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Annual Press Conference Fiscal 2013

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Joe Kaeser:

Ninety-nine days ago, we met in the courtyard of our Munich headquarters. At that time, I introduced myself as the new Chief Executive Officer of Siemens AG. Many of you were there. Among other things, I said that Siemens must again come first at Siemens. It should not matter whether you work for a Sector, a Division or a Region. Silos must open up; barriers must disappear – like in communication, where the boundaries between internal and external communication are increasingly dissolving, not only due to social media.

For the first time, I am also welcoming some of our employees from the Berlin locations, both here and earlier today at the press conference. In Munich at the end of July, I also said that I was at the start of a journey, not at its destination. Now we've left the first 99 meters behind us, so to speak. A great deal has happened in the meantime. With the realignment of the regions, we've made the first strategic moves.

Solid Close to Fiscal 2013

With a solid fourth quarter, we completed an eventful year in fiscal 2013. Now we're looking ahead and concentrating on measures aimed at improving our profitability, which we are implementing rigorously and prudently. I say we for good reason. The man who is responsible for implementing these measures is sitting here beside me. After I provide you with a brief overview of the past fiscal year, Ralf Thomas will explain what he plans to do in his first year as CFO, and also present details on the businesses of our Sectors. Here, as practically always, there is plenty of light and shadow.

Thanks to the successes at Nokia Siemens Networks (NSN) and Osram and a very strong performance of the Healthcare Sector, we were able to conclude the fiscal year with satisfactory results. Despite the transformation costs of our "Siemens 2014" company program, we achieved the revised outlook of July. On a comparable basis, new orders rose significantly, by 10 percent to €82.4 billion. The book-to-bill ratio for the full year was over 1. Our order backlog is now worth €100 billion. At €75.9 billion, revenue came in 1 percent lower than last year's level, calculated on a comparable basis. Income from continuing operations amounted to €4.2 billion. This

figure takes into account the transformation charges of €1.3 billion associated with Siemens 2014.

Can we be satisfied with these results? Unfortunately, not really! We fell far short of our initial guidance for the year. And then, in the summer, we had to considerably scale back our Sector margin targets for 2014. Our earnings were weighed down by a number of special charges, specifically in the areas of solar power, high-speed trains, wind turbines, and North Sea platforms. These charges in our operational businesses were offset in part by gains from our withdrawal from NSN and the cross-Sector activities of our real estate company Siemens Real Estate (SRE) and our financial services business Siemens Financial Services (SFS). Furthermore, the spin-off IPO of Osram was a great success. Here, prudent and persistent preparation paid off.

A company like ours has to have the aspiration not only to be a technology leader – or at least keep up with the competition, but also to consistently lead in profitability. This has nothing to do with greed; it serves to secure our innovation power and competitiveness, and, by extension, jobs throughout the world in a lasting way.

Although we made some workforce adjustments this year, where necessary, and reported them to the public, the total number of Siemens employees remained nearly constant, both in Germany and worldwide. That's because we created jobs in new, highly promising business segments. In those areas where long-term structural adjustments were needed, we acted rigorously, but also responsibly. In the future, we will have to approach the structural changes necessitated by certain product cycles and regional cycles in the same way – whether we like it or not!

Rigorous implementation of Siemens 2014

In order to make our entire company more productive and effective in the future, we will continue to rigorously pursue our company program Siemens 2014. We expect the implementation of this program to improve Sector profitability by roughly 200 to 300 basis points, compared to the figures reported for fiscal 2013.

Ralf Thomas:

As you can imagine, I am very happy to be part of the new Team Siemens. Siemens has always stood for solid finances, and I can assure you, that will hold true in the future as well. Conservative financial policy, in the best sense of the word, is a historical commitment at Siemens. My predecessors focused not only in the present; they also kept their eyes on the future in the interest of subsequent generations. I, too, aspire to live up to this standard.

Gap to competitors must be closed

Let's take a look at the key performance indicators of our One Siemens Cockpit, with which you are already familiar. In the past fiscal year, our revenue development lagged behind that of our most important competitors by 3.6 percentage points. Two of our four Sectors, namely Healthcare and Industry, were able to attain profit margins within their target corridors in the past fiscal year. That means that they kept up with the competitors against whom they measure their performance. And for the company as a whole, return on capital employed (ROCE adjusted) fell to 13.8 percent.

These three KPIs make it clear: We must further close the gap to our competitors. The fourth KPI is capital structure, which we will optimize. I will discuss that in more detail later on. Here, I'd like to point out that our "all-in" free cash flow of €5.3 billion was again substantially higher than that of the preceding year. We're happy about that. We like to say, "Cash is king." And that's true. A high level of free cash flow gives us greater entrepreneurial flexibility.

Optimizing capital efficiency

In my opinion, two factors are critical to the long-term success of Siemens: capital efficiency and risk management. The decisive question we need to ask with regard to capital efficiency is: Are we truly employing the resources available to us in the best possible way? We are only employing our capital efficiently if we set clear priorities. We have to decide whether and if so, how much capital to invest in acquisitions, research and development, market exploitation, and the continuing education of employees. Profit margin is not the only relevant factor. Although a competitive profit margin is important, that KPI alone is not enough to fully tap our long-term potential. We will therefore give preference to investments in those areas in which they create greatest sustainable value.

First, we need to improve our own performance. In our company there is so much knowledge and experience gained from things that went very well, and from things that went poorly. What counts is to put this wealth of experience to good use. Therefore, we intend to bundle our knowledge of first-class projects, processes and business activities in a highly effective unit of experts at our own Corporate Technology. "Business excellence" functions like project management and quality management, among others, will be consolidated in this new unit. There is a well-known saying: "If Siemens knew, what Siemens knows...". Ultimately, this bundling of expertise will benefit our business – and protect us better against unpleasant surprises in new projects.

New regional setup for greater customer proximity

Second, we want to better exploit our markets and grow faster than our competitors. We realize that we have some catching up to do, in this respect. That is also the aim of our new regional setup. We will do away with one entire hierarchical level, the Clusters. Instead, 30 Lead Countries, which account for more than 85 percent of our business, will report directly to the Managing Board. Shorter reporting paths, faster decisions, greater customer proximity. All of us will benefit from that.

As another element of this new setup, we will further consolidate support functions like financial reporting and accounting, human resources and legal services on a worldwide basis. I will personally tend to the optimization of support functions – above all with the aim of achieving greater cost efficiency and maximizing the use of our investment capital.

Allow me to give you a telling example from Russia, to illustrate what I mean by capital efficiency. As you know, we supplied the Sapsan high-speed trains for the Moscow-St. Petersburg line and also concluded a maintenance contract. We are now building the depot in such a way that it can be used not only to service the Sapsan trains but also the Desiro trains, which are also in operation in Russia. This enables us to achieve higher capacity utilization and is thus a better use of the invested capital.

New risk culture

Capital efficiency also means that earnings must be in proportion to the risks involved. That brings me to my next topic: risk management. One thing is certain: the non-conformance costs we've incurred in recent years have been too high. They

amounted to more than €200 million in the fourth quarter alone. These charges have cut into our profits again and again. And that has to stop!

Of course, an entrepreneur must take risks. But we need to know exactly what these risks are. Siemens has always been a company that breaks new ground, a pioneer. However, our appetite for risks has obviously been too big in the recent past! In the future, Corporate Technology will be involved in the assessment of risks as we select large-scale projects in which new technologies are employed or in which we enter new markets. Furthermore, an internal group of experts, independent of our businesses, will continuously evaluate the large-scale projects in our order backlog from both a technological and financial perspective. Taken together, these steps will enable us to detect risks much earlier.

To me, effective risk management is guided by four principles: objectivity, openness, modesty and discipline. We can assess risks faster and more accurately if our decisions are based on these four virtues – and if we always ask ourselves the question: What additional risks are we willing to take on? Improving risk management must be one of our priorities. First of all, this involves a certain change of culture. The only way to improve is to establish a new risk culture in our company, a culture of transparency and trust. Things will not get better by sweeping problems under the rug. They simply resurface later, and valuable time is lost. We want to instill a new culture of openness and transparency throughout Siemens. That will help us preserve our solid financial base, so that we have the resources needed to invest in innovation and to conquer new markets.

Emerging countries drive growth

At this juncture, allow me to comment briefly on our fourth-quarter results. In what regions did Siemens grow? The emerging countries continue to drive growth, and our growth there partially offset the revenue drop in our U.S. business. However, the figures for new orders already indicate that we can expect a positive effect on our business in the coming year from an industrialized country, the United States. As far as the development of China is concerned, we are more skeptical than others. The economic recovery will take time because huge surplus capacities need to be scaled down, for example, in the mining industry.

Business performance of the Sectors

Let's take a look at the performance of the individual Sectors in the last quarter of the fiscal year. In the Energy Sector, new orders declined by 7 percent. Revenues rose slightly, by 2 percent, and profit increased to €564 million. Fossil Generation, especially the service business, contributed to these solid results. We expect the merging of Fossil and Oil & Gas to yield further advantages.

The Healthcare Sector posted an increase of 10 percent in new orders and 5 percent in revenue. Profit decreased moderately, but the margin level remained high. This is clearly due to the successful completion of the Agenda 2013 program; the Sector is now able to consistently perform at a higher level.

In the Industry Sector, revenues declined slightly by 2 percent, while new orders rose by 8 percent. Profit was lowered by high transformation costs; they amounted to €232 million. The Sector is making good progress with the implementation of Siemens 2014. However, a fast recovery of the markets is not to be expected.

In the Infrastructure & Cities Sector, new orders rose by 10 percent, and revenue development was positive, with growth of 5 percent. Here, profit was lessened by transformation costs amounting to €255 million.

Joe Kaeser:

We don't need to reinvent our company. Siemens is positioned throughout the value chain of electrification. The growing influence of digitization on our portfolio of products and solutions and the growth of automation play a crucial role in this respect. Many new competitors from other industries and technologies will try to conquer our territory. We regard such attempts with respect, but also with self-confidence. Because many who recognize the attractiveness of our businesses and therefore want to venture into these segments will see that we are already there. Nonetheless, we are taking the changes in technology and customer behavior seriously, especially the impact of paradigm shifts triggered by social media, data analytics (so-called "big data"), and the influence of biotechnology in the healthcare sector.

Active portfolio management strengthens core activities

To prevail in this environment, we are also making acquisitions, such as LMS and Invensys this year. We will, however, exit from businesses where others are better

able to tap synergies than us. Entering and exiting the solar business cost us a lot of money. On the other hand, we were very successful with Osram's IPO in the past fiscal year. And we were also able to sell our stake in NSN to Nokia for a good price and without risk. In addition to that, we yesterday announced the sale of parts of our water business to AEA Investors.

But it's not just about buying and selling. That, in itself, is no value. We do not want to simply give up businesses just because they are not performing well, and we will not do that in the future. We must fix things ourselves again. If that isn't feasible, from the standpoint of prioritization, we cannot afford to wait so long that we destroy value, while everyone involved suffers hard times. Here, we must do much better!

Optimization of capital structure through share buyback

The best comes last, as we know. And you know, it's the CEO's privilege to proclaim the best news about Siemens. We will carry on this tradition with the new leadership team. After all, I'm already familiar with the other role. We want to propose a dividend of €3 per share to our shareholders at the Annual Shareholders' Meeting. That's at the level of last year's dividend and demonstrates our commitment to a dividend policy marked by continuity.

Siemens also plans to launch a share buy-back program with a volume of up to €4 billion within the next up to 24 months. We want our shareholders to consistently benefit from the success of our company. To this end, we have defined a corridor for our capital structure in our "One Siemens" system. That is the promise we've made to shareholders, and we will stick to that.

Outlook for fiscal 2014

Now to the outlook. We expect our markets to remain challenging in fiscal 2014. Our short-cycle businesses are not anticipating a recovery until late in the fiscal year. We expect orders to exceed revenue, for a book-to-bill ratio above 1. Assuming that revenue on an organic basis remains level year-over-year, we expect basic earnings per share (Net Income) for fiscal 2014 to grow by at least 15 percent from €5.08 in fiscal 2013.

We anticipate that our markets will be mixed in fiscal 2014. In our short-cycle business segments, we do not expect a recovery until late in the fiscal year. We expect orders to exceed revenue, for a book-to-bill ratio above 1. Assuming that revenue on an organic basis remains level year-over-year, we expect basic earnings

per share (net income) for fiscal 2014 to grow by at least 15 percent from €5.08 in fiscal 2013.

In the first 99 days, we've made first strategic moves and set up a strong team. Since the change at the top, the company's share price has outperformed the DAX significantly. That's a great vote of confidence. We want to live up to this confidence: However, I will not rely on "momentary profit" but on future-oriented and sustainable value creation through innovation, customer proximity, and a culture marked by the sense of responsibility that comes with ownership.

Roadmap for "Siemens beyond 2014"

What does our road map look like? In the coming months, we will focus on the strategic implementation of our new market setup in the Regions and on strengthening the effectiveness of governance at corporate headquarters. Operationally, we will lead our company program Siemens 2014 to a successful conclusion. Concurrently, the Managing Board is working on a strategic concept that will outline "Siemens beyond 2014". We expect to present the results to you in May 2014, along with the figures of the first half of the fiscal year.

From my encounters with Siemens colleagues in Germany and around the world, I know that our team is more assured and highly motivated again. Above all, they are proud again – proud to work for Siemens. And that's a good start in the first 99 days. Thank you very much!