

SIEMENS PLC  
Annual report and financial statements  
Registered number 727817  
September 30, 2019

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SIEMENS PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2019

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The directors of Siemens plc ("the Company") present the annual report containing a strategic report, directors' report and the financial statements for the year ended September 30, 2019.

## STRATEGIC REPORT

### Principal activities

Siemens plc is engaged in the manufacture, installation and sale of products in the area of fossil and renewable electricity generation and distribution, industrial and building automation and drive technology. The Company also owns and leases property which is rented mainly to other group companies and external third parties through a workplace management arrangement providing fully serviced and managed office equipment. The Company also provides IT and other business infrastructure services to other Siemens group companies in the UK.

### General business review

To further increase the entrepreneurial freedom of Siemens businesses, Siemens AG (the "Group") has reorganised its operations. Implementation of the new organisation was completed at the end of the second quarter of financial year ended September 30, 2019. The Group has started reporting financial results according to the new organisation structure beginning with the third quarter of financial year ended September 30, 2019. For the new structure, the Group has formed three Operating Companies consisting of the reportable segments - Gas and Power, Smart Infrastructure and Digital Industries. These Operating Companies will together form the Industrial Businesses. Financial Services continues to be a reportable segment outside the Industrial Businesses. Furthermore, Portfolio Companies are also reported as a new segment. This segment mainly includes the business types application specific solutions (process solutions), electric motors and converters and generators (large drive applications).

In May 2019, the Group announced its plans to carve out the Gas and Power segment into a separately managed company and to spin-off the new company in connection with a subsequent public listing, while maintaining significant influence.

The Directors work closely with management to anticipate risks from economic or global factors and plan accordingly. The Company has remained vigilant over the warning signs exhibited in the global economy and uncertainty in the UK economy, which is partly due to the ongoing negotiation of Britain's exit from the European Union (EU). With regards to Brexit, the Company has assessed the potential impact on its business on a short-to-medium term view only, particularly with regards to a so called 'no deal' outcome, which remains a possibility at the end of 2020. While the broad parameters of the future EU-UK relationship are clearer, it is impossible to take a longer-term view of the impact of Brexit until the final outcome of the forthcoming trade negotiations between the two sides is known, most likely by the end of the year. Nonetheless we will continue to monitor developments and prepare accordingly.

### Review of Statement of Income

Year on year revenue fell by 4% (£35m), primarily driven by the decrease in Gas and Power (12%), Real Estate (14%) and Smart Infrastructure (4%); offset by an increase in revenue in Portfolio Companies (23%) and Digital Industries (1%).

The Company's operating profit has decreased by £19m. This is predominantly driven by a gain on a land disposal in the prior year.

Interest income has increased by £3.8m, to £9.7m as a result of the interest on the intercompany deposits with Siemens Financial Services (another Siemens group company) after the gain on the sale of the Mobility business, as well as an increase of £1.7m on finance income from pension plans.

Interest expense reduced by £0.4m primarily due to the pension interest and cost for the Company.

A dividend of £875m was paid in the year to the parent Company, Siemens Holdings plc.

The Company made a net income for the financial year, net of taxation of £16m (2018: £875m).

The performance in 2019 is in line with the expectations of the directors, and the directors believe the results for the year reflect the ongoing trading performance of the Company.

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2019

**Review of Statement of Financial Position**

Total assets decreased by £606m, largely due to the reduction of cash deposit received in the prior year from the disposal of the Mobility business, which was paid during the year as a dividend; offset by Pension plan assets' increase by £283m (53%), primarily due to the remeasurements of defined benefit plans gains (actuarial gains) reported in the year.

Total liabilities increased by £39m in the current year primarily due to the increase in Deferred tax liabilities relating to actuarial gains.

Equity has decreased mainly due to a dividend payment of £875m to Siemens Holdings plc, offset by an actuarial gain for the year of £268m.

**Review of Statement of Cash Flows**

Cash flows from operating activities show an outflow of £16m in the current year compared to an outflow of £120m in the prior year.

The primary driver for the outflow relates to the pension contributions made in the year. The outflow is also due to a decrease in current liabilities; offset by an increase in inventories in the year.

Cash flows from investing activities have resulted in an outflow of £13m due to acquisitions (net of disposals) of property, plant and equipment in the year; compared to £769m inflow in the prior year. This is largely due to proceeds from the sale of the Siemens Mobility and Mechanical Drives businesses in the prior year.

Cash flows from financing activities show an inflow of £29m compared to an outflow of £649m in the prior year. This inflow is mainly due to the lower cash held on deposit as intercompany receivable due to a large dividend was paid in the year. Prior year movement included higher intercompany balance receivable held as cash on deposit due to the proceeds received from the sale of the above mentioned businesses.

**Analysis of Financial Key Performance Indicators**

Siemens plc measures its performance on a number of key performance indicators, including revenue, profit from operations and net cash from operations as discussed above. In addition, new orders received are considered to be a key performance indicator.


**New orders received**

New orders received in the year decreased by 46% compared to the prior year. The reduction in new orders is primarily driven by some exceptionally large orders received in the Mobility business in the prior year.

**Principal risks and uncertainties**

The Company has implemented a co-ordinated set of risk management and control systems, including strategic planning and management reporting, to help anticipate, measure, monitor and manage its exposure to risk. Risks which the Company faces include price and product competition, integration of acquired businesses, performance risks under long term fixed price contracts, loss of supply of product components, changes in the regulatory and legal environment, and credit and interest rate risks, which may increase due to the global shortage of credit. The Company has a diversified range of customers and revenue streams and provides products and services that support essential public services.

Signed by order of the board of directors



S E A Davina  
Company Secretary

Approved by the directors on January 16, 2020

Registered office:

Faraday House  
Sir William Siemens Square  
Frimley  
Camberley  
Surrey  
GU16 8QD

## **SIEMENS PLC**

### **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2019**

#### **DIRECTORS' REPORT**

The directors who served the Company during the year and subsequently were as follows:

S E A Davina

J Maier

A Noon

C Ennis

Resigned 31 Dec 2019

Appointed 1 Dec 2019

None of the directors holding office at September 30, 2019 had notified a beneficial interest in any contract to which the Company were a party during the financial year.

The directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

#### **DIVIDENDS**

The directors have recommended and paid a dividend in 2019, of £875m representing a dividend of £875 per share (2018: £20m).

#### **RESEARCH AND DEVELOPMENT**

The Company continues to invest in research and development in the UK. During the year, the Company received a net credit of £1,553k (2018: £982k) on research and development.

#### **FINANCIAL INSTRUMENTS**

The Company's financial risk management objectives and policies, including the exposure to market risk, credit risk and liquidity risk are set out in note 29 to the financial statements.

#### **GOING CONCERN**

Based on the Company's forecasts, the directors consider that the Company will continue the trend of previous years and will trade profitably and generate positive cash flows from operations over the next 12 months. Additionally, Siemens AG operates a cash pooling facility across its worldwide group. Cash balances generated by entities are passed to Siemens AG and group companies are able to draw down on these facilities if required. Further information on these risks, and their potential impacts, can be found in the 2019 Siemens AG annual report.

For 2019, based on their assessment of the Company's financial position, future performance, liquidity and risks, the directors have a reasonable expectation that the Company has adequate resources to adopt the going concern basis of preparation for the financial statements.

#### **SUBSEQUENT EVENTS**

There were no significant events after the reporting period that would impact the amounts reported in these financial statements.

#### **GROUP POLICIES**

##### **Employee engagement**

The directors continue to encourage employee participation within the Company. The Siemens Leadership Framework and Management Development Programmes underpin the various methods for encouraging an open and participative style of management and communication that has been introduced in recent years; these include team briefings, intranet information and notices, staff forums and employee elections to the Siemens Europe Committee and the European Works Council. We encourage suggestions and innovations for improving business performance through the "top+ Business Excellence", business suggestion schemes and the staff dialogue process.

##### **Environmental**

As a leading global company, Siemens has a responsibility to comply with the highest ethical and legal standards while protecting the environment and benefiting society as a whole. There are a number of initiatives, such as the Siemens Champions Awards, which recognise excellence in Zero Harm as well as the Siemens core values of responsibility, innovation and excellence.

#### Equal opportunities

The Company is committed to equal opportunities for all, free from discrimination and harassment. Siemens values the contribution of all employees. All job applicants and employees, customers, visitors or contractors will receive equal treatment regardless of sex, race, disability, sexual orientation, religion or belief, age, colour, marital status, trade union membership, nationality or ethnic or national origins. Within Siemens, applicants and employees will be recruited, selected, trained and promoted on objective grounds, i.e. on the basis of their abilities to contribute most effectively to the success of the Company. Wherever possible, we will assist disabled employees to enable them to work for the Company and maximise their contribution and performance.

#### Business Stakeholders

Business relationships with the customers, suppliers, and other business partners are fundamental to Siemens. The Group maintains business relationships only with reputable partners who comply with the law. The Group protects the interests of its customers through the careful selection of suppliers and other business partners and through the standards set for its own actions. The Group only works with suppliers who are prepared to eliminate problems or implement risk reduction measures. That is why the Group cooperates with excellent partners worldwide. Amongst others, the Group's Code of Conduct is based on the UN Global Compact and the principles of the International Labour Organisation, and it reflects the Siemens Business Conduct Guidelines, which apply to the entire Group.

#### POLITICAL DONATIONS

No political donations were made during the current or preceding year.

#### DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who held office at the date of approval of this annual report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all steps that ought to have been taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### AUDITOR

In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Signed by order of the board of directors

A handwritten signature in black ink, appearing to be 'S E A Davina', followed by a long horizontal line extending to the right.

S E A Davina  
Company Secretary

Approved by the directors on January 16, 2020

Registered office:  
Faraday House  
Sir William Siemens Square  
Frimley  
Camberley  
Surrey  
GU16 8QD

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2019**

The directors are responsible for preparing the annual report and financial statements in accordance with applicable laws in the United Kingdom and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing the financial statements the directors are required to:

- ▶ select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- ▶ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- ▶ provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- ▶ state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SIEMENS PLC**

### **Opinion on financial statements**

We have audited the financial statements of Siemens plc for the year ended 30 September 2019 which comprise the Statement of Income, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 34, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the Company's affairs as at September 30, 2019 and of its net income for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion on financial statements**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ▶ the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- ▶ adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- ▶ the financial statements are not in agreement with the accounting records and returns; or
- ▶ certain disclosures of directors' remuneration specified by law are not made; or
- ▶ we have not received all the information and explanations we require for our audit.



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SIEMENS PLC

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

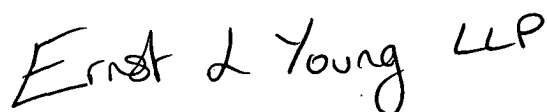
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Sarah Kokot (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

Approved January 16, 2019

SIEMENS PLC

STATEMENT OF INCOME

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

	Note	2019	2018 (Restated)
Revenue	4	756,014	790,907
Cost of sales		(682,453)	(712,839)
<b>Gross profit</b>		<b>73,561</b>	<b>78,068</b>
Research and development credit, net		1,553	982
Marketing and distribution expenses		(57,607)	(56,392)
Administrative expenses		(5,306)	(3,607)
Other operating income	6	782	12,765
<b>Operating profit</b>	5	<b>12,983</b>	<b>31,816</b>
Interest income	9	9,653	5,855
Interest expenses	9	(10,781)	(11,199)
Interest income from pension plans and similar commitments, net	9	13,587	11,899
Income from continuing operations before income taxes		25,442	38,371
Income tax expense	10	(9,780)	(8,282)
Income from continuing operations, net of income taxes		15,662	30,089
Income from discontinued operations, net of income taxes	3	-	845,053
<b>Net income for the financial year</b>		<b>15,662</b>	<b>875,142</b>

## SIEMENS PLC

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

	Note	2019	2018
<b>Net income for the financial year</b>		<b>15,662</b>	<b>875,142</b>
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurements of defined benefit plans gains / (losses)	24	260,335	(8,584)
Deferred tax (charge) / credit on remeasurement gains / (losses)		(43,882)	1,459
Deemed capital contribution		-	34,453
Effect due to asset ceiling in respect of the defined benefit pension scheme	24	(2,203)	-
<b>Total items that will not be reclassified to profit or loss</b>		<b>214,250</b>	<b>27,328</b>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Losses on derivative financial instruments	29	(28)	(20,990)
Deferred tax credit on losses on derivative financial instruments		5	3,437
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>(23)</b>	<b>(17,553)</b>
<b>Other comprehensive income, net of income taxes</b>		<b>214,227</b>	<b>9,775</b>
<b>Total comprehensive income</b>		<b>229,889</b>	<b>884,917</b>
Attributable to: Owners of the Company		<b>229,889</b>	<b>884,917</b>

SIEMENS PLC

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

	Note	2019	2018 (Restated)
<b>ASSETS</b>			
Cash and cash equivalents		-	13
Trade and other receivables	11	792,875	1,689,515
Other current financial assets	12	3,410	4,541
Contract assets	4	53,721	44,633
Inventories	14	39,332	24,775
Current income tax assets		3,151	10,178
Other current assets	15	10,409	8,898
<b>Total current assets</b>		<b>902,898</b>	<b>1,782,553</b>
Goodwill	16	315,850	315,850
Other intangible assets	17	33,003	37,205
Investment properties	18	3,842	3,969
Property, plant and equipment	18	108,728	110,554
Other financial assets	19	2,249	5,053
Pension plans and similar assets	24	820,588	538,057
Other assets		194	22
<b>Total non-current assets</b>		<b>1,284,454</b>	<b>1,010,710</b>
<b>Total assets</b>		<b>2,187,352</b>	<b>2,793,263</b>
<b>LIABILITIES AND EQUITY</b>			
Short-term debt	23	15,120	13,637
Trade payables	21	127,490	99,787
Other current financial liabilities	20	4,888	5,176
Contract liabilities	4	66,466	87,500
Current provisions	25	8,861	7,520
Other current liabilities	22	76,561	78,756
<b>Total current liabilities</b>		<b>299,386</b>	<b>292,376</b>
Long-term debt	23	257,250	269,843
Post-employment benefits	24	614	447
Provisions	25	10,730	11,111
Other liabilities		8,572	9,508
Other financial liabilities		190	-
Deferred tax liabilities	10	141,373	95,496
<b>Total non-current liabilities</b>		<b>418,729</b>	<b>386,405</b>
<b>Total liabilities</b>		<b>718,115</b>	<b>678,781</b>

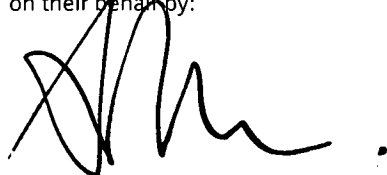
SIEMENS PLC

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

	Note	2019	2018 (Restated)
<b>Equity</b>			
Share capital	26	1,000	1,000
Capital contribution reserve		418,516	418,650
Cash flow hedging reserve		(1,151)	(1,128)
Retained earnings		1,050,872	1,695,960
<b>Total equity</b>		<b>1,469,237</b>	<b>2,114,482</b>
<b>Total liabilities and equity</b>		<b>2,187,352</b>	<b>2,793,263</b>

These financial statements were approved and authorised for issue by the board of directors on January 16, 2020 and were signed on their behalf by:



A Noon  
Director

Registered number: 727817  
Siemens plc

## STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

	Note	2019	2018
Cash flows from operating activities			
Net income for the financial year		15,662	875,142
Adjustments to reconcile net income to cash flows from operating activities			
Depreciation and amortisation	5, 17, 18	21,493	25,407
Income tax expenses	10	9,780	20,813
Interest expenses, net	9	1,128	5,344
Defined benefit pension income in Statement of Income	24	(9,593)	(11,899)
Gains on disposal of property, plant and equipment, net	6	(3,038)	(13,033)
Losses / (gains) on sales of investments / operations	6, 35	-	(791,587)
Impairment of property, plant and equipment	5, 18	119	-
Other non-cash income		(28)	(20,990)
Operating profit before changes in working capital and provisions		35,523	89,197
Changes in assets and liabilities			
Inventories		(14,556)	13,809
Contract assets		(9,088)	(5,818)
Trade and other receivables		(2,085)	(51,433)
Other current assets		(380)	2,892
Trade payables and accrued expenses		12,769	(33,684)
Contract liabilities		(21,034)	21,634
Current provisions		1,341	(5,534)
Other current liabilities		(10,173)	(39,439)
long-term assets		2,631	1
long-term liabilities		(236)	(8,667)
Cash used in operations		(5,288)	(17,042)
Income taxes paid		(97)	(609)
Interest received / (paid)		4,353	(4,521)
Defined benefit pension contributions paid	24	(14,639)	(97,927)
Cash flows from operating activities		(15,671)	(120,099)
Cash flows from investing activities			
Additions to intangible assets and property, plant and equipment	17, 18	(16,963)	(37,099)
Disposal of intangibles and property, plant and equipment	17, 18	3,990	18,308
Disposals of businesses, net of cash disposed	3	-	787,796
Cash flows from investing activities		(12,973)	769,005

## STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

	Note	2019	2018
Cash flows from financing activities			
Change in financing from other group companies	11, 21	903,631	(620,662)
Dividends paid	34	(875,000)	(20,000)
Proceeds from issuance of long-term debt	23	-	(8,231)
<b>Cash flows from financing activities</b>		<b>28,631</b>	<b>(648,893)</b>
Change in cash and cash equivalents		(13)	13
<b>Cash and cash equivalents at the end of the year</b>		<b>-</b>	<b>13</b>

The cash flow statement above reflects the movements from continuing and discontinued operations. In 2018 the Company classified the Mobility business as discontinued. The cash and cash equivalents balance as at September 30, 2019 within this Division was £nil (see note 3). The significant balances for the Mobility Division were as follows:

	2019	2018
Net cash provided by operating activities – discontinued operations	-	122,730
Net cash (used in) investing activities – discontinued operations	-	(2,570)
Net cash provided by / (used in) financing activities - discontinued operations	-	(120,160)

Siemens AG operates a cash pooling facility across its worldwide group. Cash balances generated by entities are passed to Siemens AG and companies are able to draw down on these facilities if required. Therefore, apart from any accounts held with local banks, amounts invested with/drawn down from the Siemens AG accounts are shown as an intercompany balance. Changes in the balances on these facilities are included in cash flows from financing activities in the Statement of Cash Flows. An increase in cash that is loaned to the cash pool is shown as a cash outflow from financing activities, and an increase in cash borrowed from the cash pool is shown as a cash inflow from financing activities.

Also included within the change in financing from other group companies are the balances due from other group companies arising from the sale of investments and goodwill and receipt of dividends, as well as loans to other group companies.

# SIEMENS PLC

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

	Note	Share capital	Capital contribution reserve	Cash flow hedging reserve	Retained earnings (Restated)	Total equity
Brought forward October 1, 2017 (Unadjusted)		1,000	384,247	16,425	854,973	1,256,645
Adjustment in respect of prior year		-	-	-	(7,030)	(7,030)
Brought forward October 1, 2017 (Adjusted)		1,000	384,247	16,425	847,943	1,249,615
Net income for the financial year		-	-	-	875,142	875,142
Other comprehensive income, net of income taxes		-	34,453	(17,553)	(7,125)	9,775
<b>Total comprehensive income for the financial year</b>		-	34,453	(17,553)	868,017	884,917
Equity settled share based payments		-	(3,007)	-	-	(3,007)
Recharge from ultimate parent undertaking		-	3,007	-	-	3,007
Deferred Tax on share based payments		-	(50)	-	-	(50)
Dividends to equity holders	34	-	-	-	(20,000)	(20,000)
<b>Balance at September 30, 2018</b>		1,000	418,650	(1,128)	1,695,960	2,114,482
Brought forward October 1, 2018		1,000	418,650	(1,128)	1,695,960	2,114,482
Net income for the financial year		-	-	-	15,662	15,662
Other comprehensive income, net of income taxes		-	-	(23)	214,250	214,227
<b>Total comprehensive income for the financial year</b>		-	-	(23)	229,912	229,889
Equity settled share based payments		-	(814)	-	-	(814)
Recharge from ultimate parent undertaking		-	814	-	-	814
Deferred Tax on share based payments		-	(134)	-	-	(134)
Dividends to equity holders	34	-	-	-	(875,000)	(875,000)
<b>Balance at September 30, 2019</b>		1,000	418,516	(1,151)	1,050,872	1,469,237

A prior year restatement has been made in Retained earnings brought forward as at October 1, 2017 due to a correction in relation to acquisitions and disposals of various businesses in the Company. The impact of the restatement is to decrease the opening retained earnings by £7,030k and increase the opening balance of other liabilities in the Statement of Financial Position by the same amount.

**Cash flow hedging reserve:** The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging transactions related to hedged transactions that have not yet occurred.

**Capital contribution reserve:** Certain directors and senior managers of the Company are eligible for share options and stock awards and all employees are eligible to join the share matching plan in the ultimate parent undertaking, Siemens AG. These share options are awarded directly by the ultimate parent undertaking, who requires the Company to make a payment (equal to the fair value of the options at grant date or the costs incurred by the ultimate parent undertaking, depending on the grant date) to reimburse it for the granting of these rights. The capital contribution reserve is used to recognise the Company's share-based payment expense in respect of the share plans. The payments made to Siemens AG are deducted from this reserve to the extent that the costs have already been recognised. Any additional payments are charged directly to the Statement of Income. Further details in respect of the share-based payment plans for all Siemens group companies in the UK have been made in note 28.

On December 15, 2017 Siemens Healthcare Limited, a company which is under common control, transferred the pension assets of certain Siemens Benefit Scheme members to Siemens plc for an off market price of £34,453k for no consideration. The Company has recorded a deemed capital contribution to reflect this transfer. This reserve is not distributable.

**Other comprehensive income:** Other comprehensive income is allocated to retained earnings with the exception of £(23)k (2018: £(17,553)k) which relates to gains/(losses) on derivative financial instruments. This is allocated to the cash flow hedging reserve.

**Dividends to equity holders:** A dividend of £875m was paid in the year (2018: £20m) representing £875 per share.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

**1. Basis of presentation**

The accompanying financial statements present the operations of the Company and have been prepared and approved by the directors in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and applied in accordance with the Companies Act 2006. The financial statements were authorised for issue by the Board of Directors on January 16, 2020. The financial statements are generally prepared on the historical cost basis, except as stated in note 2.

Siemens plc has prepared and reported its financial statements in Great British Pounds (GBP or £) and the financial information is disclosed in thousands of £, except where stated otherwise. 'k' denotes thousands of £ and 'm' denotes millions of £. Due to rounding, numbers presented may not add up precisely to totals provided. Siemens plc is a United Kingdom based company incorporated in England and Wales with a balanced portfolio of activities.

The Company applied all standards and interpretations issued by the International Accounting Standards Board ('IASB') that were effective as of September 30, 2019. In these financial statements, the term 'Group' refers to all companies for whom the ultimate parent undertaking is Siemens AG. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

For 2019, based on their assessment of the Company's financial position, future performance, liquidity and risks, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least the next twelve months from the date of approval of the financial statements. Thus, the Company continues to adopt the going concern basis of preparation for the financial statements.

**2. Summary of significant accounting policies and critical accounting estimates**

**Restatement** - A prior year restatement has been made in Retained earnings brought forward as at October 1, 2017 due to a correction in relation to acquisitions and disposals of various businesses in the Company. The impact of the restatement is to decrease the opening retained earnings by £7,030k and increase the opening balance of other liabilities in the Statement of Financial Position by the same amount.

A prior year reclassification has been made in the Statement of Income to present the gain on disposal from the Mobility Division into the net result from discontinued operations instead of Other Operating Income from Continuing Operations (see note 3 and 6), in accordance with IFRS 5.

**Business combinations** — Business combinations (other than those from Siemens group companies) are accounted for under the acquisition method. Siemens plc as the acquirer and the acquiree may have a relationship that existed before they contemplated the business combination, referred to as a pre-existing relationship. If the business combination in effect settles a pre-existing relationship, Siemens plc as the acquirer recognises a gain or loss for the pre-existing relationship. The cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange. Any contingent consideration to be transferred by Siemens plc as the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured; subsequent settlement is accounted for within equity. Acquisition-related costs are expensed in the period incurred. 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). If there is no loss of control, transactions with non-controlling interests are accounted for as equity transactions not affecting profit and loss. At the date control is lost, any retained equity interests are remeasured to fair value.

Business integrations from Siemens group companies are accounted for either:

- at cost in the acquiring company and goodwill is only recorded by the acquiring company if the goodwill was already an asset on the acquired company's Statement of Financial Position, or if the goodwill value was previously included in the carrying value of the acquiring company's investment in the subsidiary undertaking from which the trade has been purchased.
- at the fair value of the assets acquired and liabilities incurred or assumed at the date of exchange ('fair value'). Goodwill is recorded by the acquiring company as the difference between the fair value and the consideration paid to the selling company.

**Foreign currency transaction** — Transactions that are denominated in a currency other than the functional currency of an entity, are recorded at that functional currency applying the spot exchange rate at the date when the underlying transactions are initially recognised. At the end of the reporting period, foreign currency-denominated monetary assets and liabilities are revalued to functional currency applying the spot exchange rate prevailing at that date. Gains and losses arising from these foreign currency revaluations are recognised in the Statement of Income. Those foreign currency-denominated transactions which are classified as non-monetary are remeasured using the historical spot exchange rate.

**Revenue recognition** - The Company recognises revenue, when or as control over distinct goods or services is transferred to the customer; i.e. when the customer is able to direct the use of the transferred goods or services and obtains substantially all of the remaining benefits, provided a contract with enforceable rights and obligations exists and amongst others collectability of consideration is probable taking into account the customer's creditworthiness. Revenue is the transaction price the Company expects to be entitled to. Variable consideration is included in the transaction price if it is highly probable that a significant reversal of revenue will not occur once associated uncertainties are resolved. The amount of variable consideration is calculated by either using 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 there is a significant financing benefit either to the customer or the Company. If a contract contains more than one distinct good or service, the transaction price is allocated to each performance obligation based on relative stand-alone selling prices. If stand-alone selling prices are not observable, the Company reasonably estimates those. Revenue is recognised for each performance obligation either at a point in time or over time.

**Sales from construction-type contracts:** Revenues are recognised over time under the percentage-of-completion method, based on the percentage of costs incurred to date compared to total estimated costs. An expected loss on the contract is recognised as an expense immediately. Payment terms are usually 30 days from the date of invoice issued according to the contractual terms.

The percentage-of-completion method places considerable importance on accurate estimates of the extent of progress towards completion and may involve estimates on the scope of deliveries and services required for fulfilling the contractually defined obligations. These significant estimates include total estimated costs, total estimated revenues, contract risks, including technical, political and regulatory risks, and other judgments. Under the percentage-of-completion method, changes in estimates may lead to an increase or decrease of revenue. In addition, the Company needs to assess whether the contract is expected to continue or to be terminated. In determining whether the continuation or termination of a contract is expected to be the most likely scenario, all relevant facts and circumstances relating to the contract are considered on an individual basis.

**Revenues from services:** Revenues are recognised over time on a straight-line basis or, if the performance pattern is other than straight-line, as services are provided, i.e. under the percentage-of-completion method as described above. Payment terms are usually 30 days from the date of invoice issued according to the contractual terms.

**Sale of goods:** Revenues are recognised at a point in time when control of the goods passes to the buyer, usually upon delivery of the goods. Invoices are issued at that point in time and are usually payable within 30 days. For licensing transactions granting the customer a right to use Siemens' intellectual property, payment terms are usually 30 days from the date of invoice issued according to the contractual terms.

**Income from lease arrangements:** Operating lease income for equipment rentals is recognised on a straight-line basis over the lease term. An arrangement that is not in the legal form of a lease is accounted for as a lease if it is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Receivables from finance leases, in which Siemens plc as the lessor transfers substantially all the risks and rewards incidental to ownership to the customer are recognised at an amount equal to the net investment in the lease. Finance income is subsequently recognised based on a pattern reflecting a constant periodic rate of return on the net investment using the effective interest rate method. A selling profit component on manufacturing leases is recognised based on the policies for outright sales. Profit from sale and leaseback transactions is recognised immediately if significant risks and rewards of ownership have passed to the buyer, the leaseback results in an operating lease and the transaction is established at fair value.

Lease incentives and initial costs are amortised on a straight line basis over the lease term and receipts that were not fixed at lease inception are booked as income when earned. Surrender premiums received in the period are included in rental income. Revenue from utilities is recognised when the services are delivered to the tenant.

**Income from interest** - Interest is recognised using the effective interest rate method.

**Income from royalties:** Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

**Government grants** — Government grants are recognised when there is reasonable assurance that the conditions attached to the grants are complied with and the grants will be received. Grants awarded for the purchase or the production of fixed assets (grants related to assets) are generally offset against the acquisition or production costs of the respective assets and reduce future depreciations accordingly. Grants awarded for other than non-current assets (grants related to income) are reported in the Statement of Income under the same functional area as the corresponding expenses. They are recognised as income over the periods necessary to match them on a systematic basis to the costs that are intended to be compensated. Government grants for future expenses are recorded as deferred income.

**Product-related expenses** — Provisions for estimated costs related to product warranties are recorded in Cost of sales at the time the related sale is recognised.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

**Research and development costs** — Costs of research activities are expensed as incurred.

Costs for development activities are capitalised when the recognition criteria in IAS 38 are met. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses with an amortisation period of generally three to ten years.

Government grants for research and development activities are offset against research and development costs. They are recognised as income over the periods in which the research and development costs incur that are to be compensated. Government grants for future research and development costs are recorded as deferred income.

**Investments** — Investments are stated at their historic cost to the Company less provisions for any impairment. The determination of the recoverable amount of an investment involves the use of estimates by management. The Company uses discounted cash flow-based methods applied to the cash-generating unit underlying the investment. These discounted cash flow calculations typically use five-year projections that are based on the financial plans. Cash flow projections take into account past experience and represent management's best estimate about future developments. Cash flows after the planning period are extrapolated using individual growth rates. Key assumptions which management has based its determination of fair value less costs to sell and value in use include estimated growth rates, weighted average cost of capital and tax rates. These estimates, including the methodology used, can have a material impact on the values and ultimately the amount of any investment impairment.

**Goodwill** — Goodwill is not amortised, but instead tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less accumulated impairment losses.

The goodwill impairment test is performed at the level of a cash-generating unit represented by a Division or equivalent, which is the lowest level at which goodwill is monitored for internal management purposes.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit that is expected to benefit from the synergies of the business combination. If the carrying amount of the cash-generating unit, to which the goodwill is allocated, exceeds its recoverable amount, an impairment loss on goodwill allocated to this cash-generating unit is recognised. The recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and its value in use. If either of these amounts exceeds the carrying amount, it is not always necessary to determine both amounts. The Company determines the recoverable amount of a cash-generating unit based on its fair value less costs to sell. These values are generally determined based on discounted cash flow calculations. Impairment losses on goodwill are not reversed in future periods.

The determination of the recoverable amount of a cash-generating unit or a group of cash-generating units to which goodwill is allocated involves the use of estimates by management. The outcome predicted by these estimates is influenced e.g. by the successful integration of acquired companies, volatility of capital markets, interest rate developments, foreign exchange rate fluctuations and the outlook on economic trends. In determining recoverable amounts, discounted cash flow calculations use five-year projections that are based on financial forecasts. Cash flow projections take into account past experience and represent management's best estimate about future developments. Cash flows after the planning period are extrapolated using individual growth rates. Key assumptions on which management has based its determination of fair value less costs to sell and value in use include estimated growth rates. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any goodwill impairment. See note 16 for further information.

**Other intangible assets** — The Company amortises intangible assets with finite useful lives on a straight-line basis over their respective estimated useful lives to their estimated residual values. Estimated useful lives for software, patents, licenses and other similar rights generally range from three to five years, except for intangible assets with finite useful lives acquired in business combinations. Intangible assets acquired in business combinations primarily consist of customer relationships and technology. Useful lives in specific acquisitions ranged from four to twenty years for customer relationships and from five to twenty-five years for technology.

**Investment property** — These are freehold properties held to earn rental income or gain capital appreciation. Leasehold properties are shown gross of the leasehold payables (which are accounted for as finance lease obligations). The properties are first measured at cost (including transaction costs), and subsequently held at cost at each Statement of Financial Position date. Additions include costs of a capital nature, and depreciation is provided based on the property's estimated useful life. The fair value disclosed for investment property is primarily based on a discounted cash flow approach except for certain cases which are based on appraisal values.

The gain or loss arising on the sale of a property is the difference between sales proceeds, less selling costs, and the brought forward carrying amount (plus additions in the period). This is recognised in the Statement of Income.

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

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

Factory and office buildings	20 to 50 years
Investment properties	40 to 50 years
Other buildings	5 to 10 years
Leasehold improvements	2 to 15 years
Technical machinery & equipment	generally 10 years
Furniture & office equipment	generally 5 years
Equipment leased to others	generally 3 to 7 years

**Impairment of property, plant and equipment and other intangible assets** — The Company reviews property, plant and equipment and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, intangible assets with indefinite useful lives as well as intangible assets not yet available for use are subject to an annual impairment test. Impairment testing of property, plant and equipment and other intangible assets involves the use of estimates in determining the assets' recoverable amount which can have a material impact on the respective values and ultimately the amount of any impairment.

The Company's property, plant and equipment and other intangible assets to be disposed of are recorded at the lower of carrying amount or fair value less costs to sell and depreciation is ceased.

**Discontinued operations and non-current assets held for disposal** — Discontinued operations are reported when a component of an entity is classified as held for disposal or has been disposed of, if the component represents a separate major line of business or geographical area of operations and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations. In the Statement of Income, income (loss) from discontinued operations is reported separately from income and expenses from continuing operations; prior periods are presented on a comparable basis. In the Statement of Cash Flow, the cash flows from discontinued operations are presented separately from cash flows of continuing operations; prior periods are presented on a comparable basis.

The Company classifies a non-current asset or a disposal group (outside discontinued operations) as held for disposal if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets classified as held for disposal and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Depreciation and amortisation ceases. The determination of the fair value less costs to sell includes the use of estimates and assumptions that tend to be uncertain.

**Income taxes** — The Siemens Group operates in various tax jurisdictions and therefore has to determine tax positions under respective local tax laws and tax authorities' views which can be complex and subject to different interpretations of tax payers and local tax authorities. Under the liability method, deferred tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognised if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each period-end, management evaluates the recoverability of deferred tax assets, based on projected future taxable profits. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, Siemens believes it is probable the Company will realise the benefits of these deductible differences. As future developments are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. Estimates are revised in the period in which there is sufficient evidence to revise the assumption.

**Inventories** — Inventories are valued at the lower of acquisition or production costs and net realisable value, cost being generally determined on the basis of an average or first-in, first-out method.

**Contract assets, contract liabilities, receivables** — When either party to a contract with customers has performed, the Company presents a contract asset, a contract liability or a receivable depending on the relationship between Company's performance and the customer's payment. Contract assets and liabilities are presented as current since incurred in the normal operating cycle. Receivables are recognised when the right to consideration becomes unconditional. Valuation allowances for credit risks are made for contract assets and receivables in accordance with the accounting policy for financial assets measured at amortised cost.

**Provisions** — A provision is recognised in the Statement of Financial Position when it is probable that the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are recognised at present value by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. When a contract becomes onerous, the present obligation under the contract is recognised as a provision.

Significant estimates are involved in the determination of provisions related to onerous contracts, warranty costs, asset retirement obligations, legal and regulatory proceedings. The Company records a provision for onerous sales contracts when current estimates of total contract costs exceed expected contract revenue. Onerous sales contracts are identified by monitoring the progress of the project and updating the estimate of total contract costs which also requires significant judgment relating to achieving certain performance standards, as well as estimates involving warranty costs and estimates regarding project delays including the assessment of responsibility splits between the contract partners for these delays. Uncertainties regarding asset retirement obligations include the estimated costs of decommissioning and final waste storage because of the long time frame over which future cash outflows are expected to occur including the respective interest accretion. The estimated cash outflows could be impacted significantly by changes of the regulatory environment.

Legal proceedings often involve complex legal issues and are subject to substantial uncertainties. Accordingly, considerable judgment is part of determining 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 it is probable that such a legal proceeding will result in an outflow of resources and whether the amount of the obligation can be reliably estimated. Internal and external counsels are generally part of the determination process. Due to new developments, it may be necessary, to record a provision for an ongoing legal proceeding or to adjust the amount of a previously recognised provision. Upon resolution of a legal proceeding, the Company may incur charges in excess of the recorded provisions for such matters. The outcome of legal proceedings may have a material effect on the Company's financial position, its results of operations and or its cash flows.

For further explanation of the movement in provisions in the year see note 25.

**Termination benefits** — Termination benefits are provided as a result of an entity's offer made in order to encourage voluntary redundancy before the normal retirement date or from an entity's decision to terminate the employment. Termination benefits in accordance with IAS 19, Employee Benefits, are recognised as a liability and an expense when the entity can no longer withdraw the offer of those benefits.

**Financial instruments** — A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Based on their contractual cash flow characteristics and the business model they are held in, financial instruments are classified as financial assets and financial liabilities measured at cost or amortised cost and financial assets and financial liabilities measured at fair value and as receivables from finance leases. For additional information refer to note 29.

Regular way purchases or sales of financial assets are accounted for at the trade date.

Initially, financial instruments are recognised at their fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are only recognised in determining the carrying amount, if the financial instruments are not measured at fair value through profit or loss. Receivables from finance leases are recognised at an amount equal to the net investment in the lease. Subsequently, financial assets and liabilities are measured according to the category to which they are assigned to:

Financial assets measured at amortised 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 amortised cost using the effective interest method less valuation allowances for expected credit losses.

Valuation allowances are set up for expected credit losses, representing a forward-looking estimate of future credit losses involving significant judgment. Expected credit loss is the gross carrying amount less collateral, multiplied by the probability of default and a factor reflecting the loss in the event of default. The movement on the valuation allowance is given in note 11. Valuation allowances are not recognised when the gross carrying amount is sufficiently collateralised. Probabilities of default are mainly derived from rating grades determined by Siemens Financial Services Limited (SFS), another group company. A simplified approach is used to assess expected credit losses from trade receivables, lease receivables and contract assets by applying their lifetime expected credit losses. The valuation allowance for loans and other long-term debt instruments primarily held at SFS is measured according to a three-stage impairment approach:

Stage 1: At inception, 12-month expected credit losses are recognised based on a twelve months probability of default.

Stage 2: If the credit risk of a financial asset increases significantly without being credit-impaired, lifetime expected credit losses are recognised based on a lifetime probability of default. A significant increase in credit risk is determined for each individual financial instrument using credit ratings provided by SFS. A rating deterioration does not trigger a transfer into Stage 2, if the credit rating remains within the investment grade range. More than 30 days past due payments will not be transferred into Stage 2, if the delay is not credit-risk-related.

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

Stage 3: If the financial asset is credit-impaired, valuation allowances equal lifetime expected credit losses. A financial asset is considered credit-impaired when there is observable information about significant financial difficulties and a high vulnerability to default, however, the definition of default is not yet met. Impairment triggers include liquidity problems, a request for debt restructuring or a breach of contract. A credit-risk driven contractual modification always results in a credit-impaired financial asset.

Financial assets are written off as uncollectible if recovery appears unlikely. Generally, if the limitation period expired, when a debtor's sworn statement of affairs is received, or when the receivable is not pursued due to its minor value. Receivables are written off when bankruptcy proceedings close.

**Financial liabilities** — The Company measures financial liabilities, except for derivative financial instruments, at amortised cost using the effective interest method.

**Cash and cash equivalents** — The Company considers all highly liquid investments with less than three months maturity from the date of acquisition to be cash equivalents. Cash and cash equivalents are measured at cost. The Company is part of a cash pooling arrangement across the worldwide Siemens group. Balances within this facility are classified as *Receivables from group companies* and *Amounts due to group companies*.

**Derivative financial instruments** — Derivative financial instruments, such as foreign currency exchange contracts, are measured at fair value and classified as held for trading unless they are designated as hedging instruments, for which hedge accounting is applied. Changes in the fair value of derivative financial instruments are recognised either in the Statement of Income or, in the case of a cash flow hedge, in line item *Other comprehensive income*, net of income taxes (applicable deferred income tax). Certain derivative instruments embedded in host contracts are also accounted for separately as derivatives.

**Fair value hedges** — The carrying amount of the hedged item is adjusted by the gain or loss attributable to the hedged risk. Where an unrecognised firm commitment is designated as the hedged item, the subsequent cumulative change in its fair value is recognised as a separate financial asset or liability with corresponding gain or loss recognised in net income. For hedged items carried at amortised cost, the adjustment is amortised until maturity of the hedged item. For hedged firm commitments the initial carrying amount of the assets or liabilities that result from meeting the firm commitments are adjusted to include the cumulative changes in the fair value that were previously recognised as separate financial assets or liabilities.

**Cash flow hedges** — The effective portion of changes in the fair value of derivative instruments designated as cash flow hedges are recognised in line item *Other comprehensive income*, net of income taxes (applicable deferred income tax), and any ineffective portion is recognised immediately in net income. Amounts accumulated in equity are reclassified into net income in the same periods in which the hedged item affects net income.

**Leases** — Leases where substantially all of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. All others are deemed operating leases.

- Leases in which the Company is the lessee:

Under finance leases, the minimum lease obligation, or if lower, the asset's fair value, is capitalised within property, plant and equipment at the commencement of the lease and depreciated over the shorter of the useful economic life and the lease term. The rental obligation is recorded as a borrowing at a similar amount. Each lease payment is allocated between liability repayment and finance charges in a way so as to achieve a constant effective interest rate on the balance outstanding. Under operating leases, the asset does not appear in property, plant and equipment and lease payments are charged to the Statement of Income on a straight-line basis over the lease term.

- Leases in which the Company is the lessor:

Under finance leases, the asset leased out is not shown in the Company's property, plant and equipment. Receivables from finance leases, in which the Company as lessor transfers substantially all the risks and rewards incidental to ownership to the customer are recognised at an amount equal to the net investment in the lease. Finance income is subsequently recognised based on a pattern reflecting a constant periodic rate of return on the net investment using the effective interest method. Under operating leases, the asset leased out appears in property, plant and equipment and lease income is credited to the Statement of Income on a straight-line basis over the lease term.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

**Pension costs and other post-retirement benefits**

*Defined contribution plan* — The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the Statement of Income represents the contributions payable to the scheme in respect of the accounting period and represents the full extent of the Company's liability.

*Defined benefit plans* — The Company measures the entitlements by applying the projected unit credit method. The approach reflects an actuarially calculated net present value of the future benefit entitlement for services already rendered. In determining the net present value of the future benefit entitlement for service already rendered (Defined Benefit Obligation (DBO)), the expected rates of future salary increase and expected rates of future pension progression are considered. The assumptions used for the calculation of the DBO as of the period-end of the preceding financial year are used to determine the calculation of service cost and interest income and expense of the following year. The net interest income or expense for the financial year will be based on the discount rate for the respective year multiplied by the net defined liability (asset) at the preceding financial year's period-end date.

Service cost and past service cost for post-employment benefits and administration costs unrelated to the management of the plan assets are allocated among functional costs. Past service costs and settlement gains and losses are recognised immediately in the Statement of Income. For unfunded plans, the amount of the line item Post-employment benefits equals the DBO. For funded plans, the Company offsets the fair value of the plan assets with the DBO. The Company recognises the net amount, after adjustments for effects relating to any asset ceiling.

Remeasurements comprise of actuarial gains and losses, as well as the difference between the return of plan assets and the amounts included in net interest on the net defined benefits liability or asset. They are recognised by the Company in the Statement of Comprehensive Income, net of income taxes.

Actuarial valuations rely on key assumptions including discount rates, expected compensation increases, rates of pension progression and mortality rates. Discount rates used are determined by reference to yields on high-quality corporate bonds of appropriate duration and currency at the end of the reporting period. In case such yields are not available discount rates are based on government bonds yields. Due to changing market, economic and social conditions the underlying key assumptions may differ from actual developments. For a discussion of the current funded status see note 24.

**Borrowing costs** — The Company pays or receives interest on some of its intercompany cash balances. These are recognised within interest in the Statement of Income when incurred or receivable. All costs directly attributable to the cost of a qualifying asset are capitalised.

**Share-based payment** — The Company participates in equity-settled share-based payment plans established by its ultimate parent undertaking, Siemens AG. In accordance with IFRS 2, the fair value of awards/share matching granted is recognised as an employee expense with a corresponding increase in the capital contribution reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the awards. The fair value of share-based awards such as stock awards and matching shares is determined as the market price of Siemens AG shares, taking into consideration, if applicable, dividends during the vesting period the grantees are not entitled to and certain non-vesting conditions. A small number of the Company's directors and senior managers are eligible for share options, stock awards and share matching under the plans.

Any expected payments to be made to the Company's ultimate parent undertaking, Siemens AG, in respect of these plans is deducted from the capital contribution reserve in equity over the vesting period, to the extent that expenses have been recorded. Any additional payments are charged directly to the Statement of Income.

**Guarantees** — In the ordinary course of business, the Company provides financial guarantees, consisting of letters of credit, guarantees and facility commitments. Financial guarantees are initially recognised in the financial statements (within 'trade and other payables') at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the Statement of Income or recoverable value. The premium received is recognised in the Statement of Income in 'revenue' on a straight line basis over the life of the guarantee.

**New and amended standards effective for the year ended September 30, 2019:**

**IFRS 9 - Financial Instruments**

The Company has adopted IFRS 9 retrospectively as of October 1, 2018 and have not adjusted comparative figures for the preceding financial year, in accordance with IFRS 9 transitional provisions. IFRS 9 introduces a single approach for the classification and measurement of financial assets according to their cash flow characteristics and the business model they are managed in. This provides a new impairment model based on expected credit losses. IFRS 9 also includes new regulations regarding the application of hedge accounting to better reflect an entity's risk management activities especially with regard to managing non-financial risks. The Company has applied the simplified impairment model to recognise lifetime expected credit losses of trade receivables, contract assets and lease receivables. Existing hedge accounting relationships has also met the hedge accounting requirements under IFRS 9. The adoption has not had a significant impact on the Company.

**IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2**

The amendments (effective for the financial year beginning as of October 1, 2018) to IFRS 2 Classification and Measurement of Share-based Payment transactions addressed three main areas:

- the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction,
- the classification of a share-based payment transaction with net settlement features for withholding tax obligations
- the accounting where a modification to the terms and conditions of share-based payment transaction changes its classification from cash-settled to equity-settled.

These amendments have not had any impact on the Company.

**IAS 40 - Transfers of Investment Property - (Amendments to IAS 40)**

The amendments (effective for the financial year beginning as of October 1, 2018) to IAS 40 clarified when a company should transfer property, including property under construction or development into, or out of investment property. The amendments state that change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments have not had any impact on the Company.

**IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration**

The interpretation (effective for the financial year beginning as of October 1, 2018) clarified that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognised the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the Company must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation have not had any significant impact on the Company.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

**New standards and interpretations not yet adopted:**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended September 30, 2019, and have not been applied in preparing these financial statements. Those standards that have relevance to the Company are mentioned below:

**IFRS 16 Leases**

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 and, instead, introduces a single lessee accounting model requiring lessees to recognise right-of-use assets and lease liabilities for leases with a term of more than twelve months. This brings the previous off-balance leases on the balance sheet in a manner largely comparable to current finance lease accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Siemens will adopt the standard for the financial year beginning as of October 1, 2019, by applying the modified retrospective approach, i.e. comparative figures for the preceding year will not be adjusted. Currently, it is expected that the majority of the transition effect relates to real estate leased by Siemens. By applying IFRS 16, straight-line operating lease expense will be replaced by depreciation expense on right-of-use assets and interest expense on lease liabilities. This results in a deterioration in cash flows from financing activities and an improvement in cash flows from operating activities. The Company is currently assessing further impacts of adopting IFRS 16 on the Consolidated Financial Statements. It is intended to use most of the simplifications available under IFRS 16.

**IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments**

The interpretation, effective for years beginning after January 1, 2019, addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Company is currently assessing the impact of this amendment.

**IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)**

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted. The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business, as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The Company is assessing the impact of this amendment.

**IAS 19 (Amendments) – Plan amendment, Curtailment or Settlement**

The amendments effective for years beginning after 1 January 2019, address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The Company is currently assessing the impacting of this amendment.

**Definition of a Business - Amendments to IFRS 3**

The IASB issued amendments, effective for annual periods beginning on or after 1 January 2020, to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. This will be effective from 1 October 2020, however the Company is not expecting to be affected by these amendments on transition.

**Prepayment Features with Negative Compensation - Amendments to IFRS 9**

The amendments to IFRS 9, effective for annual periods beginning on or after 1 January 2019, clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. This will be effective from 1 October 2019, however the Company is not expecting any material impact by these amendments on transition.

**Definition of Material - Amendments to IAS 1 and IAS 8**

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments, effective for annual periods beginning on or after 1 January 2020, require an entity to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. This will be effective from 1 October 2020, however the Company is not expecting any material impact by these amendments on transition.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 3. Acquisitions and discontinued operations

There were no acquisitions or disposals in the year ended September 30, 2019.

*a) Discontinued operations (Mobility)*

The assets and liabilities of the Mobility Division were disposed of in the year ended September 30, 2018. On June 1, 2018 the assets and liabilities of the Mobility Division were sold to Siemens Mobility Limited, for a consideration of £785m, resulting in a gain on disposal of £791m (including £21m hedge accounting gain). The following classes of assets and liabilities were disposed of in that year:

	Year ended September 30, 2018
Trade and other receivables	107,087
Inventories	55,381
Contract assets	54,759
Other current financial assets	24,281
Other current assets	1,401
Goodwill	9,250
Other intangible assets	1,099
Property, plant and equipment	50,896
Other financial assets	42,098
Other non-current assets	11,192
<b>Assets disposed of in the year</b>	<b>357,444</b>
Trade payables	53,173
Other current financial liabilities	1,442
Other current liabilities	24,335
Contract Liabilities	225,692
Current provisions	10,404
Deferred tax liabilities	1,883
Other liabilities	895
Provisions	16,532
Other financial liabilities	4,276
<b>Liabilities disposed of in the year</b>	<b>338,632</b>

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

The net result of the Mobility Division discontinued operations presented in the Statement of Income consists of the following components:

	Year ended September 30, 2018
Revenue	1,482,141
Cost of sales	(1,393,972)
Gross profit	<u>88,169</u>
Research and development expenses	(3,758)
Marketing and distribution expenses	(18,417)
Administrative expenses	(1,454)
Other operating income	(301)
Operating profit	<u>64,239</u>
Interest income	1,736
Interest expense	22
Net income from discontinued operations before income taxes	<u>65,997</u>
Income tax expense on discontinued operations (see note 10)	(12,531)
Net income from discontinued operations after income taxes (unadjusted)	<u>53,466</u>
Gain on disposal from discontinued operations	<u>791,587</u>
Net income from discontinued operations after income taxes (adjusted)	<u>845,053</u>

A prior year reclassification has been made to present the gain on disposal from the Mobility Division into the net result from discontinued operations instead of Other Operating Income from Continuing Operations (see note 6), in accordance with IFRS 5.

**b) Acquisitions / disposals after the year end**

There were no acquisitions or disposals in the subsequent event period for the year ended September 30, 2019.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 4. Revenue

To further increase the entrepreneurial freedom of Siemens businesses, Siemens AG (the "Group") has reorganised its operations. Implementation of the new organisation was completed at the end of the second quarter of financial year ended September 30, 2019. The Group has started reporting financial results according to the new organisation structure beginning with the third quarter of financial year ended September 30, 2019. For the new structure, the Group has formed three Operating Companies consisting of the reportable segments - Gas and Power, Smart Infrastructure and Digital Industries. These Operating Companies will together form the Industrial Businesses. Financial Services continues to be a reportable segment outside the Industrial Businesses. Furthermore, Portfolio Companies are also reported as a new segment. This segment largely consists of businesses formerly included in the old structure - Energy Management and Process Industries and Drives, along with certain other activities that were reported outside the former Industrial Business.

Revenue is earned from and analysed into the following business categories & also further categorised as to whether the revenue recognition from customer sales is predominantly at a point in time, or over time:

Goods transferred at a point in time = PIT      Good transferred over time = OT

	Timing of revenue recognition	Year ended September 30,	
		2019	2018
Smart Infrastructure	PIT	222,683	232,314
Digital Industries	PIT	227,141	224,873
Gas and Power	OT	189,952	215,930
Real Estate	OT	41,776	48,817
Portfolio Companies (POC)	PIT	73,341	59,388
Other *		1,121	9,585
		<u>756,014</u>	<u>790,907</u>

## Timing of revenue recognition

The transaction price allocated to the remaining performance obligations (Unsatisfied or partially satisfied) as at September 30 2019 are, as follows:

	2019		2018	
	Within one year	More than one year	Within one year	More than one year
Gas and Power	219,210	671,087	136,820	776,452
Smart Infrastructure	89,848	55,138	72,657	43,172
Portfolio Companies	50,181	2,828	39,214	-
Digital Industries	20,975	2,101	22,254	7,623
Other *	-	20	-	-
	<u>380,214</u>	<u>731,174</u>	<u>270,945</u>	<u>827,247</u>

## Contract Balances

	Year ended September 30,	
	2019	2018
Trade receivables	108,619	107,004
Contract assets	53,721	44,633
Contract liabilities	(66,466)	(87,500)

Trade receivables are non-interest bearing and are generally on terms of 30 days, however an ageing analysis is included in note 11 for details.

Segmental information for the Siemens AG group is presented in the consolidated accounts of the ultimate parent company, Siemens AG.

\*Other revenue includes service revenue from other Siemens operating companies in the UK. This revenue relates to services provided in the areas of professional services, IT support and solutions, facilities management and human resources.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 5. Operating profit from continuing operations has been arrived at after charging / (crediting):

	Year ended September 30,	
	2019	2018
Net foreign exchange (gains) / loss	(114)	636
Research and development income	(1,553)	(982)
Depreciation of property, plant and equipment	15,977	19,793
Amortisation of intangible assets	5,514	5,613
Impairment of plant, property and equipment	119	-
Direct operating expenses in connection with investment properties	1,083	491
Staff costs (see note 7)	240,638	324,458
Research and Development Expenditure Credit	(635)	(158)
Grants received	(397)	(991)
Auditor's remuneration:		
- audit of financial statements	339	729

Amounts payable to Ernst & Young LLP and their associates by the Company in respect of non-audit services were £nil (2018: £24k).

## 6. Other operating income

	Year ended September 30,	
	2019	2018
		(Restated)
Profit on disposal of property, plant and equipment and intangibles	3,038	13,033
Other	(2,256)	(268)
	<u>782</u>	<u>12,765</u>

In the prior year, the profit on disposal of property, plant and equipment and intangibles, mainly relates to the disposal of land, in Manchester.

Other costs of £2,256k includes business disposal costs from the prior year, which were recharged by the Group in the current year.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 7. Staff numbers and costs

	Year ended September 30,	
	2019	2018
Wages and salaries	197,809	275,039
Social security costs	21,265	29,709
Expenses relating to pension plans and employee benefits	21,564	19,710
	<u>240,638</u>	<u>324,458</u>

Staff numbers and costs include continuing and discontinued operations.

*Expenses relating to pension plans and employee benefits* include service costs for the period. Expected return on plan assets and interest costs are included in *interest income* and *interest expense* respectively.

The average number of employees (including executive directors) during 2019 and 2018 was 3,492 and 4,695, respectively (based on continuing operations). Part-time employees are included on a proportionate basis rather than being counted as full units. The employees were engaged in the following activities:

	Year ended September 30,	
	2019	2018
	Number	Number
Manufacturing and services	2,110	3,141
Sales and marketing	1,295	1,468
Research and development	87	86
	<u>3,492</u>	<u>4,695</u>

## 8. Directors' emoluments

The directors' aggregate emoluments, including pension contributions, in respect of qualifying services were:

	Year ended September 30,	
	2019	2018
Emoluments receivable	1,826	1,901
Employer contributions to money purchase schemes	17	24
	<u>1,843</u>	<u>1,925</u>

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £929,036 (2018: £901,356). Two directors are members of the defined contributions scheme. None of the directors are members of a defined benefit scheme. Share-based payments are described in note 28. Three of the directors have shares receivable from a long-term incentive scheme.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 9. Interest income and interest expense

Interest expense is all for financial assets or liabilities that are not at fair value through the Statement of Income.

The total amounts of interest income and expense were as follows:

	Year ended September 30,	
	2019	2018
Interest income	9,675	5,874
Interest income - negative*	(22)	(19)
<b>Interest income, net</b>	<b>9,653</b>	<b>5,855</b>
Interest expense	(10,781)	(11,199)
<b>Interest expense</b>	<b>(10,781)</b>	<b>(11,199)</b>
Interest income from pension plans and similar commitments	108,629	106,623
Interest expense from pension plans and similar commitments	(95,042)	(94,724)
<b>Interest income from pension plans and similar commitments</b>	<b>13,587</b>	<b>11,899</b>
Thereof: Interest (expense) / income of operations, net	(7)	1,691
Thereof: Other interest (expense) / income, net	(1,121)	(7,035)

\*Since October 1, 2015 Siemens Group Treasury set negative interest rates for intercompany financing activities in various currencies. Negative interest means to pay interest on financial assets instead of receiving interest and respectively to receive interest on financial liabilities instead of paying interest.

*Interest expense of operations, net* includes interest income and expense arising directly from operating activities primarily related to receivables from customers and payables to suppliers, interest on advances from customers and advanced financing of customer contracts. It also includes interest income from financing agreements within the context of construction contracts and interest income and expense primarily related to discontinuing of long-term provision, finance lease interest, receivables from customers and payables to suppliers. *Other interest expense, net* includes all other interest amounts primarily consisting of interest relating to corporate debt and related hedging activities, as well as interest income on corporate assets.

Service cost for pension plans and similar commitments are allocated among functional costs (*Cost of sales, Research and development expenses, Marketing and distribution expenses and administrative expenses*).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 10. Taxes

The analysis below is in reference to the total tax expense or credit included in the Statement of Income.

	Year ended September 30,	
	2019	2018
<b>Current tax:</b>		
UK corporation tax	5,194	3,641
Foreign income taxes	97	-
Adjustments for prior years	2,543	(1,344)
	<u>7,834</u>	<u>2,297</u>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences - current year	3,626	20,216
Origination and reversal of temporary differences - prior years	(1,680)	(1,700)
	<u>1,946</u>	<u>18,516</u>
<b>Tax expense)/expense</b>	<u>9,780</u>	<u>20,813</u>
Income tax expense in the Statement of Income is disclosed as follows:		
Income tax expense on continuing operations	9,780	8,282
Income tax expense on discontinued operations	-	12,531
	<u>9,780</u>	<u>20,813</u>

Of the deferred tax expense in 2019 and the deferred tax expense in 2018, £1,946k and £18,516k, respectively, relate to the origination and reversal of temporary differences.

For the years ended September 30, 2019 and 2018, the Company was subject to UK corporation tax at a rate of 19%. The total tax expense or credit differs from the amounts computed by applying the statutory UK tax rate as follows:

	Year ended September 30,	
	2019	2018
Net income before tax (Continuing and discontinued operations (see note 4))	25,441	895,955
Tax at 19% (2018: 19%)	4,834	170,231
Increase / (decrease) in income taxes resulting from:		
Non-deductible losses and expenses	4,180	2,163
Research and development tax credit	(135)	-
Tax-free gains from sales of business	386	(145,917)
Over provided in prior years - deferred tax	(1,680)	(1,942)
Under / (over) provided in prior years - current tax	2,543	(1,344)
Irrecoverable foreign tax	79	-
Rate change adjustment difference between Corporation Tax and Deferred Tax rate	(426)	(2,470)
Other	(1)	92
<b>Total income tax expense for the year</b>	<u>9,780</u>	<u>20,813</u>

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the Statement of Financial Position date.

The Finance Act 2016, included a reduction in the corporate tax rate to 19% (effective from April 2017) and to 17% (effective from April 2020). Deferred tax assets and liabilities have been measured at the enacted tax rates that are expected to apply to the period when the asset is realised or the liability is settled.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

Deferred tax assets and liabilities on a gross basis are summarised as follows:

	2019	September 30, 2018
Assets	2,553	2,835
Deferred tax assets	<u>2,553</u>	<u>2,835</u>
Liabilities		
Other intangible assets	(3,305)	(3,994)
Property, plant and equipment	(1,226)	(2,943)
Pension plans and similar commitments	(139,395)	(91,394)
Deferred tax liabilities	<u>(143,926)</u>	<u>(98,331)</u>
Total deferred tax liabilities, net	<u>(141,373)</u>	<u>(95,496)</u>

Management considers to what extent it is probable that the deferred tax asset will be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carry forwards become deductible.

As of September 30, 2019 the Company has £nil (2018: £nil) of gross tax loss carry forwards. Management considers it probable that the future operations will generate sufficient taxable income to realise the deferred tax assets.

Deferred tax balances and expenses (benefits) developed as follows in the current and previous financial year:

	2019	2018
Deferred tax liabilities opening balance	(95,496)	(75,598)
Tax in income statement	(1,946)	(18,516)
Changes in Statement of comprehensive income	(43,877)	4,896
Others - not impacting net income	(54)	(6,278)
Deferred tax liabilities closing balance	<u>(141,373)</u>	<u>(95,496)</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 11. Trade and other receivables

	2019	September 30, 2018
Trade receivables from the sale of goods and services	108,619	107,004
Receivables from group companies	683,595	1,582,321
Receivables from finance leases	660	190
	<u>792,875</u>	<u>1,689,515</u>

As of October 1, 2018 the company no longer sells trade receivables from the sale of goods and services to Siemens AG as part of a globally implemented decision. During 2018 the company has sold trade receivables from the sale of goods and services amounting to £62,671k to Siemens AG.

Trade receivables from the sales of goods and services include customer rebates amounting to £1,072k (2018: £(407)k) and settlement discounts of £158k (2018: £189k).

As at September 30, 2019, *receivables from group companies* include a deposit of £631,414k with Siemens Finance B.V. Interest rates of which ranged from 0.25% to 0.75%.

Changes to the valuation allowance of current and long-term receivables presented in this note, which belong to the class of Financial assets and liabilities measured at amortised cost are as follows (excluding receivables from finance leases):

	Year ended September 30, 2019	September 30, 2018
Valuation allowance as at beginning of the year	534	1,818
Creation	14,388	288
Reversal	(10,820)	(1,310)
Transfer out to group companies	-	(262)
<b>Valuation allowance as at end of the year</b>	<u>4,102</u>	<u>534</u>

The ageing of trade receivables and the associated valuation allowance is as follows:

	Gross 2019	September 30, Allowance 2019	Gross 2018	September 30, Allowance 2018
Current	87,903	(1,547)	83,439	(236)
30 days overdue	11,392	(201)	7,814	(24)
31 - 60 days overdue	3,350	(59)	10,720	(58)
61 - 90 days overdue	1,156	(20)	1,862	(42)
91+ days overdue	8,920	(2,275)	3,703	(174)
	<u>112,721</u>	<u>(4,102)</u>	<u>107,538</u>	<u>(534)</u>

## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

Receivables from finance leases are presented in the Statement of Financial Position as follows:

	2019	September 30, 2018
Receivables from finance leases, current	660	190
Receivables from finance leases, long-term portion (see note 19)	2,249	5,053
	<u>2,909</u>	<u>5,243</u>
Thereof: Technical machinery & equipment	2,909	5,243

Minimum future lease payments to be received are as follows:

Year	
2020	666
2021	645
2022	618
2023	608
2024	447
Minimum future lease payments	<u>2,984</u>

The following table shows a reconciliation of minimum future lease payments to the gross and net investment in lease payments receivable:

	2019	September 30, 2018
Minimum future lease payments	2,984	5,411
Gross investment in leases	2,984	5,411
Less: Unearned finance income	(75)	(118)
Net investment in leases	2,909	5,293
Less: Allowance for doubtful accounts	-	(50)
Present value of minimum lease payments receivable	<u>2,909</u>	<u>5,243</u>

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

	2019	September 30, 2018
Gross investment in leases	2,984	5,411
Within one year	666	700
One to five years	2,318	2,304
Thereafter	-	2,407
Present value of minimum lease payments receivable	2,909	5,243
Within one year	366	692
One to five years	1,210	2,249
Thereafter	1,333	2,302

Investments in finance leases relate primarily to the Building Technologies. Actual cash flows will vary from contractual maturities due to future sales of finance receivables, prepayments and write-offs.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

**12. Other current financial assets**

	2019	September 30, 2018
Derivative financial instruments	1,935	836
Other current financial assets	1,475	3,705
	<u>3,410</u>	<u>4,541</u>

**13. Contract assets and liabilities**

As of September 30, 2019 and 2018, amounts expected to be settled after twelve months are £16,562k and £13,170k for contract assets and £18,331k and £22,323k, respectively, for contract liabilities. As of September 30, 2019 and 2018, contract assets were £53,721k and £44,633k respectively.

**14. Inventories**

	2019	September 30, 2018
Raw materials and supplies	10,807	9,292
Work in progress	5,963	5,118
Costs of unbilled contracts	10,253	7,347
Finished goods and products held for resale	12,251	2,992
Advances to suppliers	58	26
	<u>39,332</u>	<u>24,775</u>

Cost of sales include inventories recognised as an expense amounting to £622,111k and £746,434k (including discontinued operations), respectively, in financial year 2019 and 2018.

**15. Other current assets**

	2019	September 30, 2018
Other tax receivables	133	-
Prepaid expenses	9,358	7,788
Other	918	1,110
	<u>10,409</u>	<u>8,898</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 16. Goodwill

	2019	September 30, 2018
<b>Cost</b>		
Balance at beginning of year	400,946	410,196
Disposals and reclassification to assets classified as held for disposal	-	(9,250)
Balance at end of year	400,946	400,946
<b>Accumulated impairment losses</b>		
Balance at beginning of year	(85,096)	(85,096)
Balance at end of year	(85,096)	(85,096)
<b>Net book value</b>		
Balance at beginning of year	315,850	325,100
Balance at end of year	315,850	315,850

## Impairment of Goodwill

During the year, Siemens AG reorganised its organisational and reporting structure (as discussed in note 4). Goodwill has been reallocated to the reorganised reporting structure, based on fair values. The reallocation did not result in goodwill impairments.

The carrying amount of goodwill across the various divisions as well as the impairment review process is detailed below:

	2019	Goodwill September 30, 2018
Smart Infrastructure	147,263	147,263
Digital Industries	1,139	1,139
Power and Gas	77,779	77,779
Portfolio Companies	89,669	89,669
Balance at end of year	315,850	315,850

For further information on acquisitions, disposals and discontinued operations see note 3.

The Company performs the mandatory annual impairment test in the three months ended September 30, 2019 in accordance with the accounting policy stated in note 2. The recoverable amounts for the annual impairment test 2019 for all the Company's operating segments were estimated to be higher than the carrying amounts. Key assumptions on which management has based its determinations of the value in use for the divisions' carrying amount include terminal value growth rates up to 1.6% in 2019 (2018: 1.7%), and after-tax discount rates of 8.5% to 9.5% in 2019 and 2018. Where possible, reference to market prices is made.

For the purpose of estimating the recoverable amount of the divisions, cash flows were 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. The value in use is mainly driven by the terminal value which is particularly sensitive to changes in the assumptions on the terminal value growth rate and discount rate. Both assumptions are determined individually for each division or equivalent. Discount rates reflect the current market assessment of the risks specific to each division and are based on the weighted average cost of capital for the divisions. Terminal value growth rates take into consideration external macroeconomic sources of data and industry specific trends.

**Sensitivity to change in assumptions**

For all the divisions, the recoverable amount of the cash-generating units are higher than their carrying amounts as at 30 September 2019.

The terminal value growth rate used in estimating the recoverable amount for all the divisions was 1.6%. A reduction in the terminal value growth rate by 0.5% would not result to an impairment in the carrying value of goodwill in any divisions.

The after-tax discount rates used in estimating the recoverable amount for all the divisions were 8.5% to 9.5%. An increase in the after-tax discount rate of 1.0% would not result to an impairment in the carrying value of goodwill in any divisions.

Management considers that no reasonably possible change in the key assumptions applied, other than after-tax discount rate and terminal value (as explained above), would cause the carrying amount of goodwill to exceed the recoverable amount.

## 17. Other intangible assets

	Development cost	Software	Patents, licenses & similar rights	Other	Total
<b>Cost</b>					
At October 1, 2017	1,182	24,672	16,652	71,778	114,284
Additions	-	3,164	80	-	3,244
Retirements	-	(322)	-	-	(322)
Transfers in/(out) from group companies	-	(1,449)	(2,872)	-	(4,321)
At September 30, 2018	1,182	26,065	13,860	71,778	112,885
At October 1, 2018	1,182	26,065	13,860	71,778	112,885
Additions	-	1,312	-	-	1,312
Retirements	-	(3,723)	(257)	-	(3,980)
At September 30, 2019	1,182	23,654	13,603	71,778	110,217
<b>Amortisation</b>					
At October 1, 2017	1,038	18,528	16,410	37,760	73,736
Charge for the year	86	2,485	1,909	1,133	5,613
Retirements	-	(322)	-	-	(322)
Transfers in/(out) from group companies	-	(1,575)	(4,730)	2,958	(3,347)
At September 30, 2018	1,124	19,116	13,589	41,851	75,680
At October 1, 2018	1,124	19,116	13,589	41,851	75,680
Charge for the year	58	2,762	140	2,554	5,514
Retirements	-	(3,723)	(257)	-	(3,980)
At September 30, 2019	1,182	18,155	13,472	44,405	77,214
<b>Net book value</b>					
At October 1, 2017	144	6,144	242	34,018	40,548
At September 30, 2018 and October 1, 2018	58	6,949	271	29,927	37,205
At September 30, 2019	-	5,499	131	27,373	33,003

Amortisation expense on intangible assets is included in *Cost of sales, Research and development expenses, Marketing and distribution expenses or administrative expenses*, depending on the use of the asset.

The development cost relates to the development of data storage for metering within the Smart Infrastructure business. This development project is in full operational use and its expected useful life is 4 years. Development costs are described in note 2.

Other intangible assets have arisen due to business integrations of other Siemens group companies into Siemens plc in 2009, 2012, 2013 and 2016. The majority of the balance relates to customer relationships acquired.

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## 18. Property, plant and equipment

	Investment Property	Land & buildings	Technical machinery & equipment	Equipment leased to others	Furniture & office equipment	Construction in progress	Total property, plant & equipment
<b>Cost</b>							
At October 1, 2017	5,375	183,351	84,630	140	72,476	12,795	358,767
Additions	-	6,500	11,337	-	6,000	10,017	33,854
Disposals	(107)	(3,239)	(1,201)	-	(3,573)	(1,476)	(9,596)
Transfers to / from group companies	-	(75,988)	(19,008)	-	(6,802)	(3,359)	(105,157)
Reclassifications of assets	-	4,482	4,571	-	671	(9,851)	(127)
At September 30, 2018	5,268	115,106	80,329	140	68,772	8,126	277,741
<b>At October 1, 2018</b>	<b>5,268</b>	<b>115,106</b>	<b>80,329</b>	<b>140</b>	<b>68,772</b>	<b>8,126</b>	<b>277,741</b>
Additions	151	3,310	6,328	-	5,638	224	15,651
Disposals	(157)	(834)	(9,040)	-	(4,412)	(19)	(14,462)
Transfers to / from group companies	-	170	(3,093)	-	61	-	(2,862)
Reclassification of asset	-	3,657	2,619	-	1,020	(7,296)	-
At September 30, 2019	5,262	121,409	77,143	140	71,079	1,035	276,068
<b>Accumulated depreciation and impairment</b>							
At October 1, 2017	1,108	79,283	61,609	30	62,200	-	204,230
Charge for the year	191	6,822	8,305	17	4,458	-	19,793
Disposals	-	(1,962)	(1,255)	-	(3,541)	-	(6,758)
Transfers to / from group companies	-	(32,624)	(15,634)	-	(5,789)	-	(54,047)
Reclassification of asset	-	-	82	-	(82)	-	-
At September 30, 2018	1,299	51,519	53,107	47	57,246	-	163,218
<b>At October 1, 2018</b>	<b>1,299</b>	<b>51,519</b>	<b>53,107</b>	<b>47</b>	<b>57,246</b>	<b>-</b>	<b>163,218</b>
Charge for the year	121	4,911	6,239	17	4,689	-	15,977
Disposals	-	(809)	(8,641)	-	(4,060)	-	(13,510)
Transfers to / from group companies	-	9	(2,324)	-	9	-	(2,306)
Impairment	-	95	-	-	24	-	119
Reclassification of asset	-	-	(2)	-	2	-	-
At September 30, 2019	1,420	55,725	48,379	64	57,910	-	163,498



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	Investment Property	Land & buildings	Technical machinery & equipment	Equipment leased to others	Furniture & office equipment	Construction in progress	Total property, plant & equipment
<b>Net book value</b>							
At October 1, 2017	4,267	104,068	23,021	110	10,276	12,795	154,537
At September 30, 2018 and October 1, 2018	3,969	63,587	27,222	93	11,526	8,126	114,523
<b>At September 30, 2019</b>	<b>3,842</b>	<b>65,684</b>	<b>28,764</b>	<b>76</b>	<b>13,169</b>	<b>1,035</b>	<b>112,570</b>

The amount of borrowing costs capitalised in the year is £nil (2018: £nil). Borrowing costs relate to capitalised borrowing costs directly attributable to the costs of an asset where the borrowing costs have commenced on or after October 1, 2012 (see note 2). The borrowing costs in the prior year were capitalised at 2.49%.

In 2019 and 2018, government grants awarded for the purchase or the production of property, plant and equipment amounted to £nil and £nil, respectively. The award of further government grants of £450k and £20k in 2019 and 2018, respectively, related to costs incurred and future costs.

The fair value of investment property as at September 30, 2019 was £5m (2018: £5m).

The fair value of investment properties represents the market value of the properties calculated by the use of the definition of "market value" as prescribed by the Royal Institution of Chartered Surveyors (RICS) Valuation Standards 6th Edition. Market Value is described in Practice Statement 3.2 and the interpretative comment on Market Value, as published in International Valuation Standards 1, has been applied. Market Value is described by the RICS as follows: - *"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion"*.

As of September 30, 2019 and 2018, the minimum future lease payments receivable that the Company, as a lessor, is expecting to receive under non-cancellable operating leases as follows:

	September 30,	
	2019	2018
Not later than one year	35	35
Later than one year and not later than five years	9	44
Later than five years	8	44
	<u>52</u>	<u>123</u>

As of 30 September 2019 contractual commitments for the purchase of plant, property and equipment amount to £1,562k (2018: £2,886k).

Payments from lessees under operating leases primarily relate to leasing of properties by Siemens Plc.

**19. Other financial assets**

	September 30,	
	2019	2018
Receivables from finance leases	2,249	5,053
	<u>2,249</u>	<u>5,053</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 20. Other current financial liabilities

	2019	September 30, 2018
Derivative financial instruments	3,136	2,564
Other financial liabilities	1,752	2,612
	<u>4,888</u>	<u>5,176</u>

## 21. Trade payables

	2019	September 30, 2018
Trade payables	106,130	89,046
Amounts due to group companies	21,360	10,741
	<u>127,490</u>	<u>99,787</u>

## 22. Other current liabilities

	2019	September 30, 2018
Payroll and social security taxes	13,839	13,612
Bonus obligations	22,399	23,589
Other employee related costs	5,869	7,852
Other tax liabilities	969	7,431
Deferred income	12,154	3,801
Other accrued liabilities	21,331	22,471
	<u>76,561</u>	<u>78,756</u>

*Other employee related costs* primarily include vacation payments, accrued overtime and service anniversary awards.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 23. Debt

	2019	September 30, 2018 (Restated)
<b>Short-term debt</b>		
Short-term debt	13,486	12,978
Liabilities under finance leases less than 1 year	1,634	659
	<u>15,120</u>	<u>13,637</u>
<b>Long-term debt</b>		
Liabilities under finance leases more than 1 year	20,106	19,349
Long-term loan from group company	237,144	250,494
	<u>257,250</u>	<u>269,843</u>

Short-term and Long-term debt above include a long-term loan held with Siemens Holdings plc. The amount outstanding is £250,494k (2018: £263,472k) with a remaining term of 166 months and a fixed rate of 3.6029% per annum. The current portion of this loan, included in short-term debt is £13,350 (2018: £12,978), which represents the capital repayment due within the next 12 month period.

Amounts relating to finance lease liabilities are disclosed below:

**Finance lease liabilities**

	Future minimum lease payments	Interest	Present value of future minimum lease payments	Future minimum lease payments	Interest	Present value of future minimum lease payments
	2019	2019	2019	2018	2018	2018
Less than one year	(2,532)	898	(1,634)	(1,389)	730	(659)
Between one and five years	(12,539)	3,083	(9,456)	(11,029)	3,031	(7,998)
More than five years	(14,522)	3,872	(10,650)	(15,589)	4,238	(11,351)
	<u>(29,593)</u>	<u>7,853</u>	<u>(21,740)</u>	<u>(28,007)</u>	<u>7,999</u>	<u>(20,008)</u>

## NOTES TO THE FINANCIAL STATEMENTS

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**24. Post-employment benefits**

Post-employment benefits provided by the Company are organised through defined benefit plans as well as defined contribution plans.

Post-employment benefits provided by the Company are organised through three defined benefit plans and one defined contribution plan as follows:

**24.1 - Siemens Benefits Scheme****a) Defined benefit plan**

Siemens Benefits Scheme ("Scheme") is a defined benefit scheme with assets held in separate trustee administrated funds. The amount of contributions to be paid is decided jointly by the employer and the trustees of the Scheme. Assets held in trust are governed by UK regulations and practice. The Scheme's investment strategy is decided by the trustees, in consultation with the employer. The board of trustees must be composed of representatives of the employer and Scheme participants in accordance with the Scheme's legal documentation. The Company is one of a number of companies that participate in this Scheme, which provides benefits based on final pensionable pay.

All members and their respective defined benefit obligations are allocated to individual participating employers, and assets are allocated on a similar basis. These allocations allow net defined benefit costs to be charged to each company. Contributions for ongoing accrual in respect of active members are based on each company's payroll, whilst the distribution of deficit and lump sum payments is the responsibility of the principal and main participating employers.

The Company's share of the Scheme is analysed below:

**Movement in the Company's share (96%) of the net amount recognised:**

	September 30, 2019	2018
Company's share of the net amount recognised of the Scheme at beginning of year	538,057	402,569
Current service cost	(438)	(475)
Past service (cost) / gain	(3,508)	4,100
Other finance income	13,597	11,950
Contributions paid	14,255	97,661
Transfer from other group companies	-	30,836
Remeasurements included in Statement of Comprehensive Income	258,625	(8,584)
Company's share of the net amount recognised of the Scheme at end of year	<u>820,588</u>	<u>538,057</u>

The disclosures which follow are for the Siemens Benefits Scheme as a whole.

The movement in the Scheme surplus is split between operating charges and finance items, which are charged to the Statement of Income, and remeasurement gains and losses, which are charged to the Statement of Comprehensive Income.

The numbers shown in this disclosure have been based on calculations carried out by a qualified independent actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the Scheme at September 30, 2019. The Scheme's assets are stated at their market values at September 30, 2019.

The Scheme covers 27,455 participants, including 1,050 active employees, 14,905 former employees with vested benefits and 11,500 retirees and surviving dependents.

The valuation used for IAS 19 disclosures has been based on a full assessment of the liabilities of the Siemens Benefits Scheme (SBS) as at September 30, 2019. The present values of the defined benefit obligation ("DBO"), the related current service cost and any past service costs were measured using the projected unit credit method.

The defined benefit sections of the Scheme are largely closed to new entrants. It should therefore be noted that under the projected unit method that is required under IAS 19 the current service cost will increase as the members of the Scheme approach retirement.

Remeasurement gains and losses have been recognised in the period in which they occur, (but outside the Statement of Income), through the Statement of Comprehensive Income.

## NOTES TO THE FINANCIAL STATEMENTS

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*Reconciliation of funded status to Statement of Financial Position:*

	2019	September 30, 2018
Fair value of Scheme assets	5,114,790	4,356,845
Present value of funded defined benefit obligations	(4,263,140)	(3,830,765)
Surplus recognised in the Statement of Financial Position	851,650	526,080

*Defined benefit costs are as follows:*

	2019	September 30, 2018
Current service cost	524	568
Past service cost / (gain)	3,768	(4,100)
Net interest expense	100,060	104,649
Net interest income	(113,951)	(116,970)
Components of defined benefit cost recognised in the Statement of Income	(9,599)	(15,853)
Return on Scheme assets (excluding amounts included in net interest expense and net interest income)	(775,536)	113,623
Remeasurement gains and losses	473,877	(107,538)
Remeasurements of defined benefit scheme recognised in the Statement of Comprehensive Income	(301,659)	6,085
Defined benefit costs	(311,258)	(9,768)

The past service cost in 2019 relates to the additional liability for equalising pension benefits for men and women in relation to guaranteed minimum pension benefits.

*Changes to the present value of the defined benefit obligation during the year:*

	2019	September 30, 2018
Defined benefit obligation at beginning of year	3,830,765	4,220,952
Current service cost	524	568
Past service cost / (gain)	3,768	(4,100)
Interest expense	100,060	104,649
Remeasurements:		
Remeasurement gains from changes in demographic assumptions	(99,216)	(49,469)
Remeasurement losses / (gains) from changes in financial assumptions	598,386	(69,060)
Experience (gains) / losses	(25,293)	10,991
Scheme participants' contributions	13,422	14,493
Benefits paid	(159,276)	(165,316)
Business combinations, disposals and other	-	(232,943)
Defined benefit obligation at end of year	4,263,140	3,830,765

The total DBO at the end of the year 2019 includes £329,114k for active employees (2018: £234,254k), £1,742,163k for former employees with vested benefits (2018: £1,622,273k) and £2,191,863k for retirees and surviving dependents (2018: £1,974,238k).

The weighted average duration of the DBO was 17.6 years (2018: 17.2 years).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

*Changes to the fair value of Scheme assets during the year:*

	2019	September 30, 2018
Fair value of Scheme assets at beginning of year	4,356,845	4,645,097
Interest income	113,951	116,970
Remeasurements:		
Return on Scheme assets excluding amounts included in interest income and interest expense	775,536	(113,623)
Employer contributions	14,312	113,777
Scheme participants' contributions	13,422	14,493
Benefits paid	(159,276)	(165,316)
Business combinations, disposals and other	-	(254,553)
Fair value of Scheme assets at end of year	5,114,790	4,356,845

**Actuarial assumptions:**

The main assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below.

The assumptions used for the calculation of the DBO as of the period-end of the preceding financial year are used to determine the calculation of service cost and interest income and interest expense of the following year. The interest income and interest expense for the financial year will be based on the discount rate at the beginning of the respective year multiplied by the net of the fair value of Scheme assets and the DBO at the preceding financial year's period-end date. The fair value of Scheme assets and DBO, and thus the interest income on Scheme assets and the interest expense on DBO, are adjusted for significant events after the year end, such as a supplemental funding, Scheme changes or business combinations and disposals.

Assumed discount rates, compensation increase rates, pension progression rates used in calculating the DBO vary according to the economic conditions.

**Main financial assumptions:**

	2019 % p.a.	September 30, 2018 % p.a.
Inflation (RPI)	3.00	3.20
Inflation (CPI)	2.00	2.10
Rate of general long-term increase in salaries	3.50	3.70
Rate of increase to pensions in payment		
- inflation capped at 5% (RPI)	2.90	3.10
- inflation capped at 3% (RPI)	2.40	2.50
- inflation capped at 5% (CPI)	2.00	2.10
- inflation with a floor of 3% and a cap of 5% (RPI)	3.50	3.60
Discount rate for Scheme liabilities	1.97	2.90

**Mortality assumptions:**

The post-retirement mortality assumptions used in valuing the liabilities of the Scheme are based on the standard SAPS tables scaled by a factor of 86.0% (2018: 86.0%) for males and 91.0% (2018: 91.0%) for females. In addition, there is an allowance for future longevity improvements in line with the central CMI2018 (2018: CMI2017) projections with a long term rate of improvement of 1.25% p.a. (2018: 1.25%). The changes in mortality assumptions were adopted to reflect up-to-date conditions as of the remeasurement date.

## NOTES TO THE FINANCIAL STATEMENTS

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**Sensitivity analysis:**

A one-half-percentage-point change of the established assumptions mentioned before, used for the calculation of the DBO as of September 30, 2019, would result in the following increase (decrease) of the DBO:

	Effect on DBO as of September 30, 2019 due to	
	One-half % Increase	One-half % Decrease
Discount rate	(341,212)	384,212
Rate of compensation increase	9,222	(7,206)
Rate of pension progression	311,687	(280,856)

In order to determine the longevity risk, the mortality rates were reduced by 10% for all beneficiaries. The impact on the DBO amounts to £139,671k as of September 30, 2019. i.e. the adjustment of the mortality rates by 10% results in an increase of life expectancy depending on the individual age of each beneficiary. That means for example, that the life expectancy of a male employee aged 55 years as of September 30, 2019, increases by 0.8 years.

When calculating the sensitivity of the DBO to significant actuarial assumptions the same method (present value of the DBO calculated with the projected unit credit method) has been applied as when calculating the pension obligation recognised in the Statement of Financial Position. Increases and decreases in the discount rate, rate of compensation increase and rate of pension progression which are used in determining the DBO do not have a symmetrical effect on the DBO primarily due to the compound interest effect created when determining the net present value of the future benefit. If more than one of the assumptions were changed simultaneously, the cumulative impact would not necessarily be the same as if only one assumption was changed individually. Furthermore, the sensitivities reflect a change in the DBO only for a change in the assumptions in this exact magnitude, i.e. 0.5%. If the assumptions change at a different level, the effect on the DBO is not necessarily linear.

There were no changes in the methods used in preparing the sensitivity analyses.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

*Disaggregation of Scheme assets:*

The asset allocation of the Scheme is as follows:

Asset Class	September 30, 2019			September 30, 2018		
	Quoted market price in active market	No quoted market price in active market	Total	Quoted market price in active market	No quoted market price in active market	Total
Equity securities:						
<i>International equities</i>	-	-	-	151,385	-	151,385
	-	-	-	151,385	-	151,385
Fixed income securities:						
<i>Government bonds</i>	2,140,108	-	2,140,108	1,398,562	54,344	1,452,906
<i>Corporate bonds</i>	449,229	-	449,229	302,123	11,507	313,630
<i>Other</i>	-	364,900	364,900	-	364,700	364,700
	2,589,337	364,900	2,954,237	1,700,685	430,551	2,131,236
Alternative investments:						
<i>Hedge Funds</i>	-	357,974	357,974	-	402,767	402,767
<i>Real estate</i>	-	57,374	57,374	-	77,783	77,783
	-	415,348	415,348	-	480,550	480,550
Multi strategy funds	342,570	-	342,570	232,232	-	232,232
Derivatives:						
<i>Interest risk</i>	-	(18,543)	(18,543)	-	(24,578)	(24,578)
<i>Credit, Inflation and Price risk</i>	-	19,214	19,214	-	29,315	29,315
	-	671	671	-	4,737	4,737
Cash and other assets	93,592	1,308,372	1,401,964	107,697	1,249,008	1,356,705
<b>Total</b>	<b>3,025,499</b>	<b>2,089,291</b>	<b>5,114,790</b>	<b>2,191,999</b>	<b>2,164,846</b>	<b>4,356,845</b>

The Scheme assets do not include any transferable financial instruments of the Company or property occupied by the Company.

The trustee of the Scheme has produced a Statement of Investment Principles in accordance with Section 35 of the Pensions Act 1995. This statement sets out the trustee's investment objectives and strategy. The trustee sets investment strategy taking into account the Scheme's liabilities, the strength of the funding position and the trustee's appetite to risk, after taking appropriate investment advice. The trustee has allocated the Scheme's assets to a mix of asset classes, primarily bonds (fixed and index-linked gilts and other non-gilt bonds), but also other investments including (but not limited to) qualifying insurance policies, hedge funds, infrastructure and property. Derivative contracts are used to manage a portion of the interest rate and inflation exposure of the liabilities and separately to manage exchange rate risk arising from the Scheme's investments outside of the UK.



## NOTES TO THE FINANCIAL STATEMENTS

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**Future cash flows:**

Employer contributions expected to be paid to the Scheme in 2020 are £1,306k and employer deficit funding contributions expected to be paid to the Scheme in 2020 are £nil.

Under the Pension Act 2004, every UK defined benefit scheme is subject to a statutory funding objective which requires the scheme to hold sufficient and appropriate assets to cover its "technical provisions". These provisions are determined at least every three years following agreement between the Company and the trustees of the scheme upon the assumptions to be used in the valuation. Assumptions agreed in this triennial process are not necessarily the same as those used in the annual IAS 19 calculations, where the Directors of the Company select the assumptions to be used.

Any technical provisions' shortfall arising is required to be remedied, and a recovery plan is agreed between the trustees and the Company, which will take into account financial and demographic factors for each scheme, as well as the financial strength (covenant) of participating employers. The timing and length of any recovery plan reflects the circumstances of each scheme, and results in a Schedule of Contributions which is signed by both Company and trustees (the employer contributions expected to be paid for the following year are stated above).

The effective date of the most recent triennial valuation for the Siemens Benefit Scheme was September 30, 2017.

A proportion of the employee contributions are made via a salary sacrifice arrangement. For the purposes of these disclosures, these notional employee contributions have been excluded from the service cost as have expected Age Related Rebates. They have also been excluded from the estimate of next year's employer contributions set out above.

**Expected pension benefit payments:**

	September 30,
2020	112,536
2021	112,216
2022	117,935
2023	122,456
2024	128,428
2025-2029	752,345

**b) Defined contribution plan**

The Company participates in a defined contribution pension plan. The pension cost charge for the period represents contributions payable by the Company to the Scheme and amounted to £17,568k (2018: £22,837k).

**24.2 - Other Pension Schemes**

The Company participated in another defined benefit scheme ("Scheme") - the Siemens Fire Safety and Security Pension Scheme (PFP) during the period, and also participated in the Railways Pension Scheme (RPS) in the previous year, prior to its transfer to Siemens Mobility Limited.

The assets of the PFP Scheme are held in separate trustee administered funds. The amount of contributions to be paid is decided jointly by the employer and the trustees of the Scheme. Assets held in trust are governed by UK regulations and practice. The Scheme's investment strategies are decided by the trustees, in consultation with the employer. The board of trustees must be composed of representatives of the employer and Scheme participants in accordance with the Scheme's legal documentation. The Scheme provides benefits based on final pensionable pay.

The Company is the principal employer of the PFP, and was a participating employer in the RPS where Siemens had its own section.

The movement in the funded position of the Schemes is split between operating charges and finance items, which are charged to the Statement of Income, and remeasurement gains and losses, which are charged to the Statement of Comprehensive Income.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

*Movement in the Company's share (100%) of the net amount recognised:*

	September 30,	
	2019	2018
Company's share of the net amount recognised of the Schemes at beginning of year	-	(2,712)
Current service cost	-	(497)
Other finance income / (cost)	-	(48)
Contributions paid	300	183
Transfers to other group companies	-	3,074
Remeasurements included in Statement of Comprehensive Income	(600)	-
Company's share of the net amount recognised of the Schemes at end of year	(300)	-
Irrecoverable surplus*	(4,257)	-
Additional liability**	(300)	-

\*The Company has written off any surplus where no future economic benefit can be derived.

\*\* Any future funding payments have been provided for as an additional liability to the extent that the Company will not derive any economic benefit from them.

The disclosures which follow are for the schemes as a whole, 2019 for the PFP Scheme and 2018 for the PFP and RPS Schemes.

The numbers shown in this disclosure have been based on calculations carried out by a qualified independent actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the Scheme at September 30, 2019. The Scheme's assets are stated at their market values at September 30, 2019.

The PFP Scheme covers 210 participants, including 6 active employees, 117 former employees with vested benefits and 87 retirees and surviving dependents.

The valuation used for IAS 19 disclosures has been based on a full assessment of the liabilities of the Scheme as at September 30, 2019. The present values of the defined benefit obligation ("DBO"), the related current service cost and any past service costs were measured using the projected unit credit method.

Remeasurement gains and losses have been recognised in the period in which they occur, (but outside the Statement of Income), through the Statement of Comprehensive Income.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

*Reconciliation of funded status to Statement of Financial Position:*

	2019	September 30, 2018
Fair value of Scheme's assets	26,932	35,783
Present value of funded defined benefit obligations	(22,675)	(36,594)
	<u>4,257</u>	<u>(811)</u>
Effect due to asset ceiling write off	(4,257)	(1,995)
Effects due to IFRIC14 additional liability	(300)	-
	<u>(300)</u>	<u>(2,806)</u>
Surplus / (deficit) recognised in the Statement of Financial Position		

*Defined benefit costs are as follows:*

	2019	September 30, 2018
Current service cost	-	746
Net interest expense	623	1,001
Net interest income	(681)	(975)
Interest on asset ceiling	58	46
	<u>-</u>	<u>818</u>
Components of defined benefit costs recognised in the Statement of Income		
	<u>(3,351)</u>	<u>(531)</u>
Return on Scheme assets (excluding amounts included in net interest expense and net interest income)		
Remeasurement gains and losses	1,448	(237)
Changes in irrecoverable surplus, effect of limit in para 58(b)*	2,204	316
Change in additional liability**	300	-
	<u>601</u>	<u>(452)</u>
Remeasurements of defined benefit schemes recognised in the Statement of Comprehensive Income		
Defined benefit costs	<u>601</u>	<u>366</u>

\* The Company has written off any surplus where no future economic benefit can be derived.

\*\* Any future funding payments have been provided for as an additional liability to the extent that the Company will not derive any economic benefit from them.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

*Changes to the present value of the defined benefit obligation during the year:*

	2019	September 30, 2018
Defined benefit obligation at beginning of year	36,594	35,657
Defined benefit obligation relating to the RPS at beginning of year	(15,116)	-
Current service cost	-	746
Interest expense	623	1,001
Remeasurements:		
Remeasurement gains from changes in demographic assumptions	(572)	(284)
Remeasurement losses / (gains) from changes in financial assumptions	2,877	(757)
Experience (gains) / losses	(857)	804
Scheme participants' contributions	33	227
Benefits paid	(907)	(800)
Defined benefit obligation at end of year	<u>22,675</u>	<u>36,594</u>

The total DBO at the end of the year 2019 includes £1,822k for active employees (2018: £13,037k), £11,869k for former employees with vested benefits (2018: £12,651k) and £8,984k for retirees and surviving dependents (2018: £10,906k).

The weighted average durations of the DBO of the Schemes were as follows:

*Weighted average duration of the defined benefit obligation:*

	2019 (Years)	September 30, 2018 (Years)
Siemens Fire Safety and Security Scheme (PFP)	17.1	17.0
Railways Pension Scheme	-	22.5

*Changes to the fair value of Scheme assets during the year:*

	2019	September 30, 2018
Fair value of Scheme assets at beginning of year	35,783	34,578
Fair value of Scheme assets relating to the RPS at beginning of year	(12,309)	-
Interest income	681	975
Remeasurements:		
Return on Scheme assets excluding amounts included in interest income and interest expense	3,351	531
Employer contributions	300	272
Scheme participants' contributions	33	227
Benefits paid	(907)	(800)
Fair value of Scheme assets at end of year	<u>26,932</u>	<u>35,783</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

*Effect of asset ceiling & IFRIC 14 during the year:*

	2019	September 30, 2018
Effect due to asset ceiling at beginning of year	1,995	1,633
Effect due to asset ceiling write-off	2,204	316
Interest on asset ceiling	58	46
Effect due to asset ceiling at end of year *	<u>4,257</u>	<u>1,995</u>
Additional liability due to IFRIC 14 at beginning of year	-	-
Additional contribution provided as IFRIC 14 liability **	300	-
Additional liability due to IFRIC 14 at end of year	<u>300</u>	<u>-</u>

\* The Company has written off any surplus where no future economic benefit can be derived having taken legal advice on the terms of the Trust Deed and Rules.

\*\* Any future funding payments have been provided for as an additional liability to the extent that the Company will not derive economic benefit from them.

*Actuarial assumptions:*

The main assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below.

The assumptions used for the calculation of the DBO as of the period-end of the preceding financial year are used to determine the calculation of service cost and interest income and interest expense of the following year. The interest income and interest expense for the financial year will be based on the discount rate at the beginning of the respective year multiplied by the net of the fair value of Scheme assets and the DBO at the preceding financial year's period-end date. The fair value of Scheme assets and DBO, and thus the interest income on Scheme assets and the interest expense on DBO, are adjusted for significant events after the year end, such as a supplemental funding, Scheme changes or business combinations and disposals.

Assumed discount rates, compensation increase rates, pension progression rates used in calculating the DBO vary according to the economic conditions.

*Main financial assumptions:*

	2019	September 30, 2018
	% p.a.	% p.a.
Inflation (RPI)	3.00	3.20
Inflation (CPI)	2.00	2.10
Rate of general long-term increase in salaries	3.50	3.70
Rate of increase to pensions in payment		
-inflation capped at 5% (RPI)	2.90	3.10
-inflation capped at 3% (RPI)	2.40	2.50
-inflation capped at 5% (CPI)	2.00	2.10
-inflation with a floor of 3% and a cap of 5% (RPI)	3.50	3.60
Discount rate for Scheme liabilities	1.97	2.94

*Mortality assumptions:*

The post-retirement mortality assumptions used in valuing the liabilities of the Scheme are based on appropriate standard tables published by the Institute and Faculty of Actuaries for males and females respectively. In addition, there is an allowance for future longevity improvements in line with the central CMI2018 (2018: CMI2017) projections with a long term rate of improvement of 1.25% p.a. (2018: 1.25%). The changes in mortality assumptions were adopted to reflect up-to date conditions as of the remeasurement date.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

**Sensitivity analysis:**

A one-half-percentage-point change of the established assumptions mentioned before, used for the calculation of the DBO as of September 30, 2019, would result in the following increase (decrease) of the DBO:

	Effect on DBO as of September 30, 2019 due to	
	One-half % Increase	One-half % Decrease
Discount rate	(1,752)	2,061
Rate of compensation increase	27	(26)
Rate of pension progression	1,565	(1,399)

In order to determine the longevity risk the mortality rates were reduced by 10% for all beneficiaries. The impact on the DBO amounts to £752k as of September 30, 2019. i.e. the adjustment of the mortality rates by 10% results in an increase of life expectancy depending on the individual age of each beneficiary. That means for example, that the life expectancy of a male employee aged 55 years as of September 30, 2019 increases by 1.1 years.

When calculating the sensitivity of the DBO to significant actuarial assumptions the same method (present value of the DBO calculated with the projected unit credit method) has been applied as when calculating the pension obligation recognised in the Statement of Financial Position. Increases and decreases in the discount rate, rate of compensation increase and rate of pension progression which are used in determining the DBO do not have a symmetrical effect on the DBO primarily due to the compound interest effect created when determining the net present value of the future benefit. If more than one of the assumptions were changed simultaneously, the cumulative impact would not necessarily be the same as if only one assumption was changed individually. Furthermore, the sensitivities reflect a change in the DBO only for a change in the assumptions in this exact magnitude, i.e. 0.5%. If the assumptions change at a different level, the effect on the DBO is not necessarily linear.

There were no changes in the methods used in preparing the sensitivity analyses.

**Disaggregation of Scheme assets:**

The asset allocation of the Scheme assets are as follows:

Asset Class	September 30, 2019			September 30, 2018		
	Quoted market price in active market	No quoted market price in active market	Total	Quoted market price in active market	No quoted market price in active market	Total
Equity securities:						
<i>International equities</i>	3,947	-	3,947	3,900	-	3,900
	<u>3,947</u>	<u>-</u>	<u>3,947</u>	<u>3,900</u>	<u>-</u>	<u>3,900</u>
Fixed income securities:						
<i>Government bonds</i>	14,087	-	14,087	12,343	-	12,343
<i>Corporate bonds</i>	5,392	-	5,392	5,265	-	5,265
	<u>19,478</u>	<u>-</u>	<u>19,478</u>	<u>17,608</u>	<u>-</u>	<u>17,608</u>
Alternative investments:						
<i>Private Equity</i>	-	-	-	-	160	160
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>160</u>	<u>160</u>
Multi strategy funds	<u>3,330</u>	<u>-</u>	<u>3,330</u>	<u>13,958</u>	<u>-</u>	<u>13,958</u>
Cash and other assets	<u>177</u>	<u>-</u>	<u>177</u>	<u>156</u>	<u>-</u>	<u>156</u>
<b>Total</b>	<u>26,932</u>	<u>-</u>	<u>26,932</u>	<u>35,622</u>	<u>160</u>	<u>35,782</u>

The Scheme assets do not include any transferable financial instruments of the Company or property occupied by the Company.

The trustee of the Scheme has produced a Statement of Investment Principles in accordance with Section 35 of the Pensions Act 1995. This statement sets out the trustee's investment objectives and strategy. The trustee sets investment strategy taking into account the Scheme's liabilities, the strength of the funding position and the trustee's appetite to risk, after taking appropriate investment advice. The trustee for the PFP has allocated the Scheme's assets to a mix of asset classes, primarily bonds (fixed and index-linked gilts and investment grade corporate bonds) but also equities and other investments (multi strategy funds).

**Future cash flows:**

Employer contributions expected to be paid to the Schemes in 2020 are £300k and employer deficit funding contributions expected to be paid to the Scheme in 2020 are £nil.

Under the Pension Act 2004, every UK defined benefit scheme is subject to a statutory funding objective which requires the scheme to hold sufficient and appropriate assets to cover its "technical provisions". These provisions are determined at least every three years following agreement between the Company and the trustees of the scheme upon the assumptions to be used in the valuation. Assumptions agreed in this triennial process are not necessarily the same as those used in the annual IAS 19 calculations, where the Directors of the Company select the assumptions to be used.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

Any technical provisions' shortfall arising is required to be remedied, and a recovery plan is agreed between the trustees and the Company, which will take into account financial and demographic factors for each scheme, as well as the financial strength (covenant) of participating employers. The timing and length of any recovery plan reflects the circumstances of each scheme, and results in a Schedule of Contributions which is signed by both Company and trustees (the employer contributions expected to be paid for the following year are stated above).

The effective date of the most recent triennial valuation for the PFP Scheme was March 31, 2018;

A proportion of the employee contributions are made via a salary sacrifice arrangement. For the purposes of these disclosures, these notional employee contributions have been excluded from the service cost as have expected Age Related Rebates. They have also been excluded from the estimate of next year's employer contributions set out above.

**Expected pension benefit payments:**

	September 30,
2020	674
2021	690
2022	708
2023	725
2024	743
2025-2029	4,005

**24.3 - VA Tech UK Pension Scheme****Defined benefit plan**

The VA Tech UK Pension Scheme ("Scheme") is a defined benefit scheme with assets held in separate trustee administrated funds. The amount of contributions to be paid is decided jointly by the employer and the trustees of the Scheme. Assets held in trust are governed by UK regulations and practice. The Scheme's investment strategy is decided by the trustees, in consultation with the employer. The board of trustees must be composed of representatives of the employer and Scheme participants in accordance with the Scheme's legal documentation. The Company is one of a number of companies that participates in this Scheme which provides benefits based on final pensionable pay.

Net defined benefit costs are charged to each entity on the basis of agreed percentages derived from estimated membership allocations. The distribution of deficit and lump sum payments use the same percentages.

The Company's share of the Scheme is analysed below:

**Movement in the Company's share (25%) of the net amount recognised:**

	September 30, 2019	September 30, 2018
Company's share of the net amount recognised of the Scheme at beginning of year	(447)	(516)
Past service cost	(46)	-
Other finance cost	(10)	(14)
Contributions paid	84	84
Remeasurements included in Statement of Comprehensive Income	106	(1)
Company's share of the net amount recognised of the Scheme at end of year	(313)	(447)
Additional liability *	(39)	-

\* Any future funding payments have been provided for as an additional liability to the extent that the Company will not derive any economic benefit from them.

The disclosures which follow are for the VA Tech UK Pension Scheme as a whole.



## NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

The movement in the Scheme is split between operating charges and finance items, which are charged to the Statement of Income, and remeasurement gains and losses, which are charged to the Statement of Comprehensive Income.

The numbers shown in this disclosure have been based on calculations carried out by a qualified independent actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the Scheme at September 30, 2019. The Scheme's assets are stated at their market values at September 30, 2019.

The Scheme covers 1,448 participants, including 141 active employees, 483 former employees with vested benefits and 824 retirees and surviving dependents.

The valuation used for IAS 19 disclosures has been based on a full assessment of the liabilities of the Scheme as at September 30, 2019. The present values of the defined benefit obligation ("DBO"), the related current service cost and any past service costs were measured using the projected unit credit method.

The Scheme is closed to new entrants.

Remeasurement gains and losses have been recognised in the period in which they occur, (but outside the Statement of Income), through the Statement of Comprehensive Income.

**Reconciliation of funded status to Statement of Financial Position:**

	September 30,	
	2019	2018
Fair value of Scheme assets	209,139	196,054
Present value of funded defined benefit obligations	(210,243)	(196,250)
	(1,104)	(196)
Effects due to IFRIC 14 additional liability	(155)	(1,592)
Deficit recognised in the Statement of Financial Position	(1,259)	(1,788)

**Defined benefit costs are as follows:**

	September 30,	
	2019	2018
Past service cost	200	-
Net interest expense	5,505	5,889
Net interest income	(5,504)	(5,876)
Interest on additional liability	47	41
Components of defined benefit costs recognised in the Statement of Income	248	54
Return on Scheme assets (excluding amounts included in net interest expense and net interest income)	(17,376)	5,481
Remeasurement gains and losses	18,419	(5,583)
Change in additional liability **	(1,484)	107
Remeasurements of defined benefit scheme recognised in the Statement of Comprehensive Income	(441)	5
Defined benefit costs	(193)	59

\*\* Any future funding payments have been provided for as an additional liability to the extent that the Company will not derive any economic benefit from them.

The past service cost relates to the additional liability for equalising pension benefits for men and women in relation to guaranteed minimum pension benefits.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

*Changes to the present value of the defined benefit obligation during the year:*

	2019	September 30, 2018
Defined benefit obligation at beginning of year	196,250	213,558
Past service cost	200	-
Interest expense	5,505	5,889
Remeasurements:		
Remeasurement gains from changes in demographic assumptions	(5,182)	(1,212)
Remeasurement losses / (gains) from changes in financial assumptions	33,397	(4,588)
Experience (gains) / losses	(9,796)	217
Scheme participants' contributions	628	673
Benefits paid	(10,759)	(18,287)
Defined benefit obligation at end of year	<u>210,243</u>	<u>196,250</u>

The total DBO at the end of the year 2019 includes £35,619k for active employees (2018: £42,939k), £61,537k for former employees with vested benefits (2018: £55,263k) and £113,087k for retirees and surviving dependents (2018: £98,048k).

The weighted average duration of the DBO was 18.5 years (2018: 20.0 years).

*Changes to the fair value of Scheme assets during the year:*

	2019	September 30, 2018
Fair value of Scheme assets at beginning of year	196,054	212,938
Interest income	5,504	5,876
Remeasurements:		
Return on Scheme assets excluding amounts included in interest income and interest expense	17,376	(5,481)
Employer contributions	336	335
Scheme participants' contributions	628	673
Benefits paid	(10,759)	(18,287)
Fair value of Scheme assets at end of year	<u>209,139</u>	<u>196,054</u>

*Effect of asset ceiling & IFRIC 14 during the year:*

	2019	September 30, 2018
Additional liability due to IFRIC 14 at beginning of year	(1,592)	(1,444)
Additional liability due to IFRIC 14	1,484	(107)
Interest on IFRIC 14 liability	(47)	(41)
Additional liability due to IFRIC 14 at end of year **	<u>(155)</u>	<u>(1,592)</u>

\*\* Any future funding payments have been provided for as an additional liability to the extent that the Company will not derive economic benefit from them.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

**Actuarial assumptions:**

The main assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below.

The assumptions used for the calculation of the DBO as of the period-end of the preceding year are used to determine the calculation of service cost and interest income and interest expense of the following year. The interest income and interest expense for the year will be based on the discount rate at the beginning of the respective year multiplied by the net of the fair value of Scheme assets and the DBO at the preceding year's period-end date. The fair value of Scheme assets and DBO, and thus the interest income on Scheme assets and the interest expense on DBO, are adjusted for significant events after the year end, such as a supplemental funding, Scheme changes or business combinations and disposals.

Assumed discount rates, compensation increase rates, pension progression rates used in calculating the DBO vary according to the economic conditions.

**Main financial assumptions:**

	September 30,	
	2019	2018
	% p.a.	% p.a.
Inflation (RPI)	3.00	3.20
Inflation (CPI)	2.00	2.10
Rate of general long-term increase in salaries	3.50	3.70
Rate of increase to pensions in payment		
-inflation capped at 5% (RPI)	2.90	3.10
-inflation capped at 3% (RPI)	2.40	2.50
-inflation capped at 5% (CPI)	2.00	2.10
-inflation with a floor of 3% and a cap of 5% (RPI)	3.50	3.60
Discount rate for Scheme liabilities	1.97	2.94

**Mortality assumptions:**

The post-retirement mortality assumptions used in valuing the liabilities of the Scheme are based on the standard SAPS tables scaled by a factor of 103.0 (2018: 103.0) for males and 109.00 (2018: 110.00) for females. In addition, there is an allowance for future longevity improvements in line with the central CMI2018 (2018: CMI2017) projections with a long term rate of improvement of 1.25% (2018: 1.25%) p.a. The changes in mortality assumptions were adopted to reflect up-to-date conditions as of the remeasurement date.

**Sensitivity analysis:**

A one-half-percentage-point change of the established assumptions mentioned before, used for the calculation of the DBO as of September 30, 2019, would result in the following increase (decrease) of the DBO:

	Effect on DBO as of September 30, 2019 due to	
	One-half % Increase	One-half % Decrease
Discount rate	(18,452)	19,971
Rate of compensation increase	537	(529)
Rate of pension progression	12,452	(12,325)

In order to determine the longevity risk the mortality rates were reduced by 10% for all beneficiaries. The impact on the DBO amounts to £7,217k as of September 30, 2019. i.e. the adjustment of the mortality rates by 10% results in an increase of life expectancy depending on the individual age of each beneficiary. That means for example, that the life expectancy of a male employee aged 55 years as of September 30, 2019, increases by 0.9 years.

When calculating the sensitivity of the DBO to significant actuarial assumptions the same method (present value of the DBO calculated with the projected unit credit method) has been applied as when calculating the pension obligation recognised in the Statement of Financial Position. Increases and decreases in the discount rate, rate of compensation increase and rate of pension progression which are used in determining the DBO do not have a symmetrical effect on the DBO primarily due to the compound interest effect created when determining the net present value of the future benefit. If more than one of the assumptions were changed simultaneously, the cumulative impact would not necessarily be the same as if only one assumption was changed individually. Furthermore, the sensitivities reflect a change in the DBO only for a change in the assumptions in this exact magnitude, i.e. 0.5%. If the assumptions change at a different level, the effect on the DBO is not necessarily linear.

There were no changes in the methods used in preparing the sensitivity analyses.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

*Disaggregation of Scheme assets:*

The asset allocation of the Scheme is as follows:

Asset Class	September 30, 2019			September 30, 2018		
	Quoted market price in active market	No quoted market price in active market	Total	Quoted market price in active market	No quoted market price in active market	Total
Alternative investments:						
Other	-	205,523	205,523	-	191,949	191,949
	-	205,523	205,523	-	191,949	191,949
Cash and other assets	3,616	-	3,616	4,105	-	4,105
<b>Total</b>	<b>3,616</b>	<b>205,523</b>	<b>209,139</b>	<b>4,105</b>	<b>191,949</b>	<b>196,054</b>

The Scheme assets do not include any transferable financial instruments of the Company or property occupied by the Company.

The trustee of the Scheme has produced a Statement of Investment Principles in accordance with Section 35 of the Pensions Act 1995. This statement sets out the trustee's investment objectives and strategy. The trustee sets investment strategy taking into account the Scheme's liabilities, the strength of the funding position and the trustee's appetite to risk, after taking appropriate investment advice. The majority of assets are represented by insurance contracts.

*Future cash flows:*

Employer contributions expected to be paid to the Scheme in 2020 are £336k and employer deficit funding contributions expected to be paid to the Scheme in 2020 are £320k.

Under the Pension Act 2004, every UK defined benefit scheme is subject to a statutory funding objective which requires the scheme to hold sufficient and appropriate assets to cover its "technical provisions". These provisions are determined at least every three years following agreement between the Company and the trustees of the scheme upon the assumptions to be used in the valuation. Assumptions agreed in this triennial process are not necessarily the same as those used in the annual IAS 19 calculations, where the Directors of the Company select the assumptions to be used.

Any technical provisions' shortfall arising is required to be remedied, and a recovery plan is agreed between the trustees and the Company, which will take into account financial and demographic factors for each scheme, as well as the financial strength (covenant) of participating employers. The timing and length of any recovery plan reflects the circumstances of each scheme, and results in a Schedule of Contributions which is signed by both Company and trustees (the employers contributions expected to be paid for the following year are stated above).

The effective date of the most recent triennial valuation for the VA Tech UK Pension Scheme was April 5, 2018.

*Expected pension benefit payments:*

	September 30,
2020	6,725
2021	6,863
2022	7,003
2023	7,146
2024	7,291
2025-2029	38,750

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 25. Provisions

Provisions changed during 2019 as follows:

	Warranties	Order related losses and risks	Asset retirement obligations	Onerous lease obligations	Other	Total
Balance at beginning of year	5,996	1,360	3,182	2,988	5,105	18,631
Additions	948	1,238	52	1,704	1,891	5,833
Usage	(137)	(853)	-	(1,269)	(120)	(2,379)
Reversals	(1,318)	(234)	-	(318)	(1,142)	(3,012)
Transfers to group companies	-	-	-	-	518	518
<b>Balance at end of year</b>	<b>5,489</b>	<b>1,511</b>	<b>3,234</b>	<b>3,105</b>	<b>6,252</b>	<b>19,591</b>
Current provisions						8,861
Non-current provisions						10,730

*Warranties*

Warranties relate to products and services sold. See note 2 for further information concerning the Company's policy for estimating warranty provisions.

*Order related losses and risks*

Provisions for order related losses and risks are recognised for anticipated losses on uncompleted construction, sales and leasing contracts.

*Asset retirement obligation*

Provisions for asset retirement obligations are the aggregate of the estimated discounted cash flows of obligations associated with the retirement of tangible long-lived assets.

*Onerous lease obligations*

Onerous lease obligations are the aggregate value of estimated discounted cash flows related to the costs of fulfilling contracts, or if lower, the costs of terminating contracts. Onerous lease obligations represent liabilities in respect of vacant properties. A provision is created at the point in time it becomes probable that the property will become underutilised. During the year a review of all onerous lease obligations was performed in light of the economic climate in the UK. It is anticipated that these properties should be disposed of within this time however given the current economic climate this will be closely monitored. The Company is currently marketing these properties in order to discharge the liability.

*Other provisions*

Other provisions are estimated obligations for the dilapidations for the leased properties and legal matters.

## 26. Share capital

Allotted, called up and fully paid:

	September 30,	
	2019	2018
1,000,000 (2018: 1,000,000) Ordinary Shares of £1 each	1,000	1,000

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**27. Commitments and contingencies***Guarantees and other commitments*

On behalf of other Siemens group companies, the Company issued guarantees or indemnified the issuers of performance bonds in respect of contractual obligations totalling £38,314k (2018: £318,353k). These agreements have terms typically ranging between 1 and 12 years. Included in the 2019 figure is £26,714k in relation to businesses which have previously been disposed of where the guarantee has not yet been novated (2018: £284,154k). The Company has indemnities in place to cover these guarantees.

As of September 30, 2019 future payment obligations under non-cancellable operating leases are as follows:

	<b>2019</b>	<b>2018</b>
	<b>Total</b>	<b>Total</b>
Within one year	<b>24,426</b>	25,738
After one year but not more than five years	<b>37,273</b>	48,003
More than five years	<b>7,259</b>	8,527

Total operating rental expense for the years ended September 30, 2019 and 2018 was £26,841 and £32,090k respectively.

*Contingent liabilities*

As of September 30, 2019 and 2018 there were no contingent liabilities to disclose.

**28. Share-based payments**

The information in this note is presented only in respect of Siemens plc. The prior year numbers in this note have been restated to reflect Siemens plc only. The expense charged to net income was not financially significant in any of the Siemens UK companies. Share-based payment awards may be settled in newly issued shares of capital stock of Siemens AG, in treasury shares or in cash. Share-based payment awards may forfeit if the employment of the beneficiary terminates prior to the expiration of the vesting period. Total pre tax expense for share-based payment recognised in Siemens plc net income for continuing and discontinued operations amounted to £1,301k and £2,898k for the year ended September 30, 2019 and 2018 respectively, and refers primarily to equity-settled awards.

**Stock awards**

The Company grants stock awards to members of the Managing Board, members of the senior management and other eligible employees. Stock awards are subject to a restriction period of about four years and entitle the beneficiary to Siemens shares without payment of consideration following the restriction period.

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

In the year ended September 30, 2019 Siemens AG granted 52,648 (2018: 29,292) stock awards to 298 employees (2018: 200 UK employees). Details on stock award activity and weighted average grant-date fair value are summarised in the table below:

	Year ended September 30,		Year ended September 30,	
	Awards	Weighted average grant-date fair value (€)	Awards	Weighted average grant-date fair value (€)
	2019	2019	2018	2018
Non-vested, beginning of period	108,383	65.08	125,306	64.68
Granted	52,648	47.03	29,292	74.31
Vested	(20,598)	58.04	(40,747)	70.36
Forfeited	(18,233)	58.45	(5,468)	63.29
Non-vested, end of period	122,200	59.48	108,383	65.08
Weighted average vesting period remaining in years		1.78		1.64

Fair value was determined as the market price of Siemens shares less the present value of dividends expected during the four year or three year vesting period. Total fair value of stock awards granted in 2019 and 2018 amounted to €2,476k and €2,177k respectively.

**Share-matching program and its underlying plan**

In 2016, Siemens issued a new tranche under each of the plans of the Share Matching Program.

**Share - matching plan**

Under the Share Matching Plan senior managers may invest a specified part of their variable compensation in Siemens shares (investment shares). The shares are purchased at the market price at a predetermined date in the second quarter. Plan participants receive the right to one Siemens share without payment of consideration (matching share) for every three investment shares continuously held over a period of about three years (vesting period) provided the plan participant has been continuously employed by Siemens until the end of the vesting period.

**Monthly Investment Plan**

Under the Monthly Investment Plan employees other than senior managers may invest a specified part of their compensation in Siemens shares on a monthly basis over a period of twelve months. Shares are purchased at market price at a predetermined date once a month. If the Managing Board decides that shares acquired under the Monthly Investment Plan are transferred to the Share Matching Plan, plan participants will receive the right to matching shares under the same conditions applying to the Share Matching Plan described above.

## NOTES TO THE FINANCIAL STATEMENTS

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**Share Incentive Plan**

Siemens Share Incentive Plan is introduced in financial year 2019 for the UK employees. The concept is similar to the Share Matching Program whereby if you buy three shares in Siemens AG, you get an additional free matching share. It is a tax advantaged share ownership program designed to encourage employee share ownership in the UK. The maximum investment amount is £1,800 or 10% of your annual salary (if this is lower). Matching shares are allocated together with the acquisition of investment shares. If the investment shares and the matching shares are held for another two years in addition to a three year vesting period (five years in total), these are free of income tax and NIC when withdrawn from the plan.

In the year ended September 30 2019 Siemens AG granted 5,969 (2018: 3,616) shares to 1,186 (2018: 729) employees.

Details on share matching plan activity and weighted average grant-date fair value are summarised in the table below:

	Year ended September 30, Awards	Weighted average grant-date fair value (€)	Year ended September 30, Awards	Weighted average grant-date fair value (€)
	2019	2019	2018	2018
Non-vested, beginning of period	5,493	91.59	11,352	78.01
Granted	5,969	84.48	3,616	95.22
Vested	(1,764)	89.32	(8,613)	83.27
Forfeited	(1,441)	82.78	(863)	84.48
Non-vested, end of period	8,257	87.98	5,493	91.59
Weighted average vesting period remaining in years		1.35		1.04

Fair value was determined as the market price of Siemens shares less the present value of expected dividends taking into account non-vesting conditions. Total fair value of shares granted under the share matching plan in 2019 and 2018 amounted to €504k and €344k respectively.

**Siemens profit sharing**

Fostering ownership culture through equity ownership and leadership based on shared values plays an important role in the vision for the Company. Employees on all hierarchical levels should demonstrate long-term and sustainable thinking. During the financial year September 30, 2016, Siemens AG introduced Siemens Profit Sharing, which supports this idea by offering employees below Senior Management a stake of Siemens AG and thus gives them the opportunity to participate in Siemens AG success, like members of Senior Management already do today. In principle, all employees worldwide below Senior Management will be eligible to benefit from a distribution from the Profit Sharing Pool, subject to a respective decision by the Managing Board of Siemens AG. The amounts to be distributed to the individual eligible employees are, in principle, calculated based on an appropriate distribution key that is applied globally for the allocation of the total distributable amount. The Profit Sharing Pool will be distributed to eligible employees in the form of Siemens AG shares, and should circumstances prevent this form, then the distribution will be in cash. The Managing Board of Siemens AG will decide anew after every year whether to distribute all or part of the Pool or instead to carry it forward for a distribution in future years.

The expense charged to net income was not financially significant in any of the Siemens UK companies. Total expense for Siemens Profit Sharing recognised in Siemens plc net income for continuing and discontinued operations amounted to £nil for the year ended September 30, 2019 (2018: £388k). The accrual as at September 30, 2019 was £nil (2018: £nil).



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 29. Additional disclosures on financial instruments

This section gives a comprehensive overview of the significance of financial instruments for the Company and provides additional information on Statement of Financial Position items that contain financial instruments.

The following table presents the carrying amounts of each category of financial assets and liabilities:

	September 30,	
	2019	2018
<b>Financial assets</b>		
Financial assets measured at amortised cost	796,599	1,698,273
Cash and cash equivalents	-	13
Derivatives designated in a hedge accounting relationship	122	11
Derivatives not designated in a hedge accounting relationship	1,813	825
	<u>798,533</u>	<u>1,699,122</u>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	401,612	385,878
Derivatives designated in a hedge accounting relationship	1,674	1,235
Derivatives not designated in a hedge accounting relationship	1,652	1,330
	<u>404,938</u>	<u>388,443</u>

The following table presents the fair values and carrying amounts of financial assets and liabilities measured at cost or amortised cost:

	2019		September 30, 2018	
	Fair value	Carrying value	Fair value	Carrying value
<b>Financial assets measured at cost or amortised cost</b>				
Cash and cash equivalents	-	-	13	13
Trade and other receivables	792,875	792,875	1,689,515	1,689,515
Other current financial assets	1,475	1,475	3,705	3,705
Other assets	2,249	2,249	5,053	5,053
	<u>796,599</u>	<u>796,599</u>	<u>1,698,286</u>	<u>1,698,286</u>
<b>Financial liabilities measured at cost or amortised cost</b>				
Trade payables	127,490	127,490	99,787	99,787
Other current financial liabilities	16,872	16,872	16,248	16,248
Other financial liabilities	257,250	257,250	269,843	269,843
	<u>401,612</u>	<u>401,612</u>	<u>385,878</u>	<u>385,878</u>

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The fair values of cash and cash equivalents, current receivables, other current financial assets, other assets, trade payables and other liabilities approximate their carrying amount largely due to the short-term maturities of these instruments. The other financial liabilities are discounted using 3.6029% interest rate for the duration of remaining 166 months.

Obligations under finance leases are discounted from the gross carrying value using the interest rate implicit in the lease.

Fixed-rate and variable-rate receivables, including receivables from finance leases, are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual credit worthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As of September 30, 2019 and 2018, the carrying amounts of such receivables, net of allowances, approximate their fair values.

Financial assets and liabilities measured at fair value are presented in the following table:

	September 30,	
	2019	2018
Financial assets measured at fair value		
Derivative financial instruments	1,935	836
<i>Not designated in a hedge accounting relationship</i>	1,813	825
<i>In connection with cash flow hedges</i>	122	4
<i>Embedded derivatives</i>	-	7
Financial liabilities measured at fair value		
Derivative financial instruments	3,326	2,565
<i>Not designated in a hedge accounting relationship</i>	1,652	1,330
<i>In connection with cash flow hedges</i>	1,075	1,024
<i>Embedded derivatives</i>	599	211

The Company limits default risks from derivative instruments by a careful counterparty selection. Derivative instruments are generally transacted with financial institutions with investment grade credit ratings. The fair valuation of derivative financial instruments at Siemens incorporates all factors that market participants would consider, including the counterparties' credit risks. The exact calculation of fair values for derivative financial instruments depends on the specific type of instrument:

Derivative currency contracts — The fair value of forward foreign exchange contracts is based on forward exchange rates. Currency options are valued on the basis of quoted market prices or on estimates based on option pricing models.

In determining the fair values of the derivative financial instruments, no compensating effects from underlying transactions (e.g. firm commitments and forecast transactions) are taken into consideration.

#### Fair value hierarchy

The Company analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted price in active markets for identical assets or liabilities,
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for assets and liabilities, not based on observable market data.

All of the Company's derivative financial instruments as at September 30, 2019 and 2018 are categorised as level 2.

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Net gains / (losses) of financial instruments are as follows:

	2019	September 30, 2018
Loans and receivables	(3,908)	699
Derivatives with a hedging relationship	(337)	358
Derivatives without a hedging relationship	397	(412)
Financial assets / (liabilities) measured at amortised cost	232	(393)

Net (losses) / gains on loans and receivables contain changes in valuation allowances, gains or losses on derecognition as well as recoveries of amounts previously written off.

Net (losses) / gains on derivatives with a hedging relationship consist of changes in the fair value of derivative financial instruments (including interest income and expense), for which hedge accounting is applied.

Net gains / (losses) on derivatives without a hedging relationship consist of changes in the fair value of derivative financial instruments (including interest income and expense), for which hedge accounting is not applied.

Net gains / (losses) on financial assets and liabilities measured at amortised cost include gains and losses on financial receivables and payables from group companies, gains and losses on other monetary Statement of Financial Position items, denominated in foreign currency. It also includes losses and recoveries of write offs on receivables, miscellaneous assets and liquid assets.

Net gains / (losses) on financial assets and liabilities measured at amortised cost are comprised of gains or losses from derecognition and the ineffective portion of fair value hedges.

**Collateral**

The Company does not hold any collateral that can be sold or re-pledged in the absence of default by the owner on contractual terms. Nor does the Company pledge its financial assets as collateral to third parties.

**Derivative financial instruments and hedging activities**

The following is a summary of the Company's risk management strategies and the effect of these strategies on the financial statements.

**Foreign currency exchange risk management**

As part of the Company's risk management program, a variety of derivative financial instruments are used to reduce risks resulting primarily from fluctuations in foreign currency exchange rates, as well as to reduce credit risks.

The fair value of each type of derivative financial instrument recorded as financial assets or financial liabilities is as follows:

	Asset	2019 Liability	Asset	2018 Liability
Foreign currency exchange contracts without hedging relationship	1,813	1,652	825	1,330
Foreign currency contracts in connection with cash flow hedges	122	1,075	4	1,024
Embedded derivatives	-	599	7	211
	<u>1,935</u>	<u>3,326</u>	<u>836</u>	<u>2,565</u>

The Company's significant transactions in foreign currencies expose it to significant foreign currency exchange risks in the ordinary course of business. The Company employs various strategies, discussed below, involving the use of derivative financial instruments to mitigate or eliminate certain of those exposures.

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**Derivative financial instruments not designated in a hedging relationship**

The Company manages its risks associated with fluctuations in foreign currency denominated receivables, payables, debt, firm commitments and forecast transactions primarily through a Company-wide portfolio approach. Under this approach the Company-wide risks are aggregated centrally, and various derivative financial instruments, primarily foreign exchange contracts, are utilised to minimise such risks. Where hedge accounting does not apply, all such derivative financial instruments are recorded at fair value on the Statement of Financial Position, either in line items *Other current financial assets* or *Other current financial liabilities*, and changes in fair values are charged to *net income or loss*.

The Company also has foreign currency derivative instruments, which are embedded in certain sale and purchase contracts denominated in a currency that is neither the functional currency of the substantial parties to the contract nor a currency which is commonly used in the economic environment in which the contract takes place. Gains or losses relating to such embedded foreign currency derivatives are reported in Cost of sales in the Statement of Income. 2019: £392k (2018: £219k).

**Hedging activities**

The Company applies hedge accounting for certain significant anticipated transactions and firm commitments denominated in foreign currency. Particularly, the Company entered into foreign currency exchange contracts to reduce the risk of variability of future cash flows resulting from forecast sales and purchases and firm commitments. This risk results mainly from contracts denominated in U.S dollars, DKK and Euros both from Siemens' business units entering into long-term contracts, for example project business, and from standard product business.

**Fair value hedges**

As of September 30, 2019 and 2018, the Company hedged firm commitments using forward exchange contracts that were designated as foreign currency fair value hedges of future sales related primarily to the Company's project business. As of September 30, 2019 and 2018 the hedging transactions resulted in the recognition of financial assets of £nil and £nil, respectively, and financial liabilities of £nil and £nil, respectively, for the hedged firm commitments, whose changes in fair value were charged to *Cost of goods sold and services rendered* in the Statement of Income. Changes in fair value of the derivative contracts of £nil (2018: £(316)k) were also recorded in *Cost of goods sold and services rendered* in the Statement of Income.

**Cash flow hedges** — The effective portion of the changes in fair value of forward exchange contracts that were designated as foreign currency cash flow hedges are recorded in *Other Comprehensive Income*. The ineffective portion is recorded in the Statement of Income. During the years ended September 30, 2019 and 2018, £55k and £290k respectively were reclassified from *Other Comprehensive Income* into net income because the occurrence of the related hedged forecasted transaction was no longer probable.

It is expected that £(237)k of accumulated gains or losses due to the revaluation of derivative hedging instruments in *Other Comprehensive Income* will be reclassified into *Cost of goods sold and services rendered* in the Statement of Income during the year ended September 30, 2020, when the hedged forecasted foreign-currency denominated sales and purchases occur.

As of September 30, 2019 the maximum length of time over which the Company is hedging its future cash flows associated with foreign currency forecasted transactions is 54 months.

**Financial risk management****Interest rate risk**

The Company's interest rate risk exposure is mainly related to interest-bearing deposits held with local banks and amounts invested with / drawn down from Siemens AG as part of the cash pooling facility across the worldwide group.

The approximate impact on the Statement of Income of a 1% fluctuation in interest rates would be £276k in 2019.

**Credit risk**

The Company is exposed to credit risk in connection with its external sales. Credit risk is defined as an unexpected loss in cash and earnings if the customer is unable to pay its obligations in due time, if the value of financial uncertainty may cause customer default rates to increase and collateral values to decline. The effective monitoring and controlling of credit risk is a core competency of the Company's risk management system. Customer ratings, analysed and individual customer limits, are based on generally accepted rating methodologies, the input from external rating agencies and Siemens default experiences. Credit evaluations and ratings are performed on all customers with an exposure or requiring credit beyond a defined limit and are carefully considered in determining the conditions under which direct or indirect financing will be offered to customers. The Company's customers are principally large commercial or public sector organisations that have low credit risk. Credit risk is recorded and monitored on an ongoing basis.

Concerning trade receivables and other receivables, as well as other receivables included in *Other financial assets* that are neither impaired nor past due, there were no indications as of September 30, 2019, that defaults in payment obligations will occur.

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**Market risk**

Market fluctuations may result in significant cash flow and profit volatility risk for Siemens plc. Its UK operating business as well as its investment and financing activities are affected by changes in foreign exchange rates, interest rates and equity prices. To optimise the allocation of the financial resources across the Company, as well as to secure an optimal return for its shareholder, the Company identifies, analyses and proactively manages the associated financial market risks.

The Company seeks to manage and control these risks primarily through its regular operating and financing activities and uses derivative instruments when deemed appropriate.

Management of financial market risk is a key priority for the Company's key management and directors. As a member of the Company's management, the Chief Financial Officer covers the specific responsibility for this part of the overall risk management system. At the highest level, the directors retain ultimate accountability. For practical business purposes, the directors delegate responsibilities to key management.

Any market sensitive instruments, including equity and interest bearing investments that the Company's pension plans hold, are not included in the following quantitative and qualitative disclosure. For additional information see note 24.

**Equity price risk**

The Company does not hold investments in publicly traded companies. No equity price risk is therefore foreseen for the Company.

**Foreign currency exchange rate risk****Transaction risk and currency management**

Transaction risk and currency management risk from Siemens' international operations expose the Company to foreign currency exchange risks in the ordinary course of business. The Company employs various strategies discussed above involving the use of derivative financial instruments to mitigate or eliminate certain of those exposures.

Foreign exchange rate fluctuations may create unwanted and unpredictable earnings and cash flow volatility. If the Company is conducting business with international counterparties that leads to future cash flows denominated in a currency other than its functional currency it is exposed to the risk from changes in foreign exchange rates. The risk is mitigated by closing all types of business transactions (sales and procurement of products and services as well as investment and financing activities) mainly in the functional currency. In addition, the foreign currency exposure is partly balanced by purchasing of goods, commodities and services in the respective currencies as well as production activities and other contributions along the value chain in the local markets.

The Company does not borrow or invest in foreign currencies on a speculative basis.

The Group has established a foreign exchange risk management system that has an established track record for years. The Company is responsible for recording, assessing, monitoring, reporting and hedging its foreign currency transaction exposure.

The Company defines foreign currency exposure generally as balance sheet items in addition to firm commitments which are denominated in foreign currencies, as well as foreign currency denominated cash inflows and cash outflows from anticipated transactions for the following three months.

The tables below show the net foreign exchange transaction exposure by major currencies as of September 30, 2019 and 2018:

As at September 30, 2019	US\$	DKK	Euro	Other	Total
Gross Statement of Financial Position exposure	(2,233)	-	(14,552)	920	(15,864)
<i>Thereof: Financial asset</i>	-	-	-	1,059	1,059
<i>Thereof: Financial liabilities</i>	(2,233)	-	(14,552)	(139)	(16,923)
Gross exposure from firm commitments and anticipated transactions	(975)	12	(6,083)	213	(6,834)
Foreign exchange transaction exposure	(3,124)	55	(11,637)	1,133	(13,573)
Economically hedged exposure	1,778	-	(8,636)	(696)	(7,554)
Change in future cash flows after hedging activities resulting from 10% appreciation of GBP	(135)	5	(2,027)	44	(2,113)

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As at September 30, 2018	US\$	DKK	Euro	Other	Total
Gross Statement of Financial Position exposure	(236)	(36)	(20,401)	1,786	(18,887)
<i>Thereof: Financial asset</i>	-	-	-	2,084	2,084
<i>Thereof: Financial liabilities</i>	(236)	(36)	(20,401)	(298)	(20,971)
Gross exposure from firm commitments and anticipated transactions	90	-	(3,865)	37	(3,739)
Foreign exchange transaction exposure	(146)	(36)	(24,267)	1,822	(22,626)
Economically hedged exposure	(433)	-	3,794	(416)	2,946
Change in future cash flows after hedging activities resulting from 10% appreciation of GBP	(58)	(4)	(2,047)	141	(1,968)

It is Siemens AG's group policy to use 10% to analyse the sensitivity of currency fluctuations.

**Liquidity risk**

Liquidity risk results from the Company's potential inability to meet its financial liabilities, e.g. settlement of its financial debt, paying its suppliers and settling finance lease obligations. Beyond effective net working capital and cash management, the Company mitigates liquidity risk by arranging borrowing facilities with other Siemens companies. Amounts payable to other group companies are repayable on demand, but historically other Siemens companies have not demanded repayment of these intercompany balances.

The following table reflects all contractually fixed undiscounted pay-offs for settlement, repayments and interest resulting from recognised financial liabilities.

	2020	2021	2022 to 2024	2025 and thereafter
Non derivative financial liabilities	153,971	11,635	18,337	235,862
Obligations under finance leases	2,532	2,654	9,885	14,522
Trade payables	136,200	-	-	-
Other financial liabilities	15,239	8,981	8,452	221,340
Derivative financial liabilities	18	8	33	2

Cash outflows for financial liabilities without fixed amount or timing, including interest, are based on the conditions existing at September 30, 2019.

The Company has £21,360k (2018: £10,741k) amounts due to group companies included in trade payables. Historically other group companies have not demanded repayment of these intercompany balances.

Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in the company's ongoing operations such as property, plant, equipment and investments in working capital – e.g. inventories and trade receivables. These assets are considered in the Company's overall liquidity risk.

To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, Siemens has established a comprehensive risk reporting covering its worldwide business units.

The balanced view of liquidity and financial indebtedness is stated in the calculation of the net liquidity amount and is used for internal management. It results from the total amount of cash and cash equivalents, amounts receivable from and due to group companies within the group cash pooling facility and finance leases with Siemens Financial Services as stated on the Statement of Financial Position. The amounts receivable and due to group companies reported below are held with Siemens AG (Siemens Financial Services division) in the group cash pooling facility. For further information, refer to the *Statement of Cash Flows*.

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The following table reflects the calculation of the Company's net liquidity:

	2019	September 30, 2018
Cash and cash equivalents	-	13
Receivables from group companies	8,437	27,621
Total liquidity	8,437	27,634
Short term debt and current maturities of long-term debt	(13,486)	(12,978)
Liabilities under finance leases	(21,740)	(20,008)
Amounts due to group companies	(13,446)	-
long-term debt	(237,144)	(250,494)
Total debt	(285,816)	(283,480)
Net debt	(277,379)	(255,846)

In addition to the balances above, which are held with Siemens AG in the group cash pooling facility, receivables from Siemens group companies of £675,159k (2018: £1,554,700k), amounts due to Siemens group companies of £7,914k (2018: £10,741k) are held outside this facility. Historically other Siemens group companies have not demanded repayment of these intercompany balances.

**Capital Management**

The Company defines its capital structure as net debt and equity. The primary objective of the Company's capital management is to ensure that it makes optimal use of the working capital generated from its trading profits. The Company's management focus is on generating positive cash flow from operations and maintaining a positive relationship of the Company's current assets and current liabilities.

The current ratio for 2019 was 3.08 (2018: 6.38). The Company also has access to Siemens AG cash pooling arrangement when necessary.

## NOTES TO THE FINANCIAL STATEMENTS

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## 30. Related party transactions

Transactions between the Company and its associates are disclosed below.

(a) During the year, the Company entered into the following transactions with related parties:

	Sales of goods		Rental income and other services sold		Purchases of goods		Rental expense and other services purchased		Interest income		Interest expense	
	Year ended 2019	Year ended 2018	Year ended 2019	Year ended 2018	Year ended 2019	Year ended 2018	Year ended 2019	Year ended 2018	Year ended 2019	Year ended 2018	Year ended 2019	Year ended 2018
Parent company	-	-	1,121	1,322	-	-	-	-	-	154	9,259	9,716
Other Siemens group companies	479,784	1,696,745	371,278	667,765	244,973	1,400,762	(47)	783	9,606	5,622	268	422

Sales of goods to related parties were made at the Company's usual list prices. Purchases were made at market price.

	Transfers of research and development	
	Year ended 2019	Year ended 2018
Other Siemens group companies	5,016	5,848

The purchase and sale of properties and transfers of other assets in relation to acquisitions and disposals of other Siemens group companies in the year are disclosed in note 3.

(b) Year end balances arising from sales / purchases of goods:

	Amounts owed by related parties		Amounts owed to related parties	
	2019	2018	2019	2018
Other Siemens group companies	1,008	399	12,548	17,125

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

The amounts owed to group companies for purchases of goods given above are disclosed within inventory as goods in transit in 2019 and 2018.

(c) Year end balances arising from loans to / from related parties:

	Amounts owed by related parties		Amounts owed to related parties	
	2019	2018	2019	2018
		(Restated)		(Restated)
Parent company	11,102	11,006	250,494	263,472
Other Siemens group companies	672,493	1,571,315	21,360	10,741

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

The 2018 comparatives above have been restated to exclude balances which were incorrectly classified as related parties (£10m receivables and £4m payables).



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018 (in thousands of £)

## 31. Remuneration of key management personnel

The remuneration of the key management personnel of the Company is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	Year ended September 30,	
	2019	2018
Short-term employee benefits	1,826	1,901
Post-employment benefits	17	24

## 32. Subsequent events

There were no significant events after the reporting period that would impact the amounts reported in these financial statements.

## 33. Ultimate parent undertaking

The ultimate parent undertaking is Siemens AG, incorporated in Germany. Siemens AG is the only group undertaking of which the Company is a member for which group financial statements are prepared. Copies of the group financial statements are available on the internet at <http://www.siemens.com/annualreport> or obtained from:

Siemens AG  
Werner-von-Siemens-Strasse 1  
D-80333 Munich  
Germany

The immediate parent undertaking is Siemens Holdings plc, a company incorporated in England and Wales.

## 34. Dividends paid

	Year ended September 30,	
	2019	2018
Dividends paid	875,000	20,000

A dividend of £875m was paid in the year to the immediate parent undertaking (see note 33) (2018: £20m) representing £875 per share.