



SIEMENS
Ingenuity for life



Annual Shareholders' Meeting of Siemens AG

Joe Kaeser, President and CEO
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Joe Kaeser President and CEO of Siemens AG

Ladies and gentlemen,

I'd like to inform you now about the company that belongs to all of us. It's my pleasure to do so once again this year since we were able to continue our success story in fiscal 2017.

Strongest year for operations in the company's history

From an operational standpoint, 2017 was the most successful year in our company's 170-year history! Our profitability was even higher than in the record year of 2016. Today, we released the figures for the first quarter of the current fiscal year. And here as well, the start of this fiscal year was really impressive, particularly when compared with our main competitor.

We achieved a great deal in fiscal 2017:

Our revenue grew by slightly more than four percent to €83 billion, and this growth is continuing.

We increased our earnings per share by a very solid ten percent and boosted net income by 11 percent. We fulfilled our guidance in every respect, even though we raised our forecast twice in the course of the year. Not all our competitors can make such claims.

And we accomplished something we've long been waiting for: after 17 years, the Siemens share price has hit a new all-time high of €133.20.

We not only devoted the past months to increasing our profitability and growing profitably, we also worked hard to win new orders. And our efforts have paid off. Today, Siemens has an order backlog worth €128 billion – a new record.

Setting a strategic course for wind power, healthcare and mobility

At the same time, we made key strategic decisions that will shape the future of our company.

We merged our wind power business with that of Spain's Gamesa to create the world's biggest company for renewable energies measured in terms of installed base – a company with an installed base of 83 gigawatts and an order backlog of over €20 billion.

The wealth of data and information from these wind farms offers Siemens Gamesa outstanding opportunities to create new service and business models – and thereby generate value.

The market for renewable energies is going through a phase of consolidation. Only those companies that can build up their technology leadership, expand their market position and cut costs will play a leading role in this attractive long-term business.

Even though we have to admit that the joint company's major potential hasn't yet been fully developed, we're convinced that Gamesa is an outstanding partner. This joint venture will enable us to successfully shape the worldwide consolidation of the wind power industry.

The situation is similar in the mobility business. In this growth market, the consolidation of the Chinese train industry has created a dominant competitor that has already clearly staked its global claims.

Our answer to this challenge is Siemens Alstom – a modern and innovative European mobility provider with global reach.

Siemens is entering this new company in outstanding condition – and in every respect. Our product spectrum is strong, and our profitability and innovative strength are robust because signaling technology and digital mobility are firmly anchored in the Division's strategy. Together with our French partner, we'll therefore achieve the critical mass necessary for prevailing against every competitor in the market over the long term.

We're also completely on track with the preparations for the IPO of Siemens Healthineers in the first half of the calendar year. With this move, we'll be laying the foundation for further strengthening our healthcare business.

In just a few decades, our planet will be home to ten billion people. These people will need access to good and affordable healthcare – which I consider to be a fundamental human right in a modern civilization.

Not only is world population growing, life expectancy is also increasing. As a result, demands for health and fitness will keep intensifying. Siemens healthcare can substantially profit from these trends and establish itself as the healthcare company of the future!

Siemens Healthineers, Siemens Alstom and Siemens Gamesa. What do these three companies have in common?

- They have strong market positions in future-oriented markets.
- Due to their strategic orientation, they have excellent potential to shape these markets – since all three have all the entrepreneurial resources they need to keep pace with the best – and even be the very best.
- We're the majority stakeholder in all three companies, and the name Siemens is listed first in each name. The Siemens brand opens doors around the world. And the stronger we drive the localization of our business around the globe, the more respected it is by our customers, our international employees and societies everywhere in the world.

Highlights in the past fiscal year

Fiscal 2017 was rich in highlights. Let me tell you about a few projects that exemplify what I mean.

One trendsetting project is our partnership with the sportswear company adidas in the establishment of its so-called Speedfactory.

With the help of a "digital twin" – a digital depiction of the factory – it will be possible in the future to simulate, test and optimize the factory's entire production process. For adidas, this means flexible, efficient and resource-friendly production. For end customers, it means they can get customized shoes in just a few days. For us, it means a lighthouse project for our Digital Factory Division in cooperation with one of the most renowned brands in the world.

I'm also very proud that we've been selected by the United Arab Emirates as technology partner for the Dubai Expo 2020. We prevailed here against the most prominent software companies in the world. MindSphere, our operating system for the Internet of Things, will ensure the efficient operation of all the Expo's critical infrastructures.

We can also be truly proud of the efficiency of our mobility business. We brought the new generation of high-speed trains, the ICE 4, to its service launch right on time. And we've booked a number of lucrative orders, such as the extension of the Blue Line Metro in Bangkok and an order from DB Regio for 57 Mireo trainsets that will operate as suburban trains in the Rhine-Neckar region of Germany.

Successes like these don't just come out of the blue. They're the result of good, hard work. In the name of the Managing Board and the entire management team at Siemens, I'd like to cordially thank our customers, our employees and our business partners!

Vision 2020: Our vision is reality

Nearly four years ago, in May 2014, we presented our Vision 2020 strategy and defined seven primary goals. These goals ranged from stringent company management and the strengthening of our portfolio to fostering an ownership culture.

Many people were skeptical, some were nervous and few were optimistic, which was understandable. After years of scandals, flops, bad luck and slip-ups – as well as frequently changing priorities – people were weary and disoriented.

We needed to reassure and calm the company. But calming in the sense of "giving it orientation" rather than "coming to a stop."

Today, we can say that our vision has become reality. We've already achieved nearly all our Vision 2020 goals, and Siemens is now stronger than ever. We've improved the company in practically every key area.

Improved in reliability: since launching Vision 2020, we've met our business forecasts for four years in a row. There's scarcely any other company in our industry that can make such a claim.

Improved in growth: the years of stagnation are over. Siemens is growing again. And Siemens is growing sustainably and profitably – incidentally also in Germany.

Improved in profitability: we've continually improved our productivity – above all through innovation – and have fixed many of our underperforming businesses. We're making substantial and focused investments in businesses that are already strong.

Our project charges are at an historically low level, and we want to keep them there.

All this is paying off. We've increased the margin of our Industrial Business from 7.5 percent in fiscal 2013 to 11.2 percent in the past fiscal year.

Nearly all Divisions have significantly improved. And we've boosted net income by 40 percent over the past four years.

And this holds true for the dividend. We've steadily increased our dividends over the past four years. Today, we're proposing to you a dividend of €3.70 per share. This is the highest regular dividend that Siemens has ever paid.

Siemens Profit Sharing: Employees share profits

And non-managerial employees are also set to profit from our company's success. To make this possible, we set up Siemens Profit Sharing in fiscal 2015. The plan works like this. In particularly good years, Siemens allocates a specific amount of money to a special pool.

When the pool reaches €400 million, its contents are distributed to Siemens employees. The pool hit the €400 million mark this year. As a result, an employee can now receive up to nearly €4,000. The distribution will be made in March, largely in the form of Siemens shares.

That's our way of saying "thank you" to all our colleagues for their engagement and dedication. And it's also our way of strengthening their ties with our company – as co-owners of Siemens!

Currently, 186,000 Siemens employees are already shareholders in our company. At last year's Annual Shareholders' Meeting, I pointed out that the number was 165,000. So we've also made solid progress with one important aspect of our Ownership Culture.

We also regularly conduct anonymous surveys of our employees to find out how they regard Siemens. Around 210,000 colleagues took part in the survey last year.

There weren't only good ratings, of course – that would have been unusual. But approval has seldom been higher. I'd like to highlight one result: 91 percent of those surveyed stated "I'm willing to put in a great deal of effort beyond what is normally expected to help Siemens succeed." This, too, shows that we're on the right track.

And what's the situation with customer satisfaction? We measure it on the basis of the recommendation rate – the so-called Net Promoter Score. Since 2013, this recommendation rate has improved, believe it or not, by 55 percent.

Lead in industrial digitalization expanded

Particularly in the digital age, partnerships and ecosystems for customers are more important than ever. Customers seek partners who understand digitalization and can help them sensibly and profitably apply digital technologies in their businesses.

Today, no company can do this better than Siemens.

- We now employ nearly 25,000 software engineers worldwide, and are one of the ten largest software companies in the world.
- We invest more than €500 million a year in the training and continuing education of our employees. And today, digital skills are an important part of all our training programs.
- The €5.6 billion we will be investing in research and development this year is a record, and a large part of it will be going into automation and software development – that is, into the key components of digitalization.
- Working with customers, research institutes and our separately managed startup unit next47, we're developing new business ideas.
- And we're expanding strategic partnerships with the strongest companies in the world – enterprises such as Amazon, Microsoft and IBM.

These investments are beginning to pay off. Worldwide, Siemens is *the* recognized shaper, knowledge leader and market leader in the area of industrial digitalization.

Like no other company, we can combine the virtual world of software with the real world of production. And we can do this in all business fields – from industry to infrastructure. Our formula for success continues to be **E-A-D** – that is, electrification, automation and digitalization.

Innovation and digitalization are now inseparable. Innovation drives digitalization and digitalization drives innovation.

We've further extended our lead in industrial digitalization. This can also be seen in the figures. Overall, our revenue from software and digital services grew by 20 percent in the past fiscal year to a total of €5.2 billion.

We're making solid progress in expanding our digital platforms such as MindSphere, our flagship innovation in this area. We expect that our software and digital services business will continue generating robust growth for us.

Today, we have the world's best portfolio for industry: not one of our competitors can digitally depict value chains from product development and production all the way to operation and service as comprehensively as Siemens.

Worldwide, around 170,000 customers use our PLM software – and the figure is increasing rapidly. Twenty-nine of the world's 30 biggest automakers rely on this software. As do 18 of the 20 largest aerospace companies and all top 20 aircraft engine manufacturers.

We're talking here about industries where the highest precision, uncompromising quality and unmatched innovation are demanded – and that means we're talking about Siemens!

Forbes ranking: Siemens is No. 1

I am, of course, fascinated by Siemens. As are most of our 386,000 colleagues around the globe. But how does the outside world see Siemens? Perhaps you're familiar with the American business magazine **Forbes**.

Well, Forbes asked 15,000 thought leaders from 60 countries which company they regard as the best. Two thousand of the world's top companies were available to choose from.

Criteria for the selection were trustworthiness, honesty, social conduct, reputation as an employer, and product quality and performance. In other words, it was about the qualities that make a company a model for others.

I think you can guess who No. 1 is. Yes – you're right. Siemens is No. 1. Siemens is the most highly regarded company in the world. And that makes us very, very proud.

So this is how the world sees us. As a pioneer, as a thought leader, as a company that fulfills its responsibilities and that serves society.

Worldwide market decline in fossil power generation

And how are we seen in Germany? Here at home, the impression has recently been completely different. I'm talking about the intense public debate about structural changes in the fossil power plant business and the resulting consequences.

After a long waiting period, we're now currently conducting talks with the employee representatives. As you know, negotiations can succeed only when the parties have agreed not to disclose details until results have been reached.

We're adhering to that rule. That's why I can say only this much about the matter: Over the next two to five years, we'll lose around 3,000 jobs in the fossil power plant sector in Germany. The massive decline in demand in this sector is not a "Siemens problem." It's the consequence of a massive – in part, over 40 percent – decline in the world market and of price erosion of over 30 percent. In Germany, in particular, demand is virtually non-existent.

A look at our competitors shows that, in the worldwide comparison, we're doing considerably better than the others.

Claims that company locations like Offenbach, Erfurt, Leipzig, Mülheim and even Görlitz are operating at full capacity and are profitable are nothing more than a reminiscence of past times. These stories have nothing to do with today's reality.

But we have a big opportunity. In the same period, we'll be hiring roughly 12,000 to 14,000 employees in Germany. So we'll have the possibility of offering perspectives, with foresight and requalification, for most of the employees affected.

I understand every employee who is concerned about his or her job and future. I understand every employee who supports fighting for his or her company location, including those who've expressed this desire to me in various ways.

This is precisely why I also visited our steam turbine factory in Görlitz in December – to listen to our people and to explain the facts.

But unfortunately there are also others around who are pursuing their own agenda and relying on cheap populism to exploit a situation that's difficult for everyone involved. They're misusing the serious concerns of our affected colleagues to create a spectacle. That doesn't do justice to the situation. And above all, it's certainly no help to those affected.

We will do what has to be done – together with our employees. We will work hard for orders, for groundbreaking innovations, for growth – and ultimately for a strong Siemens in the future. This has nothing to do with "margin mania" or even "Manchester capitalism."

We're convinced that there'll continue to be a global market for gas turbines. Efficient gas-fired power plants are key components of every successful energy transition. And we want to play a leading role here. That's why we're also investing in the 3D printing of turbine blades and in making our large turbines even more efficient. But the markets will be smaller – and they won't be in Europe, but rather in the Americas, China and the Middle East.

For me, acting responsibly means initiating the required measures today from a position of strength – and not waiting until tomorrow when it's too late.

Or haven't we learned anything from our disastrous telecommunications history? Nothing like that must ever be allowed to happen to us again!

Siemens is in better shape than ever before, giving us opportunities that we must leverage. That's why we'll do everything in our power to find acceptable solutions for the colleagues affected. This is particularly true for Görlitz, in a region that is often described as "structurally weak," yet is quite creative. We're thus taking responsibility for our country! After all, we'd rather look after our employees instead of gathering membership signatures or expounding ideologies that ignore the future.

And what about the frequently voiced myth that Siemens is moving out of Germany? Facts prove just the opposite: Germany, more than many others, is profiting from Siemens' growth and success.

Siemens generates 13 percent of its revenue in Germany, but employs 31 percent of its workforce here. Siemens spends 63 percent of its outlays for research and development – and thus for innovation – in Germany. Thirty-eight percent of its sales and administrative costs are in Germany. And 34 percent of its investments in fixed assets (CAPEX) are in Germany.

In the past year, Siemens spent a total of €9 billion in this country. I don't think there are many companies that invest so much here in innovation, in the market and in the future.

Fourth Industrial Revolution: Greatest transformation in the history of industry

Siemens was born in Germany, grew up in Europe and is at home in the world. And this world is moving and changing at an ever faster pace. The challenges are growing, and with them, the possibilities for all those who see the future as an opportunity.

Take, for instance, the Fourth Industrial Revolution – the greatest transformation in the history of industry. It has already begun and we'll soon be in the midst of it.

McKinsey recently published a study analyzing the ways in which the working world could change. For Germany, they came to the following conclusion: By 2030, up to three million workers must retrain and up to nine million workers must seek other jobs. In the worst case, this could affect every third employee in Germany. So, do we all have to live in fear and dread? I think not, since at the same time millions of new jobs will be created. But other kinds of jobs.

This enormous structural change is the major challenge facing our entire society.

Governments must do far more to foster the acquisition of digital competencies in kindergartens, schools and universities. Companies must do far more to make their employees fit for the digital age. And we should all accept the Fourth Industrial Revolution as a fact – and see it as an opportunity.

In the end, those who don't embrace change will ultimately bear some of the responsibility when jobs are lost and innovation and employment migrate to other economic regions.

The past has shown us that, all in all, every industrial revolution has created more jobs than it destroyed. The printing press, the loom, the assembly line, the computer – all these technical innovations ultimately increased the prosperity of humankind.

And this will also be the case with the Fourth Industrial Revolution – if we manage it in the right way.

Vision 2020+ – the next-generation Siemens

With Vision 2020, Siemens read the signs of the times and took action. The same can't always be said of other conglomerates.

Among the conglomerates, we're a leader – and getting stronger all the time.

Yet a festive mood or even gloating about others' misfortune is uncalled for. For we have to ask ourselves: is this enough when competing with specialized companies? Is this enough when competing with major platform providers who are also increasingly penetrating our business fields?

Traditional conglomerates don't have a future – because mediocrity is the target of the industrial Internet. We therefore have to lay the foundations now for the next-generation Siemens.

Under the working title Vision 2020+, we're currently developing a strategy that defines how Siemens should look beyond the year 2020. I'd like to share some of our basic ideas with you today.

The next-generation Siemens will concern itself with three things above all: first, the Siemens brand as a strong, binding element; second, our business focus; and third, the simplification of our business management.

The Siemens brand is a promise of innovation and quality. It must be relevant, recognizable and tangible. And it must open doors throughout the world. That's the case today. And that's how it should remain in the future.

Business focus means that we organize our businesses so that each one can measure up to the leading specialists.

The digital age doesn't tolerate mediocrity – it's binary: 1-0, on-off – as simple as that, and yet so difficult to accept.

We'll simplify our governance. Responsibility and accountability for each business must be clearly assigned. Company administration must be lean and tailored to the specifics of the various business types. Project, product, software and service businesses simply have different requirements.

In one area, we won't be making any change: namely compliance. Zero tolerance for illegal activities will remain the rule. And that is not negotiable.

For us, business today is no longer a matter of battle cries like "Beat GE!" At one time, that tactic might have been right. There was the one big company – a company, by the way, that shouldn't be written off.

Today's competitive landscape is far more diverse. Today, you can succeed only if you are part of a global network comprising customers, business partners, universities, startups and also competitors. Today, only those companies that best adapt to such rapidly changing conditions can succeed.

And today, society's expectations of companies are different. A company must serve society – otherwise it has no right to exist. That means paying its fair share of taxes. That means providing and maintaining jobs for qualified employees, and training and educating them. That means improving the quality of life for billions of people through innovation. That means being innovative, excellent and responsible, and it means running our business in a sustainable and prudent way – as if it were our own company.

As fast-paced as the digital age is, we will not sell the future of our company for a short-term gain – nor will we do so under the pressure of short-term opposition. We will stay true to our values and thus seize the opportunities the future holds for us!

