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New One Siemens target system to focus on capital-efficient growth

Environmental technology, presence in emerging countries and services to be growth drivers

With its new target system for sustainable company development, Siemens is once again increasing the emphasis on growth. The One Siemens system sets ambitious growth and capital efficiency targets that the company intends to reach consistently from now on.

“After twelve years of transformation, Siemens is again a normal world-class company. Over the last few years, Fit 4 2010 has enabled us to streamline Siemens for profitability and to give our company new clout. With One Siemens, we’re going to accelerate the pace and expand our strong position sustainably,” said Siemens President and CEO Peter Löscher. The target system charts a clear course: Siemens will concentrate primarily on innovation-driven markets like environmental technology, the high-growth emerging countries and the service business. As customers for comprehensive infrastructure solutions, cities will become a stronger focus for the company’s sales activities.

Over the last few years, Fit 4 2010 has enabled Siemens to capture a leading position in profitability vis-à-vis its competitors. Now, the company is intensifying its focus on expanding growth. As a whole, Siemens wants to grow faster than its most important competitors. These competitors’ average nominal revenue growth for the previous four quarters will provide the basis for this comparison. Acquisitions will have to meet clear minimum requirements. For example, acquired businesses will be expected to make a positive contribution to economic value added within two years of transaction closing and to reach their capital-efficiency target no later than three years after integration.

Within the new target system, capital-efficient growth will receive considerably more weight. The yardstick here will be adjusted return on capital employed (ROCE). For its operations, Siemens wants to achieve a ROCE after taxes of between 15 and 20 percent. To measure its capital efficiency, Financial Services, the company’s financing business, will use return on equity (ROE) after taxes, the accepted metric in its industry. Here, too, Siemens aims to achieve a range of 15 to 20 percent.

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Siemens also wants to optimize the capital structure of the entire company. The measure will continue to be the ratio of adjusted industrial net debt to earnings before interest, taxes, depreciation, amortization and income from equity investments (adjusted EBITDA). The target here will be a value of between 0.5 and 1.0. With this range, the company aims to give itself a certain amount of flexibility since this was a crucial advantage during the financial crisis. The broader corridor provides shareholders and lenders with clear criteria for creditworthiness and capital allocation. To give investors a clear orientation regarding the allocation of net income, the company is introducing a dividend payout ratio for the first time. In the future, Siemens intends to distribute between 30 and 50 percent of its net income – adjusted for exceptional noncash items – as dividends to its shareholders, while maintaining as much as possible the dividend continuity it fostered in the past.

In measuring the performance of its Sectors, Siemens will orient itself on the business cycles in its segments. The aim is to consistently achieve top EBITDA margins vis-à-vis competitors at cyclical peaks as well as cyclical troughs. Across the cycles of the various segments in which Siemens is active, the Industry and Energy Sectors will be expected to achieve EBITDA margins of between 10 and 15 percent and the Healthcare Sector a margin of between 15 and 20 percent, measured in terms of revenue. In fiscal 2010, the Siemens Sectors were near the upper end of these EBITDA ranges. On the basis of this profitability rate, the company will focus more intensively on growth in order to increase absolute profit.

One Siemens growth drivers: Environmental technologies, emerging countries and services

For this reason, Siemens is orienting its activities toward markets with long-term growth potential. For example, the world's cities increasingly need intelligent and sustainable infrastructure solutions. Nearly 3.5 billion people – more than half the world's population – currently live in urban areas. In 2050, cities will probably be home to about 6.5 billion people – roughly 70 percent of the world's population. As an integrated infrastructure supplier, Siemens is in a strong starting position – in particular, in the areas of ecofriendly and energy-efficient solutions for cities. To tap this growth potential even more intensively with ecofriendly technologies, Siemens has set an ambitious goal for its Environmental Portfolio. By the end of fiscal 2014, the company aims to generate revenue of more than €40 billion a year with green products. In fiscal 2010, revenue from Siemens' ecofriendly products totaled slightly less than €28 billion – about 36 percent of the company's total revenue.

On a regional basis, the emerging countries will grow considerably faster in the years ahead than their industrialized counterparts. Siemens wants to significantly increase the percentage of revenue that it generates in emerging countries. From 2005 to 2010, this share rose from 19 percent to

about 30 percent. The company also plans to expand its service business. The large installed base of Siemens' products provides an excellent starting point for this expansion.

Fit 4 2010 program successfully completed

The One Siemens target system follows the Fit 4 2010 program that Siemens successfully completed at the end of fiscal 2010. The program's goals have basically been achieved. With an average annual growth rate of four percent, Siemens' organic revenue has increased at twice the rate of the global gross domestic product in the last four years. In terms of profitability, Siemens has closed the gap to its key competitors: nearly all the company's Divisions have reached or clearly exceeded their target margin ranges. Liquidity has also been significantly improved. Siemens has made major strides in sustainability and diversity. In 2010, for the second year in a row, the company was No. 1 in its industry on the Dow Jones Sustainability Index. Siemens is the only company on Germany's DAX index with two women on its Managing Board. Four different nationalities are represented on the eight-member Board.

Siemens AG (Berlin and Munich) is a global powerhouse in electronics and electrical engineering, operating in the industry, energy and healthcare sectors. For over 160 years, Siemens has stood for technological excellence, innovation, quality, reliability and internationality. The company is the world's largest provider of environmental technologies, generating about €28 billion – more than one-third of its total revenue – with green products and solutions. In fiscal 2010, which ended on September 30, 2010, revenue totaled €76 billion and net income €4.1 billion. At the end of September 2010, Siemens had around 405,000 employees worldwide. Further information is available on the Internet at: www.siemens.com.

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