30, 2019 (September 30, 2018: €3,698 million). The fair value of these liabilities, which is based on prices provided by price service agencies (level 2), amounted to €3,928 million as of September 30, 2019 (September 30, 2018: €3,358 million). The carrying amounts of the remaining other liabilities to Siemens Group approximated their fair value, because the relevant interest rates approximated market interest rates.
- The carrying amounts of obligations under finance leases as well as other non-current financial liabilities measured at amortized cost approximated their fair value, which is determined by discounting future cash flows using market rates.

Carrying amounts as of September 30, 2018

(in millions of €)	Category of financial assets and liabilities (IAS 39)[1]	In scope of IAS 39				Not in scope of IAS 39	Total
		Measured at amortized cost	Measured at fair value				
			Level 1	Level 2	Level 3		
Cash and cash equivalents	n.a.	519	–	–	–	–	519
Trade receivables[2]	LaR	2,388	–	–	–	–	2,388
Receivables from finance leases[3]	n.a.	–	–	–	–	139	139
Receivables from Siemens Group	LaR	1,396	–	–	–	–	1,396
Other current and non-current financial assets[2]							
Derivatives included in hedge accounting	n.a.	–	–	15	–	–	15
Derivatives not included in hedge accounting	FAHfT	–	–	12	–	–	12
Available-for-sale financial assets	AfS	38	9	–	–	–	47
Other	LaR	69	–	–	–	–	69
Total financial assets		**4,410**	**9**	**27**	**–**	**139**	**4,585**
Short-term and current maturities of long-term financial debt as well as long-term financial debt[4]	FLaC	48	–	–	–	–	48
Trade payables	FLaC	1,278	–	–	–	–	1,278
Obligations under finance leases[5]	n.a.	–	–	–	–	25	25
Payables and other liabilities to Siemens Group	FLaC	4,640	–	–	–	–	4,640
Other current and non-current financial liabilities							
Derivatives included in hedge accounting	n.a.	–	–	11	–	–	11
Derivatives not included in hedge accounting	FLHfT	–	–	13	–	–	13
Other	FLaC	84	–	–	–	–	84
Total financial liabilities		**6,051**	**–**	**24**	**–**	**25**	**6,100**

[1] 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] Excluding separately disclosed receivables from finance leases.

[3] Reported in the line items trade and other receivables as well as other financial assets.

[4] Excluding separately disclosed obligations under finance leases.

[5] Reported in the line items short-term financial debt and current maturities of long-term financial debt as well as long-term financial debt.

- The determination of the fair values of derivatives 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 derivatives, no compensating effects from underlying transactions were taken into consideration.
- Except for a publicly listed investment for which a quoted price in an active market exists (level 1), the fair values of equity instruments were generally derived from a discounted cash flow valuation (level 3). Expected cash flows are subject to future market and business developments as well as price volatility. The discount rates applied take into account respective risk-adjusted capital costs. The fair value measurement of fund shares was based on their net asset values (level 2).
- The fair values of contingent consideration were derived from probability-weighted future payments which mainly depend on the achievement of technical and commercial milestones as well as on the achievement of sales targets (level 3).

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

(in millions of €)	Fiscal year 2019
Financial assets measured at amortized cost	−26
Financial liabilities measured at amortized cost	−78
Financial assets and financial liabilities measured at fair value through profit or loss	−108
Equity instruments measured at fair value through other comprehensive income	1

Net gains or losses on financial assets measured at amortized cost consisted of foreign exchange gains and losses, changes in valuation allowances and gains and losses on derecognition. Net gains or losses on financial liabilities measured at amortized cost included foreign exchange gains and losses. Net gains or losses on financial assets and liabilities measured at fair value through profit or loss resulted from the remeasurement of equity instruments as well as from changes in the fair value of derivatives which were not designated as hedging instruments. Net gains or losses on equity instruments measured at fair value through other comprehensive income included remeasurement gains and losses.

Prior year's net gains or losses on financial instruments are not comparable due to application of IAS 39:

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

In fiscal year 2019, interest expenses on financial liabilities measured at amortized cost amounted to €126 million (2018: €179 million). Foreign exchange differences recognized in profit or loss on financial assets and liabilities measured at amortized cost amounted to €–84 million (2018: €–25 million).

Valuation allowances for expected credit losses

Impairments for expected credit losses were generally recorded in the line item selling and general administrative expenses in the consolidated statements of income. Valuation allowances on current and non-current receivables, included in the line items trade and other receivables, other current financial assets and other financial assets, represent lifetime expected credit losses and changed as follows:

	Fiscal year	
(in millions of €)	2019	2018
Valuation allowances at beginning of fiscal year	85	117
Change in valuation allowances recorded in the consolidated statements of income	20	−15
Write-offs charged against allowances	−11	−13
Currency translation differences	3	−4
Valuation allowances at fiscal year-end	**96**	85

The change in valuation allowances recorded in the consolidated statements of income related to an increase in the valuation allowances on receivables from the sale of goods and services in fiscal year 2019 by €16 million (2018: decrease by €17 million).

Receivables from Siemens Group were classified in stage 1 of the general impairment approach, i.e. the valuation allowances were measured at an amount equal to 12-month expected credit losses. As of September 30, 2019, receivables from Siemens Group with gross carrying amounts of €686 million were rated with an investment grade rating. In fiscal years 2019 and 2018, no material valuation allowances were recognized.

Offsetting

Siemens Healthineers entered into master netting agreements and similar agreements for derivatives. As of September 30, 2019, the gross amounts of such derivatives amounted to €116 million (September 30, 2018: €14 million) for derivatives with positive fair values and €45 million (September 30, 2018: €12 million) for derivatives with negative fair values. Therein, €2 million (September 30, 2018: €9 million) were subject to a master netting agreement but were not set off in the consolidated statements of financial position because the offsetting requirements were not met.

Hedging activities

As part of Siemens Healthineers' risk management approach → ***Note 26 Financial risk management***, derivatives 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, firm commitments and loans denominated in foreign currencies.

In fiscal years 2019 and 2018, Siemens Healthineers did not hold any material derivatives relating to interest rate risk or commodity price risk.

Cash flow hedges

Siemens Healthineers applied hedge accounting for certain significant forecast transactions, firm commitments and loans denominated in foreign currencies. The main characteristics of the forward exchange contracts designated as hedging instruments matched the underlying hedged items (e.g. nominal amount, maturity).

As of September 30, 2019, the nominal amounts of designated forward exchange contracts which mature within one year and after more than one year amounted to € 1,437 million and € 3,355 million, respectively. Therein, forward exchange contracts with a nominal amount of € 3,399 million were used to hedge exchange risks arising from U.S. dollar-denominated loans maturing in fiscal years 2021, 2023 and 2027. The weighted average hedging rate was 1.25 US$/€. For these hedges, only the changes in the value of the spot element of the forward exchange contracts were designated as hedging instruments. As of September 30, 2018, the maturity of the main portion of designated derivatives did not exceed twelve months.

As of the reporting date, positive fair values of forward exchange contracts designated as hedging instrument amounted to € 113 million (September 30, 2018: € 15 million) and were recognized in the line items other current financial assets and other financial assets. Negative fair values amounted to € 49 million (September 30, 2018: € 11 million) and were recognized in the line items other current financial liabilities and other financial liabilities.

In fiscal year 2019, the changes in fair value of the hedging instruments used for measuring hedge ineffectiveness amounted to € 41 million. No material hedge ineffectiveness was recognized in the reporting period.

The cash flow hedge reserve and the cost of hedging reserve reconcile as follows:

	Exchange rate risk	
(in millions of €)	Cash flow hedges reserve	Cost of hedging reserve
Balance at beginning of fiscal year 2019	**2**	–
Hedging gains/losses shown in other comprehensive income	41	26
Amounts reclassified into revenue (hedging of forecast sales)	−7	–
Amounts reclassified into cost of sales (hedging of forecast purchases)	1	–
Amounts reclassified into other financial income (hedging of financial debt denominated in foreign currency)	−72	–
Amounts reclassified into interest expenses	–	−22
Income tax effects	11	−1
Balance at end of fiscal year 2019	**−24**	3

Note 26 Financial risk management

Siemens Healthineers is managed centrally by the Managing Board. The Managing Board is responsible for the operating business and manages and controls financial risks in accordance with its risk management policy. Prior to the IPO of Siemens Healthineers, the Siemens Group was responsible for the risk management policy. Since the IPO, 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. The worldwide operating business as well as the investing and financing activities are affected particularly by changes in exchange rates and interest rates. In order to optimize the allocation of 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 derivatives when it is appropriate.

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

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 impacts on the consolidated statements of income or consolidated statements of comprehensive income according to IFRS may differ substantially from calculated VaR figures which are the output of a model with a purely financial perspective. 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 entity whose business leads 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, entities are particularly exposed to exchange rate fluctuations between the U.S. dollar and the euro.

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

The exchange rate risk 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.

Entities are bound by an exchange rate risk management system established within the Group. Each entity is responsible for recording, assessing and monitoring its transaction-related exchange rate risk. The mandatory guideline for the treatment of exchange rate risks within Siemens Healthineers describes the procedure for identifying and determining 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. The majority of Siemens Healthineers' hedging transactions is carried out with the corporate treasury of the Siemens Group as the counterparty.

Entities are prohibited from borrowing or investing in foreign currencies on a speculative basis. New financing from the Siemens Group or investments by operating entities are preferably carried out in their functional currency. In case an entity is financed in a non-functional currency, the respective foreign currency risk must be hedged 100%.

As of September 30, 2019, the VaR relating to exchange rate risks was €51 million (September 30, 2018: €60 million). This VaR was calculated under consideration of items of the consolidated statement of financial position, foreign-currency-denominated firm commitments, foreign-currency-denominated cash flows from forecast transactions for the following twelve months and effects from hedging transactions.

Translation risk

Many entities are located outside the euro zone. Because the financial reporting currency of Siemens Healthineers is the euro, the financial statements of these entities are translated into euros for preparation of the consolidated financial statements. To take account of effects of foreign currency translation in risk management, the general assumption is that investments in foreign entities 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 of a financial instrument or its future cash flows will fluctuate because of changes in interest rates. This risk arises whenever interest terms of financial assets and liabilities are different. Siemens Healthineers' exposure to the risk of fluctuations in future cash flows resulting from changes in interest rates relates to short-term bank loans as well as money market borrowings and investments at Siemens Group. Long-term liabilities to Siemens Group primarily have fixed interest rates. Therefore, Siemens Healthineers was not exposed to a substantial risk of fluctuations in future cash flows resulting from changes in interest rates. Moreover, the interest rate risks of fluctuations in the fair values of long-term liabilities are currently not actively managed as no material effects on net income are expected to occur. Accordingly, Siemens Healthineers did not use any interest rate derivatives in fiscal years 2019 and 2018.

As of September 30, 2019, the VaR relating to interest rates was €184 million (September 30, 2018: €63 million). The increase was mainly driven by higher interest rate volatilities in the United States and in the euro zone.

Liquidity risk

Liquidity risks relate to Siemens Healthineers' ability to meet its financial liabilities. As of September 30, 2019, Siemens Healthineers' reserve of cash and cash equivalents amounted to €920 million (September 30, 2018: €519 million).

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 Financial debt***.

The following table reflects the contractually fixed payoffs for repayments and interest. The disclosed expected undiscounted net cash outflows from derivative financial liabilities were 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, 2019.

	Fiscal year			
(in millions of €)	2020	2021	2022 to 2024	2025 and thereafter
Non-derivative financial liabilities	**2,053**	**1,064**	**938**	**3,249**
Thereof:				
Loans from banks	71	41	–	–
Obligations under finance leases	11	10	11	1
Trade payables	1,396	2	3	2
Other financial liabilities	91	15	–	–
Payables and other liabilities to Siemens Group	484	996	924	3,246
Derivative financial liabilities	**62**	**1**	**–**	**–**

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. These assets are considered in Siemens Healthineers' overall liquidity risk management. Thus, Siemens Healthineers mitigates liquidity risk by the implementation of effective working capital management and cash management. To monitor existing financial assets and liabilities and to enable effective control 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 collaterals 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, binding credit policy guidelines were implemented. In principle, each 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 customers, external rating agencies, data service providers and credit default experiences. Ratings consider appropriate forward-looking-information significant to the specific financial instrument, like expected changes in the obligor's financial position, as well as broader forward-looking-information, such as expected macroeconomic, industry-related and competitive developments. Ratings also consider a country-specific risk component derived from external country credit ratings. 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 entities 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 latest developments.

There were no significant concentrations of customer credit risk as of September 30, 2019 and 2018. 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, 2019, collateral and other credit enhancements held for financial assets measured at amortized cost amounted to €78 million (September 30, 2018: €59 million), mainly in the form of letters of credit and guarantees.

As of September 30, 2019, the gross carrying amount of trade receivables from the sale of goods and services amounted to €2,831 million (before valuation allowances). Based on rating information from Siemens Financial Services, 38% were rated with an investment grade rating and 62% with a non-investment grade rating. Receivables from finance leases (gross carrying amount: €185 million) and contract assets (gross carrying amount: €844 million) generally share similar risk characteristics. As of the reporting date, there were no material loan commitments and financial guarantee contracts.

Note 27 Share-based payment

As of September 30, 2019, the carrying amount of liabilities from share-based payment amounted to €80 million (September 30, 2018: €99 million). Total expenses for share-based payment in fiscal year 2019 amounted to €36 million (2018: €80 million). These included €22 million related to equity-settled share-based payment awards (2018: €13 million).

Share-based payment awards granted in fiscal year 2019 were solely based on Siemens Healthineers AG shares, including the Siemens Healthineers' stock awards and the Share Matching program based on Siemens Healthineers AG shares. In addition, employees continued to participate in existing share-based payment plans of the Siemens Group based on Siemens AG shares. These plans included Siemens' stock awards, the Share Matching program based on Siemens AG shares and the Jubilee Share program.

Stock awards

Siemens Healthineers grants stock awards to members of the Managing Board, members of senior management and other eligible employees. These are subject to a restriction period of about four years and entitle beneficiaries to receive Siemens Healthineers AG shares without payment of consideration (Siemens Healthineers' stock awards). In fiscal year 2018, Siemens Healthineers granted stock awards based on Siemens AG shares (Siemens' stock awards) for the last time. However, after the IPO in fiscal year 2018, the beneficiaries were able to replace these original Siemens' stock awards with Siemens Healthineers' stock awards (Siemens Healthineers' replacement stock awards). The restriction period of the Siemens Healthineers' replacement stock awards ends at the same time as the restriction period of the Siemens' stock awards originally granted. The target amount for Siemens Healthineers' replacement stock awards equals the target amount for the Siemens' stock awards originally granted.

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

	Siemens Healthineers AG shares		Siemens AG shares	
	Fiscal year		Fiscal year	
	2019	2018	2019	2018
Non-vested at beginning of fiscal year	620,826	–	690,022	793,384
Granted	1,836,586	–	–	288,070
Vested and fulfilled	–	–	−133,967	−125,201
Forfeited	−53,289	−3,263	−20,429	−61,061
Settled	−3,965	–	−1,478	−42,671
Replaced	–	624,089	–	−162,499
Non-vested at fiscal year-end	**2,400,158**	620,826	**534,148**	690,022

Siemens' stock awards

The target attainment of the Siemens' stock awards is bound for the entire target amount of share-based payment to the share price performance of Siemens AG relative to the share price performance of five important competitors during the restriction period of about four years. The target attainment for the performance criteria ranges from 0% to 200%. If the target attainment exceeds 100%, an additional cash payment results corresponding to the outperformance. Siemens' stock awards are classified as cash-settled.

In fiscal year 2018, originally 288,070 Siemens' stock awards were granted whereof 162,499 were afterwards replaced with Siemens Healthineers' stock awards. The fair value of these originally granted Siemens' stock awards amounted to €21 million at the grant date and was calculated based on a valuation model. This valuation model included the following inputs: an expected weighted volatility of Siemens AG shares of 22.17%, a market price of €114.80 per Siemens AG share, an expected dividend yield of 3.23% and a risk-free interest rate of 0.05%. Expected volatility and assumptions concerning share price correlations were determined by reference to historical volatilities and historical correlations, respectively.

Siemens Healthineers' stock awards

The target attainment of the Siemens Healthineers' stock awards is bound for the entire target amount of share-based payment to the 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 from 0% to 200%. In fiscal year 2019, based on a target attainment of 200%, 1,836,586 Siemens Healthineers' stock awards were granted. The fair value of these stock awards classified as equity-settled amounted to €33 million at the grant date and was calculated based on a valuation model. The model for the valuation of the stock awards granted to members of the Managing Board included the following inputs: an expected weighted volatility of Siemens Healthineers AG shares of 20.54%, a market price of €36.73 per Siemens Healthineers AG share, an expected dividend yield of 1.91% and a risk-free interest rate of 0.16%. The model for the valuation of the stock awards granted to members of the senior management and other eligible employees included the following inputs: an expected weighted volatility of Siemens Healthineers AG shares of 20.54%, a market price of €36.25 per Siemens Healthineers AG share, an expected dividend yield of 1.93% and a risk-free interest rate of 0.16%. Expected volatility and assumptions concerning share price correlations were determined by reference to historical volatilities and historical correlations, respectively.

In contrast, replaced Siemens' stock awards granted in the fiscal year 2018 tranche consisted of an equity component and a cash component. The replacement did not result in any reclassification of the cash component. Thus, if the target attainment exceeds 100%, an additional cash payment results corresponding to the outperformance. For the former equity component, the replacement resulted in Siemens' stock awards formerly classified as cash-settled being modified to equity-settled Siemens Healthineers' stock awards. The number of Siemens Healthineers' replacement stock awards 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 Siemens Healthineers' 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 Siemens Healthineers' replacement stock awards with a fair value of €12 million were granted to members of the senior management and other eligible employees.

Share Matching program and its underlying plans

Under the Share Matching program Siemens Healthineers offers plans which entitle beneficiaries to receive Siemens Healthineers AG shares. Up to fiscal year 2018, beneficiaries were entitled to receive Siemens AG shares. The plans under the Share Matching program based on Siemens Healthineers AG shares are classified as equity-settled, the plans under the Share Matching program based on Siemens AG shares as cash-settled. The weighted average fair value of the Siemens Healthineers' matching shares, to which the plans entitled under the Share Matching program in fiscal year 2019, was €28.17 per share (Siemens' matching shares to which the plans entitled under the Share Matching program in fiscal year 2018: €90.33 per share). It was determined as the share price less the present value of expected dividends and considering non-vesting conditions.

The development of outstanding matching shares from all below described plans of the Share Matching program was as follows:

	Siemens Healthineers AG shares	Siemens AG shares	
		Fiscal year	
	Fiscal year 2019	2019	2018
Outstanding at beginning of fiscal year	–	229,703	244,759
Granted	142,942	93,144	106,124
Vested and fulfilled	–	−93,923	−105,308
Forfeited	−7,510	−10,884	−12,131
Settled	−970	−4,808	−3,741
Outstanding at fiscal year-end	**134,462**	**213,232**	229,703

Share matching plan

Under the share matching plan senior managers can invest a specified part of their variable compensation in shares (investment shares). The shares are purchased at the market price at a predetermined date in the second quarter of each fiscal year. For every three investment shares continually held over the vesting period of about three years, plan participants have the right to receive one share without payment of consideration (matching share), provided the plan participant is 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 monthly over a period of twelve months invest a specified part of their compensation in shares. Shares are purchased at market price at a predetermined date once a month. If the Managing Board 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 but with a vesting period of about two years. As of February 2019, the Managing Board of Siemens AG decided, after approval of the Managing Board of Siemens Healthineers AG, that shares acquired under the fiscal year 2018 tranche are transferred to the share matching plan.

Base share program

Under the base share program employees of participating entities can invest a fixed amount of their compensation in shares, which is then matched by Siemens Healthineers. 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.

Jubilee Share program

For their 25th and 40th service anniversary, eligible employees in Germany receive jubilee shares in form of Siemens AG shares. The Jubilee Share program is classified as cash-settled. As of September 30, 2019, 485,360 entitlements to jubilee shares were outstanding for Siemens Healthineers' employees (September 30, 2018: 461,692).

Note 28 Personnel expenses and employees

	Fiscal year	
(in millions of €)	2019	2018
Wages and salaries	3,956	3,770
Statutory social welfare contributions and expenses for optional support	617	558
Expenses relating to post-employment benefits	203	231
Total personnel expenses	**4,775**	4,559

Wages and salaries in fiscal year 2019 included severance charges in the amount of €57 million (2018: €96 million). The item expenses relating to post-employment benefits included service cost for the period.

Employees were engaged in the following functions (averages):

	Fiscal year	
(in thousands)	2019	2018
Manufacturing and services	29	28
Sales and marketing	11	10
Research and development	9	9
Administration and general services	3	3
Total employees	**52**	50

Note 29 Segment information

	External revenue		Intersegment revenue		Total revenue	
	Fiscal year		Fiscal year		Fiscal year	
(in millions of €)	2019	2018	2019	2018	2019	2018
Imaging	8,647	7,882	292	271	8,938	8,153
Diagnostics	4,133	3,962	–	–	4,133	3,962
Advanced Therapies	1,602	1,462	4	18	1,606	1,479
Total segments	**14,381**	**13,306**	**296**	**288**	**14,678**	**13,594**
Reconciliation to consolidated financial statements	136	123	–296	–288	–160	–165
Siemens Healthineers	**14,518**	**13,429**	**–**	**–**	**14,518**	**13,429**

[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 goods and services:

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

Revenue

Siemens Healthineers' revenue included revenue from contracts with customers and income from leases. In fiscal year 2019, income from leases amounted to € 233 million (2018: € 179 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 goods, including reagents and consumables in the Diagnostics segment. However, the performance obligations related to maintenance contracts for equipment 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 € 18 billion (September 30, 2018: € 16 billion). Thereof, € 6 billion (September 30, 2018: € 6 billion) are expected to be recognized as revenue in the next twelve months.

Intersegment revenue is based on market prices.

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 because 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 includes amounts related primarily to service cost 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 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.

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	
2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
1,803	1,533	6,840	6,258	1,519	1,408	154	152	151	138
376	455	5,499	4,676	−109	59	634	622	263	197
315	275	997	904	265	257	22	23	14	11
2,494	**2,263**	**13,336**	**11,838**	**1,675**	**1,725**	**810**	**798**	**427**	**346**
−301	−464	8,093	7,920	−637	−660	151	154	193	185
2,193	**1,799**	**21,429**	**19,758**	**1,037**	**1,065**	**961**	**952**	**620**	**530**

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

(in millions of €)	Fiscal year 2019	Fiscal year 2018
Total segments' profit	**2,494**	**2,263**
Financing interest	−126	−181
Centrally carried pension service and administration expenses	−13	−26
Amortization of intangible assets acquired in business combinations	−131	−131
Corporate items	−47	−145
Corporate treasury, Siemens Healthineers Real Estate,[1] eliminations and other items	16	18
Total reconciliation to consolidated financial statements	**−301**	**−464**
Siemens Healthineers' income before income taxes	**2,193**	**1,799**

[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, e.g., 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 to use 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 from Siemens Group from financing activities and tax-related assets, because 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.

(in millions of €)	Sept 30, 2019	Sept 30, 2018
Total segments' assets	**13,336**	**11,838**
Asset-based adjustments	2,768	2,943
Therein:		
Assets corporate treasury	994	586
Assets Siemens Healthineers Real Estate	627	611
Receivables from Siemens Group from financing activities	683	1,391
Current income tax assets and deferred tax assets	554	450
Liability-based adjustments	5,325	4,977
Total reconciliation to consolidated financial statements	**8,093**	**7,920**
Siemens Healthineers' total assets	**21,429**	**19,758**

Free cash flow

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. As with the segments' profit, the segments' free cash flow excludes payments related to income taxes, corporate items and certain other payments.

	Fiscal year	
(in millions of €)	2019	2018
Total segments' free cash flow	**1,675**	1,725
Tax-related cash flows	−493	−266
Corporate items and other	−144	−394
Total reconciliation to consolidated financial statements	**−637**	−660
Siemens Healthineers' free cash flow	**1,037**	1,065

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 entities, and 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 entities	
	Fiscal year		Fiscal year	
(in millions of €)	2019	2018	2019	2018
Europe, C.I.S., Africa, Middle East (EMEA)	4,617	4,409	5,299	5,127
Americas	5,803	5,290	5,765	5,243
Asia, Australia	4,098	3,730	3,454	3,059
Total	**14,518**	**13,429**	**14,518**	**13,429**
Thereof:				
Germany	873	856	1,725	1,762
Foreign countries	13,645	12,573	12,793	11,667
Therein:				
United States	4,916	4,458	4,935	4,478
China	1,838	1,681	1,352	1,144

	Non-current assets	
	Sept 30,	
(in millions of €)	2019	2018
Europe, C.I.S., Africa, Middle East (EMEA)	3,979	3,643
Americas	7,627	7,271
Asia, Australia	879	751
Total	**12,484**	**11,666**
Thereof:		
Germany	1,691	1,716
Foreign countries	10,793	9,950
Therein:		
United States	7,247	6,728

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		Purchases of goods and services and other expenses	
	Fiscal year		Fiscal year	
(in millions of €)	2019	2018	2019	2018
Siemens AG	35	8	250	398
Other Siemens Group entities	337	315	235	256
Total	**372**	323	**485**	654

Supply and service agreements existed between Siemens Healthineers and the Siemens Group:

- In fiscal year 2019, Siemens Healthineers received support services from the Siemens Group for central corporate services such as tax, legal, IT, corporate communications, human resources, accounting, financial services and treasury with a value of €349 million (2018: €499 million). For some services, a minimum volume commitment which is based on expected volume of services required or fixed payment obligations over a non-cancellable contract term were agreed. As of September 30, 2019, the resulting commitment amounted to €225 million (September 30, 2018: €313 million).
- Siemens Healthineers has entered into leasing transactions with the Siemens Group, particularly operating leases relating to real estate. As of September 30, 2019, future minimum lease payments to be made under non-cancellable operating leases relating to real estate amounted to €98 million (September 30, 2018: €118 million).
- In the context of the IPO, services of €93 million were provided by the Siemens Group in fiscal year 2018. These IPO-related expenses are included in the line item other operating expenses of the consolidated statement of income.

Receivables from and payables to the Siemens Group

	Receivables from Siemens Group		Payables and other payables to Siemens Group	
	Sept 30,		Sept 30,	
(in millions of €)	2019	2018	2019	2018
Siemens AG	596	1,026	425	869
Other Siemens Group entities	91	371	3,969	3,771
Total	**687**	1,396	**4,394**	4,640

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

- Siemens Healthineers was included in the cash pooling and cash management of the Siemens Group. Siemens Healthineers invested excess short-term liquidity and was granted overdraft facilities for financing its operating activities.
- The Siemens Group provided revolving backup facilities and long-term loans to Siemens Healthineers. For detailed information regarding financing arrangements with the Siemens Group and resulting interest expenses and income, please refer to → ***Note 16 Financial debt***.

Other material relationships with the Siemens Group

Hedging

The majority of Siemens Healthineers' hedging activities was carried out with the corporate treasury of the Siemens Group as counterparty. As of September 30, 2019, related other current and other non-current financial assets amounted to €116 million (September 30, 2018: €14 million), with the increase mainly resulting from the hedging of loans transferred from a U.S. entity to German entities. Related other current and other non-current financial liabilities amounted to €45 million (September 30, 2018: €12 million). For further details please refer to → ***Note 16 Financial debt*** and to → ***Note 25 Financial instruments and hedging activities***.

Guarantees and letters of support

The Siemens Group issued guarantees for or on behalf of Siemens Healthineers in connection with the operating activities of the Group. As of September 30, 2019, the guarantees issued by Siemens AG and other Siemens Group entities amounted to €82 million (September 30, 2018: €82 million) and €305 million (September 30, 2018: €328 million), respectively.

In addition, Siemens AG provided letters of support to banks and insurance companies, e.g. in connection with securing guarantee credit lines and overdraft facilities of the Group. As of September 30, 2019, the obligations secured by letters of support amounted to €463 million (September 30, 2018: €358 million).

Share-based payment plans

Siemens Healthineers' employees continued to participate in existing share-based payment plans of the Siemens Group based on Siemens AG shares. For further details, please refer to → ***Note 27 Share-based payment***. Siemens AG delivered the respective shares on behalf of Siemens Healthineers and was reimbursed by Siemens Healthineers.

Joint ventures and associates

In fiscal year 2019, Siemens Healthineers purchased goods and services from its joint ventures and associates in an amount of €72 million (2018: €65 million).

Related individuals

Managing Board and Supervisory Board of the Group

Siemens Healthineers is managed by the Managing Board of Siemens Healthineers AG. Prior to its formal appointment on March 1, 2018, the Group was managed by the members of the Managing Board of Siemens Healthcare GmbH in fiscal year 2018. Based on their function within Siemens Healthineers the Managing Board of Siemens Healthineers AG and of Siemens Healthcare GmbH in fiscal year 2018 (hereinafter, collectively, "Managing Board") were defined as key management. In addition, the key management includes the Supervisory Board of Siemens Healthineers AG and, in fiscal year 2018, the Supervisory Board of Siemens Healthcare GmbH (hereinafter, collectively, "Supervisory Board"). Latter had the oversight over the Managing Board of Siemens Healthcare GmbH until its members were appointed as the Managing Board of Siemens Healthineers AG.

In fiscal year 2019, the members of the Managing Board received cash compensation of €4.1 million (2018: €4.1 million). The fair value of share-based payment granted in fiscal year 2019 amounted to €3.9 million for 194,823 stock awards in fiscal year 2019 (2018: €3.7 million). The contributions under the pension plan Siemens Healthineers BSAV amounted to €0.9 million (2018: €0.9 million). Thus, total compensation and benefits granted in fiscal year 2019 amounted to €8.8 million (2018: €8.7 million). Expenses related to share-based payment in fiscal year 2019 amounted to €2.0 million (2018: €4.5 million). In fiscal year 2018, expenses related to the cash payment of stock awards were included, which were granted in fiscal years 2015, 2016 and 2017 and not transferred.

In fiscal year 2019, a severance payment of €2.4 million was granted to the member of the Managing Board retiring with the end of the fiscal year 2019. As of September 30, 2019, the defined benefit obligation for pension commitments to this member of the Managing Board and its surviving dependents amounted to €0.7 million.

Compensation attributable to members of the Supervisory Board comprised a base compensation and additional compensation for committee work and amounted (including meeting fees) in fiscal year 2019 to €1.1 million (2018: €0.7 million).

Information regarding the individual compensation of the members of the Managing Board and Supervisory Board of Siemens Healthineers AG since its incorporation on December 1, 2017, is disclosed in → ***A.8 Compensation report*** in the combined management report.

In fiscal years 2019 and 2018, no other major transactions took place between Siemens Healthineers and members of the Managing Board and Supervisory Board. Some Supervisory Board and Managing Board members hold, 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, 2019 and 2018, Siemens Healthineers has been controlled by its ultimate parent Siemens AG. Therefore, the Managing Board and Supervisory Board of Siemens AG were deemed key management. Information about Siemens AG's Managing Board and Supervisory Board is included in the Siemens Group's publicly available annual report.

Note 32 Principal accountant fees and services

Fees related to professional services rendered by the principal accountant EY were:

	Fiscal year	
(in millions of €)	**2019**	**2018**
Audit services	6.6	7.3
Other attestation services	0.3	0.3
Tax services	–	–
Total principal accountant fees	**6.9**	7.6

In fiscal year 2019, 40% (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, for project-accompanying IT audits and for audit services in connection with the implementation of new accounting standards (the latter only in fiscal year 2019). Other attestation services included mainly other attestation services required by law, contractually agreed or requested on a voluntary basis. In fiscal year 2018, primarily a post-foundation audit and an audit of a capital increase with contribution in kind were included.

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 September 30, 2019. The declaration is available on the Group's website at → ***www.corporate.siemens-healthineers.com/investor-relations/corporate-governance***.

Note 34 Subsequent events

Acquisition of Corindus

On October 29, 2019, Siemens Healthineers acquired Corindus Vascular Robotics, Inc. (hereinafter "Corindus"). Corindus develops and provides robotic systems for minimally invasive endovascular procedures. The business is being integrated into the Advanced Therapies segment. By combining Siemens Healthineers' cardiovascular and neuro-interventional therapy systems with Corindus' innovative technology, Siemens Healthineers is able to drive optimization of procedures for image-based minimally invasive therapies.

The purchase price paid in cash amounted to US$ 1.1 billion (€ 1.0 billion as of the acquisition date). The purchase price allocation is not yet available. It is expected that the major part of the purchase price will be allocated to intangible assets and goodwill. Resulting intangible assets will mainly relate to technology for robotic systems. Goodwill will comprise intangible assets that are not separable such as employee know-how and synergy effects expected by combining Corindus' robotic systems with Siemens Healthineers' therapy systems and its digitization and artificial intelligence solutions.

With the closing of the acquisition of Corindus, Siemens AG provided the committed additional financing of € 1.0 billion in the first quarter of fiscal year 2020.

Acquisition of ECG

On November 1, 2019, Siemens Healthineers acquired 75 % of the ownership interest of ECG Management Consultants (hereinafter "ECG"). ECG is a leading consulting company based in the United States specializing in healthcare and providing a comprehensive suite of advisory services around strategic, financial, operational and technology-related challenges facing healthcare providers today. The business will be part of the global Enterprise Services business and allows Siemens Healthineers' to tap into adjacent growth markets.

The preliminary purchase price paid in cash amounted to US$ 261 million (€ 234 million as of the acquisition date). In addition, financial liabilities of ECG of US$ 143 million (€ 129 million as of the acquisition date) were redeemed by Siemens Healthineers. The purchase price allocation is not yet available. It is expected that the major part of the purchase price will be allocated to goodwill. Goodwill will comprise intangible assets that are not separable such as employee know-how. The non-controlling interests of 25 % will be measured at the proportionate share in the amounts of the acquired net assets (excluding goodwill).

Note 35 List of subsidiaries, joint ventures and associates pursuant to Section 313 (2) of the German Commercial Code

Sept 30, 2019	Equity interest in %
Subsidiaries	
Germany (12 entities)	
Befund24 GmbH, Erlangen	85
Dade Behring Grundstücks GmbH, Kemnath	94
NEO New Oncology GmbH, Cologne	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]
Zeleni Holding GmbH, Kemnath	100
Zeleni Real Estate GmbH & Co. KG, Kemnath	100[7]
Europe, C.I.S., Africa, Middle East (EMEA) (without Germany) (53 entities)	
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
Minicare B.V., Amsterdam/Netherlands	100
PETNET Solutions SAS, Lisses/France	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
Siemens Healthcare Diagnostics GmbH, Vienna/Austria	100

Sept 30, 2019	Equity interest in %
Siemens Healthcare Diagnostics Ltd., Frimley, Surrey/United Kingdom	100
Siemens Healthcare Diagnostics Manufacturing Limited, Swords, County Dublin/Ireland	100
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, Chalandri/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 NV, Beersel/Belgium	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 Saglik Anonim Sirketi, Istanbul/Turkey	100
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.
[9] Values according to the latest available local GAAP financial statements; the underlying fiscal year differs from the Siemens Healthineers fiscal year.

Sept 30, 2019	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 (26 entities)	
Corpus Merger, Inc., Wilmington, DE/United States	100 [5]
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 Inc., Los Angeles, CA/United States	100
Siemens Healthcare Diagnostics Manufacturing Limited, Grand Cayman/Cayman Islands	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
Siemens Healthcare Servicios S. de R.L. de C.V., Mexico City/Mexico	100
Siemens Healthcare, Sociedad Anonima, Antiguo Cuscatlán/El Salvador	100

Sept 30, 2019	Equity interest in %
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 entities)	
Acrorad Co., Ltd., Okinawa/Japan	96
Fast Track Diagnostics Asia Private Limited, New Delhi/India	100
PETNET Radiopharmaceutical Solutions Pvt. Ltd., Mumbai/India	100
PT SAMUDIA BAHTERA, Jakarta/Indonesia	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 Private Limited, Mumbai/India	100
Siemens Healthcare Pte. Ltd., Singapore/Singapore	100
Siemens Healthcare Pty. Ltd., Melbourne/Australia	100
Siemens Healthcare Sdn. Bhd., Petaling Jaya/Malaysia	100
Siemens Healthineers Ltd., Seoul/Korea	100
Siemens Healthineers Ltd., Shanghai/China	100
Siemens Healthineers Diagnostics (Shanghai) Co., Ltd., Shanghai/China	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
Joint ventures and associates	
Germany (2 entities)	
MeVis BreastCare GmbH & Co. KG, Bremen	49
MeVis BreastCare Verwaltungsgesellschaft mbH, Bremen	49 [6]

[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.

Sept 30, 2019	Equity interest in %
Europe, C.I.S., Africa, Middle East (EMEA) (without Germany) (4 entities)	
Impilo Consortium (Pty.) Ltd., La Lucia/South Africa	31
Meomed s.r.o., Prerov/Czech Republic	47[6]
Screenpoint Medical B.V., Nijmegen/Netherlands	21[6]
TRIXELL SAS, Moirans/France	25

Sept 30, 2019	Equity interest in %
Americas (2 entities)	
PhSiTh LLC, New Castle, DE/United States	33
USARAD Holdings, Inc., Fort Lauderdale, FL/United States	30[6]
Asia, Australia (2 entities)	
Shanghai Meiling Medical Imaging Diagnosis Center Co., Ltd., Shanghai/China	49
Xi'An X-Ray Target Ltd., Xi'an/China	43[6]

Sept 30, 2019	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	109

[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 net assets, financial position and results of operations 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 25, 2019

Siemens Healthineers AG
The Managing Board

B. Montag

Dr. Bernhard Montag

J. Schmitz

Dr. Jochen Schmitz

C. Zindel

Dr. Christoph Zindel

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, 2018 to September 30, 2019, the consolidated statements of financial position as of September 30, 2019, the consolidated statements of cash flows and changes in equity for the fiscal year from October 1, 2018 to September 30, 2019, 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, which is combined with the management report of Siemens Healthineers AG, for the fiscal year from October 1, 2018 to September 30, 2019. In accordance with the German legal requirements we have not audited the content of chapter →***A.7.4 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 2019 referred to in chapter →***A.7.4 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, 2019 and of its financial performance for the fiscal year from October 1, 2018 to September 30, 2019, 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, 2018 to September 30, 2019. 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 segments and of the Siemens Healthineers Group as a whole is based on comparable revenue growth and 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.

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 different 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 contract assets, 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 data analytics with sample testing and assessed the amount and timing of revenue recognition on the basis of contracts, invoices and delivery notes. As part of these procedures, we also obtained external customer confirmations and reviewed credit notes issued after the reporting date.

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, 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 respective valuation principles, we obtained an understanding of the underlying valuation models used to determine the recoverable amounts by verifying the applied methodology and arithmetical correctness. To assess estimates of future net cash flows, we reconciled approved budgets with the valuations provided to us. We also examined whether the budget reflects general, industry and product-specific market expectations. We performed a budget-to-actual comparison of historically forecasted data and actual results, where available, on a sample basis to assess forecast accuracy. We also assessed forecasted net cash flows relating to "Atellica Solution" by reconciling budgeted orders and shipments with 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 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 as well as related administrative regulations published in this context 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 for the identification, recognition and measurement of 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 2019, 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 company shares, corporate (intragroup) restructuring activities, results of examinations by tax authorities, and cross-border matters, such as determining transfer prices. In order to assess measurement and completeness, we also obtained confirmations from external tax advisors and inspected expert legal or tax opinions and assessments commissioned by Siemens Healthineers. 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 and the related administrative regulations published in this context, 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 2019. 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 ***→Report of the Supervisory Board*** in the Annual Report 2019,
- the section ***→To our shareholders*** in the Annual Report 2019,
- the Responsibility Statement in chapter ***→C.1 Responsibility statement*** of the Annual Report 2019,
- Corporate Governance in chapter ***→C.3 Corporate Governance*** of the Annual Report 2019, and
- Notes and forward-looking statements in chapter ***→C.4 Notes and forward-looking statements*** of the Annual Report 2019.

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. 315 e (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. 315 e (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 5, 2019. We were engaged by the Supervisory Board on February 25, 2019. We have been the group auditor of Siemens Healthineers AG without interruption 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 25, 2019

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 stock corporation 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's 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 the requirements of legislation, government regulations and internal Company guidelines, and works to ensure the Company's compliance with these provisions and guidelines. The Managing Board has established a comprehensive compliance management system. Details are available on the website ***→www.corporate.siemens-healthineers.com/compliance***.

The Managing Board and the Supervisory Board cooperate closely for the Company's benefit. 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, risk situation, risk management, and compliance. 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 ***→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 ***→A.8 Compensation report***.

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

As of September 30, 2019, 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, 2019)	Group company positions (as of September 30, 2019)
Dr. Bernhard Montag Chief Executive Officer	1969	2018	2021	None	None
Michael Reitermann (until September 30, 2019)	1962	2018	original term ended 2021	**Positions outside Germany:** • Siemens Foundation, USA	None
Dr. Jochen Schmitz	1966	2018	2021	**German positions:** • Universitätsklinikum Augsburg	None

Michael Reitermann left the Managing Board as of the end of the day on September 30, 2019. Effective October 1, 2019, the Supervisory Board appointed Dr. Christoph Zindel (born 1961) for a three-year term as a Managing Board member.

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 and the combined management report, as well as 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, 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, as the case may be, concern themselves with monitoring the Company's compliance with the requirements of legislation, government regulations and internal Company guidelines (Compliance). The Supervisory Board also appoints the members of the Managing Board and determines each member's business responsibilities. Important Managing Board decisions – such as those regarding major acquisitions, divestments, investments in property, plant and equipment, 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.

Detailed information on the work of the Supervisory Board is provided in →***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***. Information to the compensation paid to the members of the Supervisory Board is provided in →***A.8 Compensation 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.

Citing Section 98 of the German Stock Corporation Act, a shareholder petitioned Munich Regional Court I for a declaratory judgment that the German Co-Determination Act must be applied in appointing the Supervisory Board. Siemens Healthineers AG's Managing Board believes that the Supervisory Board is properly formed in its current composition, with representatives of the shareholders alone. Siemens Healthineers AG asked the court to reject the shareholder's petition for a declaratory judgment.

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

As of September 30, 2019, 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, 2019)
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	Supervisory board member	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	**Positions outside Germany:** • Siemens Ltd., China
Dr. Philipp Rösler	Supervisory board member	1973	2018	**German positions:** • Arabesque S-Ray GmbH • Bertelsmann Stiftung • Jacobs University Bremen **Positions outside Germany:** • Fortum Corporation, Finland
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	CEO, DeepHealth, Inc. and Executive Chairman, IMRIS (Deerfield Imaging, 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 • Münchener Rückversicherungs-Gesellschaft AG
Prof. 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 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 ("Deutscher Corporate Governance Kodex", hereinafter "DCGK"), 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 → ***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 DCGK. The chairpersons of these committees provide the Supervisory Board with regular reports on the 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 for setting the compensation of the individual Managing Board members. The Chairman's Committee prepares resolutions of the Supervisory Board regarding the system of Managing Board compensation, including the regular review of that system. The Chairman's Committee furthermore has the task of providing the Supervisory Board with recommendations of suitable candidates for the board to nominate for election by the Annual Shareholders' Meeting as new members of the Supervisory Board. 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 due consideration, along with 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 2019, the Chairman's Committee comprised Michael Sen (Chairman), Dr. Norbert Gaus and Dr. Andreas C. Hoffmann.

The ***Audit Committee*** oversees, in particular, accounting and the accounting process and conducts a preliminary review of the annual financial statements of Siemens Healthineers AG, the consolidated financial statements and the combined management report, as well as the report on relationships with affiliated companies. On the basis of the independent auditors' report on their audit of the 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. The Audit Committee discusses the quarterly statements and half-year financial report with the Managing Board and the independent auditors and deals with the auditors' report on the review of the Group's half-year consolidated financial statements and interim management report. It concerns itself with questions of risk management and oversees the effectiveness of the systems for internal control, risk management and internal auditing. 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 qualification, 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 for statutory audits under 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). The Audit Committee furthermore concerns itself with monitoring compliance, and with nonfinancial reporting and exemptions from such reporting.

In fiscal year 2019, the Audit Committee comprised Prof. 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 DCGK, 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, Prof. Dr. Ralf P. Thomas, fulfills these requirements, with the exception of the requirement of independence, as the DCGK 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 innovation strategy and preparing the Supervisory Board's discussions and resolutions relating to the Company's financial situation and resources – including annual planning (budget) – as well as the Company's investments in property, plant and equipment 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 deals with Siemens Healthineers AG'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 2019, 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 2019

Supervisory Board Members	Supervisory Board and Committee meetings	Participation	Presence
Michael Sen Chairman	27	27	100%
Dr. Norbert Gaus Deputy Chairman	22	22	100%
Dr. Marion Helmes	14	14	100%
Dr. Andreas C. Hoffmann	21	21	100%
Dr. Philipp Rösler	9	9	100%
Dr. Nathalie von Siemens	9	8	89%
Dr. Gregory Sorensen	15	15	100%
Karl-Heinz Streibich	15	12	80%
Prof. Dr. Ralf P. Thomas	14	14	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 fiscal 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. The 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 Siemens Healthineers AG'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 motions regarding the resolutions proposed by the Managing and Supervisory Boards and may contest decisions of the Annual Shareholders' Meeting. Shareholders owning an aggregate value of €100,000 or more of the issued capital 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 opposing motions 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 DCGK 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 as of September 30, 2019:

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

Siemens Healthineers AG fully complies and will continue to comply with the recommendations of the German Corporate Governance Code ("Code") in the version of February 7, 2017, published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette ("Bundesanzeiger"), 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.

Since the issuance of its last Declaration of Conformity dated September 30, 2018, Siemens Healthineers AG has complied with the recommendations of the Code, with the exception mentioned herein.

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 Aktiengesellschaft, 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, 2019
Siemens Healthineers AG

The Managing Board   The Supervisory Board"

C.3.2.2 Information on corporate governance practices

Suggestions of the DCGK

Siemens Healthineers AG also voluntarily complies with the DCGK's nonbinding suggestions, with the following exceptions:

Pursuant to Section 2.3.2 of the DCGK, the proxy appointed by the Managing Board to exercise shareholders' voting rights as instructed should also be reachable during the Shareholders' Meeting. The proxies appointed by the Siemens Healthineers AG are personally available to the attending shareholders during the Shareholders' Meeting. However, instructions on voting cannot be given to the proxies over the Internet throughout the end of the general debate.

Pursuant to Section 3.7 (3) of the DCGK, 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 also justified in cases where no relevant decisions by the shareholders' meeting are intended. Therefore, extraordinary shareholders' meetings are convened only in appropriate cases.

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

Business conduct guidelines

The Siemens Healthineers 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 within the Company and in relation to our external partners and the general public. They set out how Siemens Healthineers 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 in → ***C.3.1 Management and control structure***. Further details can be derived from the bylaws for the corporate bodies concerned.

The mentioned information and documents, including the DCGK 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 below the level 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 of 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 performs long-term succession planning for members of the Managing Board. The aim is for the Managing Board as a whole to have all the 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 qualification;
- 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 63;
- long-term succession planning;
- diversity.

The target set by the Supervisory Board for the share of women on the Managing Board is explained in → ***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.

For the appointment for one Managing Board position made during the reporting period, the Supervisory Board and the engaged corporate consultants took account of the diversity concept in their selection of candidates.

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 Siemens Healthineers. 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 among others knowledge and experience of medical and healthcare technology (including information technology and digitalization), transformation processes, entrepreneurship, procurement, production and sales, finance, 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 Siemens Healthineers 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 new elections or 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 →***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, 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 DCGK.

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 structure of experience and age.

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 its composition and the requirements laid down in the diversity concept.

With its current membership, the Supervisory Board meets all the 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 2019, 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 DCGK – 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 various 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, financial position and 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 to which they refer.

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.

For reasons of better readability, the male form is predominantly chosen in this Annual Report. The information refers nevertheless to persons of any gender.

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: +49 800-188 188 5
siemens-healthineers.com

Published by Siemens Healthineers AG · Order No. CC–00002–1|1–7600 · Printed in Germany · 12/2019 ·