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Joe Kaeser:

Today, I will brief you in detail on our new strategic orientation, and Mr. Thomas will outline the key developments of the quarter that just ended.

Siemens must again come first at Siemens

It was over nine months ago that I assumed the office of CEO at Siemens. At that time, there was a lot of turmoil in the company; many actions were designed to achieve short-term improvements; they were tactical in nature. The long-term perspective was missing. At that time in August, I declared: “Siemens must again come first at Siemens. All of us will submit to that principle– from the CEO to the trainee. That is the key to success!” I also pointed out that we must restore the internal order of the company – in other words, discipline – and that we must again get closer to customers.

At the Annual Shareholders’ Meeting in January of this year, I emphasized that we would be leading the company more stringently and in flatter hierarchies. I also said that our commitment to being a leading company would develop along the value chain of electrification and automation and manifest itself in the utilization of the opportunities presented by digitalization. That would enable the company to close profitability gaps in the long term and reduce them in the short term, through the resolute implementation of operational improvements.

Today, I will present how the company’s strategy and structure will enable us to meet this commitment. Before I do that, however, Mr. Thomas will briefly review the key figures of the second quarter and outline the measures urgently needed to improve project execution.

Ralf P. Thomas:

Mixed second quarter

I’d like to provide you with a compact overview of our second quarter results, which I would generally describe as “mixed” due to substantial one-time charges, stemming primarily from project business. A quick glance at the key figures shows that new orders clearly dropped relative to the extraordinarily strong previous year due to the decline in major orders in our wind and rail businesses. Nevertheless, the book-tobill ratio remained positive at 1.06. Revenues rose 1 percent on a comparable basis. The 6 percent revenue decline at Energy was more than compensated by the other Sectors. Total Sectors profit climbed 16 percent, driven by significant profit increases at Infrastructure & Cities, Industry, and Healthcare, as well as a sharp decline at Energy.

This quarter, as in the first quarter, a substantial negative currency effect of 40 basis points dampened the profit margin, and we expect the same for fiscal 2014 as a whole. We were able to lift earnings per share 11 percent to 1.33 euros. So, in the first half of the fiscal year, earnings per share come in at 3.03 euros – or 16 percent more than in the previous year. Our free cash flow was solid at nearly 1.4 billion euros, up slightly from the previous quarter, and this was largely due to a positive trend in advance payments at Energy.

Project charges at Transmission

Let me comment briefly on the individual Sectors. The lower revenue in the Energy Sector reflects both the difficult market environment, especially for gas turbines, and the much more selective approach to accepting orders in the transmission solutions business.

Profit at Power Generation rose sharply thanks to gains from the sale of TLT Turbo for 73 million euros and the successful completion of a large turnkey project that yielded positive income of 56 million euros. Our wind business, on the other hand, was burdened by one-time charges of 48 million euros for the repair of defective supplier parts.

Since, among other things, the high-margin offshore business had a smaller share of the total business, its contribution to profit was much lower. For the third quarter, we expect the margins of our wind business to normalize.

The earnings situation at Transmission was very unsatisfactory as a result of two HVDC projects in Canada. In fiscal 2011, we were awarded two overland transmission line projects in Alberta as general contractor. Massive charges of 287 million euros ensued. The main reasons for that are the much higher than planned costs of supplier-provided construction services and contract penalties resulting from project delays.

This development is very unsatisfactory. We have intensively scrutinized the causes of these problems and have rigorously drawn conclusions. A task force of internal and external experts is currently engaged in both of these projects.

Minimizing risk with „Corporate Memory"

But we've also learned lessons. With new business opportunities, we take risk minimizing measures. For example, we obtain a second opinion from independent experts on technical risks or when we enter a new technology area. In addition to that, we will make changes in the early stages of our bidding process to lower risk in projects where our share of the value-add is small but our share of the risk is large.

This is part of our comprehensive "Corporate Memory" concept, which stipulates risk-minimizing measures when certain early warning signals occur. We will make the risks of projects transparent earlier and more comprehensively, namely before accepting orders.

But there is also good news at Transmission: Just a few days ago, we were able to successfully deploy the second offshore platform in the North Sea, the 12,000-ton BorWin2 platform. It is scheduled to go into operation in 2015.

Healthcare delivers excellent contribution to earnings

The development of the Healthcare Sector, on the other hand, was satisfactory in the second quarter in spite of the once again significant negative currency effects on profit margin amounting to 130 basis points. Healthcare delivered an excellent contribution to earnings with an underlying profit margin of 15.5 percent. The expected sale of a particle therapy facility yielded an upward revaluation of 66 million euros in existing balance sheet items. New orders and revenues rose on a comparable basis, and that upward trend was also driven by business in Europe. The development of orders and revenue was solid at Diagnostics as well; both grew 3 percent on a comparable basis.

Further stabilization of short-cycle businesses at Industry

In the Industry Sector, short-cycle businesses at Industry Automation and at Motion Control in the Drive Technologies Division stabilized further, with especially strong growth in new orders in Germany and China. In China, one major reason for this is that our sales partners are replenishing stocks. Rising revenue in short-cycle businesses led directly to satisfying margin improvements at Industry Automation and Drive Technologies despite significant adverse currency effects of about

80 basis points. In addition, the productivity measures implemented under the Siemens 2014 Program had a clearly positive effect on earnings, especially at Drive Technologies.

Improvements in earnings in all Infrastructure & Cities businesses

Finally, let's take a look at the Infrastructure & Cities Sector, which in the past quarter once again reached the projected gains in earnings in all its businesses. The main drivers here were significant improvements in the execution of rail orders and the successful implementation of Siemens 2014 productivity measures throughout the Sector.

Outlook for fiscal 2014 confirmed

Before I turn to the outlook for 2014, I'd like to comment on the Regions. New orders dropped significantly in the Regions Europe, Middle East, Africa and Commonwealth of Independent States because a number of major wind and rail orders were booked in the same quarter of the previous year. In contrast to that, the substantial surge in wind orders, albeit in comparison to a weak previous-year quarter, boosted order volume in the Americas.

In the quarter that just ended, we've seen a very strong development in new orders and revenue in China – pushed by a positive trend in short-cycle businesses and significant growth in the rail business. Since the stock replenishment effects mentioned before are not lasting, we still do not expect a strong and sustainable recovery of short-cycle businesses until late in fiscal 2014.

On this basis, we confirm last November's outlook for the entire fiscal year 2014.

Joe Kaeser:

The recurring charges from legacy projects in the Energy Sector make evident how urgently the rigorous implementation of changes is needed. And this also applies to taking responsibility.

Siemens Vision 2020

Building on the imperatives I outlined at the beginning, we have defined three fields of action for the long-term direction of Siemens. "Siemens Vision 2020" summarizes these fields of action. Some of the measures and directions described in them will impact financial results sooner, others later – but we will implement all of them with the same resolve. First, identify and participate in long-term growth markets;

second, constantly optimize our businesses; and third, concrete and lasting measures to boost functional efficiency in the company and to manage risk in projects.

The development of our long-term strategy raises the questions: What will Siemens stand for in the future? How can we be successful in the long term? What do we count on? How is the world developing in the areas we cover with our portfolio?

Growing impact of digitalization

In addition to the megatrends that have been observed for a number of years, we see the rapidly growing impact of digitalization on our markets. Digitalization involves and enables: collecting data, analyzing data and drawing the right conclusions.

We expect our more traditional electrification businesses to grow moderately overall and markets for automation to achieve attractive medium-term growth rates of 4 to 6 percent. The growth rates of businesses in the broader fields of software and data analytics will amount to at least 7 to 9 percent, more likely even higher, but could lead to substitution effects in the traditional hardware business.

Innovation driver for the „electrical world“

We want to use our leading role in electrification and automation to be the innovation driver in all three areas of the "electrical world." Because we're in an excellent position: In addition to our strong base in electrification, we also hold a clear No. 1 position across nearly all fields of automation – whether in power plant control technology, power transmission grids, rail automation, or discrete manufacturing industries.

We will seize the opportunities created by digitalization – by utilizing our deep knowledge of customer processes, our domain know-how, and by leveraging our broad installed base.

The „Digital Factory "Division

Take Industry as an example. Here we have already made significant investments in recent years through our own development and through acquisitions of companies such as UGS and LMS. We now employ some 8,000 software engineers in the Industry Sector alone – four times as many as 10 years ago.

With our new organizational setup, we're the first company worldwide to bundle all the capabilities needed for the Digital Factory under one roof. That's an ideal prerequisite for strengthening our leading role in the realization of Industry 4.0. By the way, this applies to more than just the manufacturing environment. We use these competencies in power plants and buildings as well.

Acquisition of the aeroderivative gas turbine business of Rolls-Royce

But there are also promising opportunities in the electrification chain outside the Digital Factory. In the field of power generation, we see growth potential for small and flexible turbines that can be deployed both in attractive Oil & Gas markets as well as in the market for decentralized power generation.

In the area of renewable energy, we will continue to focus on expanding wind capacity, especially in the offshore segment, a segment which will grow at a double-digit rate in the medium term.

As far as flexible gas turbines are concerned, we've already set a key milestone today. The acquisition of the aeroderivative gas turbine business of Rolls-Royce closes a gap in our portfolio and broadens our access to the attractive market for small gas turbines, a market projected to grow about 8 percent in the coming years.

We are acquiring an attractive business for a fair price, and service accounts for a large share of this business. We anticipate gross cost synergies of at least 50 million pounds by 2017 and another 25 million in the following years. In addition to that, we have also formed a long-term technology partnership of 25 years with Rolls-Royce. That will give us access to key future developments in the aero market.

Focus on decentralized energy management

Next to power generation, power transmission and power distribution play a fundamental role. Energy systems in urban centers are converging and being integrated in their environments. “Decentralized energy management” is a term often used in this context. That's why we've merged Transmission, Low and Medium Voltage, and key parts of our former Smart Grid unit into a powerful Energy Management Division. This will enable us to strategically and comprehensively cover this growth area, and we will take advantage of the opportunities that opens up for us.

Aside from industry and process automation, we see growth opportunities particularly in Germany. Outstanding competencies in power electronics, automation and software solutions for power distribution, as well as grid management are a key prerequisite for that. That's why we will invest substantially in this area and strengthen our position.

Building technology offers great opportunities

Buildings also play a major role in these grids. So we will rigorously tap the opportunities presented in the building technology market. Here, too, automation and network integration are key.

Optimal setup for Mobility businesses

And that also applies to the future transportation market. To expand our offering of innovative road and city mobility solutions, we will structure the individual businesses of our Mobility unit so that they are optimally set up in their markets.

Splendid starting position for business with digitalization

As outlined earlier, increasing digitalization generates enormous amounts of data – but how can that be turned into a profitable business? Our broad installed basis in the automation and software businesses gives us access to this data and a deep understanding of the processes. That's a splendid starting position for generating highly profitable business, especially in the area of service.

I'll give you three examples of that. Each of our high-end CT scanners generates 2 terabytes of image data each month. Our world-class automation plant in Amberg alone generates up to 50 million pieces of process information each day. The continuous optimization of this data now makes it possible to achieve a manufacturing quality of close to 100 percent. And each large Siemens gas turbine contains some 1,500 sensors that constantly deliver data on its operating state. We can use that data to improve efficiency.

Focus on data analytics platform and cloud strategy

However, wise strategies for the cloud and for data analytics are also prerequisites. The intelligent combination of these elements enables us to offer customers new services that optimize their businesses and to create attractive business models and applications. Examples here are proactive maintenance, reduction of energy consumption, and efficiency improvement in engineering and production – and with that cost and time advantages. Just think of our company-wide Remote Service Platform. It links over 250,000 Siemens systems.

We plan to make strategic investments in a cross-divisional data analytics platform and to develop a comprehensive cloud strategy. With these technological synergies, we will create competitive advantages for Siemens.

Process industries are growth area

Another key growth area for us – an area we've neglected for many years – is process industries. Some industries in this sector, such as food & beverage or oil & gas, show medium-term growth rates of 6 percent. That's about twice the GDP growth rate. That's why we have bundled our competencies in process industries and drive technology in one Division and will expand our portfolio for both field devices and software. In addition, we will strengthen access to the installed base in the market.

Opportunities in unconventional oil and gas

Even though we have already missed a few opportunities, especially in unconventional oil and gas exploration, we still have excellent market entry opportunities, especially in North America.

This, the opportunities for our gas turbine business arising from the U.S. gas renaissance, and the potential of our wind business have induced us to base board-level management of the Americas Region and the Power Generation Division in the United States.

Healthcare to be an independent unit

Now let's turn to Healthcare, a business that has consistently delivered excellent results in recent years and is very successful in the market. There are synergies with our other businesses such as digital platforms, and of course with the Siemens brand.

But in Healthcare's markets and technologies we see signs of fundamental changes, for example: Cost reimbursement systems are increasingly value-based and require new business models. Technologically, the industry is moving away from experience-based and toward knowledge-based healthcare by increasingly utilizing molecular diagnostics and other life sciences.

To be able to adequately respond to these profound changes, Healthcare will be set up as a separate unit within Siemens. Managing its resource allocation itself will enable Healthcare to adjust to markets flexibly and in a more focused way.

Essentially, this means a sales organization optimized to meet the needs of Healthcare and the provision of Siemens support functions based on demand. Given the technological changes, Healthcare will also be given autonomy in research and development. Governance will continue to be subject to corporate governance functions.

Audiology business goes public

In addition, we will go public with the audiology business. In terms of growth and profitability, this is a highly attractive business. And a public listing will create optimal conditions for this business to expand as an independent company. The principle we are applying here is to enable businesses without synergies in the company to develop and allocate resources independently.

Fixing underperforming businesses ourselves

In my inaugural speech, I said that we would stabilize our good businesses and allocate sufficient resources to them. But I've also repeatedly said that we would be taking a very close look at businesses whose development has been weak, in some cases for years, and that we ourselves must get them back in shape. The ten least profitable businesses in fiscal 2013 account for about one-sixth of revenue and, taken together, generated no profit. And that picture has not changed much over the past three years. We will exercise all business-specific options to fix these businesses on a case-by-case basis: Our focus will be on fixing these businesses ourselves or to enter into value-creating partnerships that fix them in a sustainable way and in a shorter time frame.

Powerful joint venture for Metals Technologies business

For one of these businesses, we've reached concrete decisions today. We will move our Metals Technologies unit into a powerful joint venture with Mitsubishi-Hitachi Heavy Machinery from Japan. Siemens will hold a 49 percent interest here. The partners are an excellent match in terms of both product portfolio and regional presence, and that will enable us to assume a global leadership role.

Efficient corporate governance functions and support processes

The basic requirements for value-creating growth, leading innovation power, competitive productivity and the fast response to customer needs are efficient corporate governance functions and support processes. That's why we will significantly reduce complexity and bureaucracy in the company as well as the number of organizational layers above operational businesses. And we will make it easier for customers to do business with us.

Cost savings of one billion euros

We aim to save costs totaling about one billion euros in all cross-divisional and support functions by simplifying and streamlining our structure. We will achieve this by streamlining the central management of the company, by eliminating the Sector level, and by bundling individual businesses and functions.

The savings should materialize mainly in profit and loss in fiscal 2016. We will communicate further details after the planned talks with employee representatives. The process defined for this has already begun.

Flat hierarchies and stringent management shape new organization

At the last Annual Shareholders' Meeting, I said that the Managing Board would again focus on the integrated management and optimization of the company; that we would accelerate decision-making; that we would flatten hierarchies; that we would strengthen the company's internal order and lead it more stringently. And that is what we are implementing with our new setup.

- Customers will be comprehensively served by competent sales regions or key account managers. Respectively, they are responsible for increasing share of wallet in their countries or at their customers.

- Strong and efficient corporate governance functions – the Corporate Core – define guidelines for the company in coordination with the Managing Board, oversee their implementation, and so strengthen our internal order. In that capacity, they support our businesses and have the authority to issue directives.

- Our businesses will be grouped in nine Divisions and one independently operated unit, Healthcare.

- The Divisions are responsible for developing and implementing strategy, for developing and producing their portfolio of products and services, and for managing sales channels. They are accountable for profit and loss and are so globally responsible for their businesses.

- The Managing Board represents the company as a whole. It prioritizes and integrates all businesses, regions and functions and so maximizes Siemens' success.

Clearly defined responsibilities
In our streamlined and considerably flatter corporate structure, responsibilities are clearly defined. My colleagues on the Managing Board Roland Busch, Klaus Helmrich and Lisa Davis are responsible for the operating Divisions and for one Region each. They make sure we have an integrated market presence. Hermann Requardt will continue to lead the independently managed Healthcare business as CEO. Healthcare will also set up a separate sales organization. The CEOs of the nine Divisions have global P&L responsibility for their businesses. In addition, Ralf Thomas will serve as CFO and Siegfried Russwurm will act as both Labor Director and CTO of the company.

Adjustments in "One Siemens" financial framework
To lead the company more effectively, we have expanded the One Siemens financial target system to a comprehensive management system. We've added the elements Operational Excellence, Sustainability and Social Responsibility.

Let me briefly comment on the main changes in our financial target system:

- In the medium term, our goal is achieve growth on a comparable basis that is greater than that of our five most important competitors. They will also be the benchmark for executive compensation.

- When we announce acquisitions in the future, we will provide information on their financial impact, for example, economic value added. We will also report regularly on the progress of integration and on the announced synergies.

- We are aiming for cost productivity gains between 3 and 5 percent each year.

- From now on, we will only measure our capital structure against an upper limit of 1.0 in the ratio of industrial debt to EBITDA. Our company thus continues to be rock solid financially.

- In the future, we will measure our payout ratio without taking into account the effect of share buybacks. The ratio will thus reach an even more attractive level of 40 to 60 percent of earnings after taxes.
- And starting in fiscal 2015, each of our Divisions will be given a target margin range before ppa – that is, before acquisition-related write-downs on intangible assets. These ranges will be based on the earnings of the key competitors of each Division and will serve as benchmarks for resource allocation.

Strong focus on operational excellence

Let's now turn to the Siemens Operating System mentioned earlier: In the past, operational excellence has not been pursued as rigorously as needed in some parts of the company. We will change that and so also significantly lower one-time charges.

We will strengthen our market coverage with an industry-oriented Siemens-wide account management organization. Common priorities such as software development and cloud and data analytics strategy will be comprehensively managed by Corporate Technology and optimized by individual businesses.

The key to achieving our annual productivity target of 3 to 5 percent is expanding "business excellence practice" in the company. That's why we have taken all the competencies spread across our current Corporate Functions and bundled them under one management at Corporate Technology. This is also where the responsibility for Corporate Memory resides. We will bundle the abundant knowledge of our company there and make that knowledge more accessible and usable! It will be mandatory to apply our well-developed method competence in productivity improvement, and the heads of the Business Units will report on this to the Managing Board.

One subject is especially near and dear to Ralf and me, and that is cutting one-time charges from projects. We examined the high-risk projects of recent years, analyzed the causes of the problems – which very often lie in the bidding phase – and initiated the necessary changes. In the BorWin 3 offshore grid connection project, which we recently won, we've already taken into account the experience gained from the previous four platform projects.

It's the culture that makes the difference

The best strategy only works if it's supported by a strong corporate culture. "Culture eats strategy for lunch." Or, put differently: It's not the strategy that makes the difference; it's the culture of a company, its values, and what it stands for. That's why I never tire of promoting a culture of responsible ownership. My message to all employees is this: Always act as if it were your own company!

Strengthening culture of ownership

Today, 140,000 Siemens employees are owners of the company. They hold 3 percent of our stock. I'd like to see the number of employee shareholders rise considerably – by at least 50 percent. For that purpose, we're planning to set up an additional stock-based Siemens Profit Sharing Pool of up to 400 million euros that will enable employees below the management level to participate in the success of the company. The more employees become owners, the stronger each employee's sense of responsibility will become. That is the kind of culture we want to establish at Siemens. And that is critical to Siemens – Vision 2020.

Siemens Vision 2020: clear goals

Siemens, like no other company, stands for innovating the electrical world. That will not change in the future.

With Siemens – Vision 2020, we will achieve seven goals by 2020:

- First: Our corporate governance and cross-divisional functions will be stronger. Our company will be less complex, and by the end of fiscal 2016 we will have achieved lasting cost reductions amounting to approximately 1 billion euros.

- Second: We will get those businesses in shape that are not yet reaching their full potential. Our focus here is on the 10 businesses that have the most catching up to do.

- Third: We will consistently execute our "One Siemens" target system and achieve our ROCE target of 15 to 20 percent. Through innovation and an integrated market approach, we will achieve growth that on average is higher than that of our most relevant competitors.

- Fourth: Siemens is a global enterprise that is active in more than 200 countries and that today generates 86 percent of its revenue outside

Germany. This global footprint will become more visible in our management team. By 2020 at the latest, more than 30 percent of the managers of our Divisions and Business Units will be based outside Germany.

- Fifth: We will once again be the first choice of customers. The “net promoter score” is an indicator of customer satisfaction. Our goal here is to improve our score by 20 percent.
- Sixth: Highly engaged and satisfied employees are the foundation of success. Siemens will be an attractive employer, and we measure that with our Global Engagement Survey. Our goal here is to achieve an approval rating of more than 75 percent in the categories leadership and diversity.
- Seventh: We will strengthen and further develop our culture of ownership. The number of employees who own company stock will rise at least 50 percent to more than 200,000.

We will rigorously pursue these seven goals, and we’ve defined a clear time frame for meeting them. You will receive regular updates on our progress.

Lasting success is crafted every day – day after day, quarter after quarter, year after year. Rigorously but also responsibly! That is Siemens. I personally vouch for making sure that the next generation inherits a better company. That is my vision. That is my responsibility. That is my promise.