SIEMENS

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Check against delivery.

Very respectable fiscal year 2012

At our gas turbine plant here in Berlin we produce turbines which achieve in combination with a steam turbine an efficiency of over 60 percent. That's a world record. And with that, we surpass all our competitors. That is our aspiration at Siemens: We want to continually deliver top performance!

The past fiscal year strengthened our commitment to this goal. In a difficult environment, we increased our revenue by roughly 7 percent to 78.3 billion euros. With income from continuing operations of 5.2 billion euros in fiscal 2012, we achieved the second highest earnings in our company’s history. However, relative to competitors, we did not achieve the targets for new orders and profitability we had set our sights on. That motivates us to do better going forward.

Despite substantial one-offs, we fulfilled our forecast for fiscal 2012. We achieved: Moderate organic growth, a book-to-bill ratio of about one and income from continuing operations within the range defined in the guidance we provided at the half-year mark last fiscal year. So, fiscal 2012 exemplifies what Siemens has been able to achieve over the entire past decade: a substantial increase in earnings.

In 2002, earnings per share was 2.92 euros. In fiscal 2011, it jumped to 7.04 euros. In fiscal 2012, it was 5.09 euros. Our shareholders benefit from the good results of the past fiscal year. The Managing Board and the Supervisory Board will once again propose a dividend of 3 euros at our Annual Shareholders’ Meeting in January. Our shareholders have also benefited from our stock buyback in recent months amounting to about 2.9 billion euros. We concluded that yesterday. We are aiming for a future payout ratio of 40 to 60 percent, taking into account dividend and possible future stock buybacks.

I’d now like to take a closer look at the past fiscal year. It was a challenging year. Contrary to our original expectations, the headwind in the economy rose. In addition to that, we faced specific problems in individual businesses, which we reported several times in the course of the year.

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In this environment, the employees of Siemens worked hard – and for that I'd like to thank our employees throughout the world and at every level of our company. The diversity of our employee culture is a special strength of Siemens. Employees from 40 countries work here in this gas turbine plant alone. 90 percent of the turbines produced here since 1972 have been exported. I now turn to the performance of our Sectors.

<u>Energy Sector</u>

The picture at the Energy Sector is mixed. Revenue climbed sharply by 12 percent to 27.5 billion euros, while new orders declined 14 percent to 26.9 billion euros. Sector profit was 2.2 billion euros. It was strongly impacted by the known charges from the grid integration projects for wind farms in the North Sea, and by a reevaluation of receivables and credit risks related to existing contracts in Iran.

On the other hand, the Sector profited from its broad and solid setup throughout the entire power matrix. This creates numerous opportunities for the Sector to participate in and shape the transformation of energy systems in Germany and throughout the world: In July we received the order for the turnkey construction of the Lausward combined cycle power plant in Düsseldorf. With a block generating capacity of approximately 595 megawatts and an efficiency of over 61 percent, this power plant sets new records in both parameters.

In July we also signed a general contract with DONG Energy for the delivery of 300 wind turbines with a total capacity of 1,800 megawatts for the Gunfleet Sands Offshore Wind Farm in the United Kingdom. The wind turbines will be driven by the world's longest rotor blades and, for the first time, operate without gears. And one year ago, we inaugurated our new gas turbine plant in Charlotte, North Carolina. It will enable us to profit from the very positive development of the natural gas market in the U.S.

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Industry Sector

In view of the economic developments, the Industry Sector was able to deliver a very stable performance. Sector revenue rose 5 percent to 20.5 billion euros, while new orders slipped lightly to 20 billion euros. Sector profit was 2.5 billion euros. In fiscal 2012, the Sector strategically strengthened its position in the field of vertical IT – in other words, software solutions tailored to the specific needs of industrial customers.

This represents a market that already has an annual volume of 60 billion euros and that is growing faster than conventional markets – at roughly 8 percent a year. During the year, we further reinforced our position in this attractive market: By acquiring the Canadian network supplier RuggedCom and the German software company IBS and also by investing more than 20 million euros in a new Industry Software Center in Genoa, Italy, which will offer more than 600 jobs beginning in 2014 and bundle our competencies in vertical IT. We see very good opportunities in this market. I'll return to this topic at the end of my overview.

Infrastructure and Cities Sector

The Infrastructure and Cities Sector delivered a profit of 1.1 billion euros. Its revenue climbed 4 percent to 17.6 billion euros. New orders declined 20 percent to 17.2 billion euros, mainly due to the major orders booked in the prior year by our rail business – above all, the order for the ICx. It's clear that the discretionary nature of project business precludes consistent annual revenue. After the record orders in 2011, the rail business did not receive any orders of comparable magnitude in 2012. In all other Divisions of the Sector, however, we booked larger order volumes than in the previous year. For our business in cities and conurbations, we expect further momentum from "The Crystal," the center for sustainable urban development that we opened in London in September. Many of you were able to gather your own impressions of the center on site.

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Healthcare Sector

Finally, we can report a very positive development of the Healthcare Sector, which substantiates the Sector’s success in rigorously implementing the Agenda 2013 program launched last year. Sector profit grew by more than one-third to 1.8 billion euros, and revenue climbed 9 percent to 13.6 billion euros. The Sector also increased new orders by 5 percent to 13.8 billion euros.

In addition, the Sector presented its new Magnetom Spectra magnetic resonance imaging system in March, a further pioneering innovation in the 3-tesla field. With its excellent price-performance ratio, it sets new standards in cost efficiency and so opens up new market segments to the broad application of this technology.

We can look back at a very respectable fiscal year overall. We accomplished a great deal, but not everything we originally aimed for. The One Siemens Cockpit makes that evident.

One Siemens Cockpit

In revenue growth, in the upper left section of the cockpit, we've beat our competitors recently. In profit margin, in the upper right section of the cockpit, the Sectors Energy and Infrastructure and Cities dropped out of the target corridors, the Industry Sector's profit margin declined but remained within the corridor, and the Healthcare Sector's profit margin climbed. In addition, our capital efficiency also decreased, albeit within the target corridor.

We deliberately fell short of our capital structure target in fiscal 2011 in favor of high liquidity, but in the meantime have taken measures to resume the course toward our original target. It's clear that we want to achieve the demanding targets we have set for ourselves. And this means that we are aiming for a leading position among the competition. Somewhere in the middle of the field is not good enough for Siemens.

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“Siemens 2014”

Our company program "Siemens 2014" will enable us to again fulfill that aspiration. The program adds force to our One Siemens target system by driving its implementation and bolstering our profitable growth strategy for achieving annual revenue of 100 billion euros. As we work toward that goal, we expect no tailwind from the global economy, at least not in 2013 and not in the markets we serve.

That's why it's so important: that we work efficiently, that we become more productive, and that we do an even better job adjusting to the challenges in our markets and in the global economy. Because: We want to be as financially strong in the future as we were in recent years – particularly in fiscal 2011. We want to continue to grow profitably and drive sustainable value creation. And the positive development of our company in recent years.

Accordingly, our goal is to raise the profit margins of our Sectors from 9.5 percent last fiscal year to at least 12 percent by 2014. All Sectors are working to increase their profit margins and to keep them in their respective target corridors. Overall, we intend to boost gross productivity by about 6 billion euros.

To that end, we have defined five levers in our “Siemens 2014” program: The first lever is cost reduction: Here we expect procurement to contribute the most. We expect procurement to contribute 3 billion euros to earnings in the coming two years, particularly through the greater integration of procurement and supply chain management with engineering and R&D, for example, to improve design-to-cost.

We expect a further major contribution of roughly 1 billion euros from the improvement of our global capacity utilization and footprint – that is, by optimizing our research and production structure. And we intend to save another 1 billion euros by improving the quality and efficiency of our processes and project management. We expect the implementation of these measures to result in transformation costs of up to 1.5 billion euros over the next two years.

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Of this total, around 1 billion euros will accrue in fiscal 2013, and this amount will comprise a variety of measures, including write-offs.

The second lever aims at continuously strengthening our core business: This involves strategically reinforcing our portfolio in key areas through acquisitions, and also carefully analyzing and changing less profitable activities to prevent them from diminishing our overall performance over a longer period of time. The third lever is aimed at our “go-to-market:” We will create a better sales and marketing setup and thus optimize our access to regional markets. In doing so, we will be more flexible in adjusting our setup to regional conditions and opportunities.

The fourth lever aims at reducing complexity: We will reduce the complexity of our internal processes and regulations and give our businesses greater entrepreneurial freedom and more time to focus on customers. So, we will significantly reduce the number of directives from corporate and Sector headquarters for the global business and the Regional Companies. The fifth lever relates to our internal infrastructure: We will optimize our global internal infrastructure and eliminate redundant functions and parallel processes.

<u>Cost-reduction</u>

Our Sectors have already identified areas in which the first two of the five levers can have an impact, and have started to implement concrete actions. We intend to boost the productivity of the Energy Sector by 250 million euros, for example, by standardizing our 50 and 60 hertz gas turbine models and by more rapidly implementing our supply chain concept.

The Healthcare Sector already took the lead a year ago with its Agenda 2013 and has, for example, entered into an attractive sales partnership with Varian in the field of oncology. The Infrastructure and Cities Sector will make its regional setup in Europe more efficient. And, finally, in our Industry Sector, we will adjust capacities to the weak demand for wind turbine gears.

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As far as the second lever of the program is concerned, that is, strengthening our core business, we are today announcing two further actions related to the Industry Sector. We plan to exit from our Water Technologies Business Unit and will restructure our remaining activities in the water business. Water Technologies is a regionally highly fragmented business that does not create synergies with the rest of our portfolio. Obviously, we will continue to be active in the water business, for example, with our desalination solutions and with control systems for water treatment plants.

And, subject to approval from the responsible authorities, we will enhance our industrial software portfolio by acquiring the Belgian company LMS International. LMS International is a leading supplier in the field of simulation and testing of mechatronic systems; its products and competencies improve product development and production processes for its customers and so strengthens their competitiveness. In the course of the next two years, we will keep you informed of measures related to the first two levers. We will report on the implementation of the other three levers and at the conclusion of the program.

Outlook

I now turn to the outlook for the fiscal year that has just begun. First, however, please note that starting this fiscal year, the accounting standard IAS 19R is in effect at Siemens. Taking this technical change into account, reported income from continuing operations for fiscal 2012 is 4.9 billion euros. Fiscal 2013 is the first year of the implementation of the “Siemens 2014” program. The goal of the program is to increase the Total Sectors profit margin to at least 12 percent by fiscal 2014. In the first year of the program, 2013, we expect moderate organic growth in new orders, and revenue approaching the level attained in fiscal 2012. Based on the retroactive application of IAS 19R, we expect income from continuing operations to range from 4.5 to 5.0 billion euros.

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