

SIEMENS

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Check against delivery!

Siemens has done extremely well in crisis year 2009

Compared to our competitors, we have been very successful in the last 12 months. We are very well positioned to assume a leading role in the growth areas of the future.

Economic environment has drastically worsened

In 2009 we experienced the worst global recession in 80 years. For the first time in the post-war era, global GDP contracted. Experts expect it to decline 2.1 percent in calendar year 2009. With the support of government stimulus programs and measures to stabilize the financial markets, experts forecast global growth of 2.6 percent next year. We can, however, expect significant regional differences in economic development. Our hopes rest primarily on Asia and the emerging countries. This is where the prospects for growth are currently strongest.

But it will take some time before the global economy completely re-stabilizes and global GDP once again reaches pre-crisis levels. The recent developments in Dubai demonstrate that the global crisis in the real estate and financial markets is far from over, and that the situation remains unstable. We stand at the foot of a high mountain, and we have a long way to climb. Further joint efforts will be required.

These efforts include worldwide measures to protect jobs. As one of the large industrial employers, especially in the U.S., Siemens will participate in today's "Jobs Summit" hosted by President Barack Obama at the White House. And yesterday evening a meeting took place with Chancellor Angela Merkel that focused on similar subjects. In all of these discussions, the central question is how conditions for sustainable growth, for jobs, and for prosperity can be improved.

We are convinced that more vigorous deployment of green technologies in some countries will lead to reindustrialization and will help to overcome the crisis. Let us not forget at what stage of development the global economy now stands.

Important branches of our business have suffered severe setbacks and some of our most important customers have yet to climb out of this valley. The value created in the manufacturing industry worldwide plunged by a total of 9 percent this past year. The declines were most pronounced in industrial machinery at 15 percent and in the automotive sector at 23 percent.

Siemens achieves targets for fiscal 2009

Despite the crisis, we clearly exceeded our targets: Revenue remained stable, in spite of the shrinking global economy. Profit Total Sectors once again rose significantly to 7.5 billion euros. Income from continuing operations, at 2.5 billion euros, exceeded the previous year's figure by one third.

Fiscal 2009 – Key figures

With these results, we have more than met expectations in a challenging economic environment. Yet there is not only light, but also shade.

We are feeling the repercussions of the crisis in new orders, although not as sharply as our competitors. New orders fell short of the 2008 record by 14 percent. However, our three Sectors continue to have a large order backlog of just over 81 billion euros. That's more than in the year before the crisis. Our order backlog in fiscal 2007 amounted to just 73 billion euros. The ratio of new orders to revenue remained positive, at just above 1. This also demonstrates our robustness in the crisis.

Now to revenue and profit. Considering the crisis-ridden environment, revenue and profit are quite satisfactory. These positive results are largely due to the strong performance of the Energy and Healthcare Sectors. Both Sectors were already within their margin ranges for 2010. Of the 14 Divisions, 9 achieved the margin targets of the Fit₄2010 Program. At 2.5 billion euros, net income fell short of last year's mark by 58 percent. This difference is largely attributable to the fact that we reported an extraordinary profit of approximately 5.5 billion euros last year due to the sale of our automotive division, Siemens VDO. Despite the severe global economic crisis, we are keeping the dividend steady at 1.60 euros.

The Industry Sector was most severely impacted by the economic crisis. In these difficult circumstances, the Sector initiated long-range measures for cost relief, measures that we intend to continue.

The Energy Sector has developed very well. The Sector's order backlog rose to a record 47 billion euros, and all Divisions reported higher revenue than in the previous year.

Despite the ongoing difficulties in the market environment, business developments in the Healthcare Sector were also positive. Siemens Healthcare continues to be the strongest player in the market. The progress in integrating acquisitions led Sector profit to climb above 1.5 billion euros.

I would like to conclude this segment with a comment on our cross-Sector IT business, Siemens IT Solutions and Services. The performance of Siemens IT Solutions and Services has been predominantly positive since the restructuring activities of 2006. However, price and competitive pressures remain very high. We must, therefore, bring Siemens IT Solutions and Services even more in line with the requirements of the IT markets. This will require the greatest possible flexibility, for example, in the hiring of highly specialized Web 2.0 experts or database professionals.

The current structures of Siemens IT Solutions and Services do not allow for this flexibility. That's why we are making preparations to make this business a legally separate entity as of July 1, 2010.

Three points are important here: we want to give this unit the chance to become competitive in the long term. We want its business activities to be more strongly focused on specific industries and key regions. The long-term service contract that connects Siemens IT Solutions and Services and Siemens will dependably remain in effect.

Strong operating business through sustainable corporate policy

The strong figures of our operating business also reflect our sustainability-oriented corporate policy. Even before the crisis we adjusted to a difficult market environment and took the necessary measures on the cost side early enough. These measures include our program for

reducing our sales, general and administrative costs as well as our supply chain management initiative. In order to strengthen organic growth we increased our investments in research and development and at the same time intensified our sales activities. We have continued to bolster our core business by enhancing our portfolio.

Success in reducing SG&A costs

During this past fiscal year, we reduced our global sales, general and administrative costs to 10.9 billion euros. We have thus already exceeded our target and achieved savings of 2 billion euros one year earlier than planned. This means that we can conclude this company-wide program to make the administration leaner earlier than originally planned.

Supply chain management initiative makes solid progress

We are also making great progress with our supply chain management initiative. By 2010 we intend to increase centrally pooled purchasing volume to 17 billion euros. In 2009, we increased this figure from 12 billion to 16 billion euros. Our target is now within reach. We intend to increase the share of goods purchased in emerging countries from 20 to 25 percent over the medium term. In just over half a year, we have already made progress.

We have already reduced the number of suppliers from 113,000 to 97,000. Here, our medium term goal of 91,000 is also within reach. Fewer suppliers means greater efficiency and reduced administrative costs. This will enable us to focus on more strategic cooperation and on advancing the joint implementation of innovative concepts.

Because of the very good progress we are making with both of these programs, we can fully concentrate on our customers. We have intensified our sales efforts and have given the Managing Board operational responsibility for operations. We also established an Executive Relations Program this past summer. As part of this program, members of our Managing Board now will personally engage with approximately 70 top customers.

We aim to achieve organic growth not only by strengthening our sales organization. We are also continually strengthening our innovation power. Despite the economic crisis, we have increased our R&D spending by 3 percent to 3.9 billion euros! The experience we have

gained in our more than 160 year history teaches us that the innovations of today generate the profitable growth necessary to develop the innovations of tomorrow.

Ongoing optimization of portfolio

In order to fully participate in tomorrow's growth, we are continually working to strengthen our core business. With the acquisition of the highly profitable Solel Solar Systems, a company which delivered revenue of approximately 160 million U.S. dollars in the first nine months of 2009, Siemens became the technology leader in the solar thermal field a few weeks ago. With this move, our value creation in solar thermal power plants has increased to more than 70 percent. The potential is enormous. The solar thermal market will grow by almost 20 percent annually until 2020, and will then have reached a market volume of roughly 23 billion euros. A large piece of that pie will be ours.

The integration of renewable energy technologies requires intelligent power networks. We are already one of the world's leading suppliers in the Smart Grid market, and we will systematically expand this position. To that end, we acquired Energy4U last fiscal year, a company that develops customized Smart Grid solutions for utilities. Overall, we expect to receive Smart Grid orders worth more than 6 billion euros over the next five fiscal years.

In cases in which we are unable to achieve a leadership position at reasonable cost, it may be necessary to transfer businesses to others who are better able to take advantage of their opportunities. That's why we have withdrawn from the joint venture Fujitsu Siemens Computers (FSC) and for the most part from the telecommunications business.

To make the company leaner and less complex, we also eliminated marginal activities with a total volume of approximately 2.5 billion euros this past fiscal year. We also successfully concluded the program for the divestment of so-called "other operations" in 2009.

Siemens is well prepared for the future

Siemens has the largest environmental portfolio in the world. In the last fiscal year, we generated revenue of more than 23 billion euros with "green" products and solutions. That's eleven percent more than the year before. Clearly, green technologies have a stabilizing effect on our business. With these results, we have made good progress toward reaching our

target of 25 billion euros in "green" revenue in fiscal year 2011. In the coming years, we expect our "green" portfolio to continue to grow, especially as a result of the massive capital expenditures being made in urban infrastructures.

Sustainable urban development opens up huge opportunities for us. According to a recent study, cities worldwide will invest 27 trillion euros in the expansion of water, electricity and transportation systems in the coming 25 years. In the years ahead, the city of Munich alone intends to invest several billion euros as part of its urban development effort to become a "green metropolis." By 2015, Munich intends to be the first city of more than a million residents to generate enough energy from renewable sources to supply all private homes – and by 2025, all businesses as well. This is a fantastic lighthouse project and a great showcase for Bavaria and for Germany.

Our unique environmental portfolio makes us the partner of choice for the development and expansion of the "green" cities of the future. We have given this partnership with utilities a highly visible expression in our "Superstar" project – the world's largest revolving Christmas star – in Fröttmaning on the outskirts of Munich, Germany. The stars are aligned for Siemens, as our order backlog is helping us during the crisis. As the global economy slowly recovers, this order backlog will have a stabilizing impact on revenue in the coming years. The current order backlog will result in orders totaling 37 billion euros in 2010 alone and that secures our business and gives our employees confidence.

We have a strong position in the growth markets of the emerging countries. The significance of the emerging countries in global trade will increase considerably as a consequence of the economic crisis. In 2015, they will generate more than 35 percent of global economic output. In 2009, one third of our new orders came from emerging countries. In many of these countries we have been active for decades, in several for more than a century. We are expanding our presence in these countries step by step, and in the past year we opened new, green production facilities in Colombia and in Turkey. Our deep roots in these markets are an outstanding competitive advantage. On the local level, we enjoy an excellent reputation as a business partner.

We know the local people. We know their culture. We know the challenges our customers face locally. And we have the right answers.

Outlook for fiscal 2010

In fiscal 2009, Siemens once again demonstrated its operating strength in an extremely difficult environment. We have done considerably better than our most important competitors. Supported by the Energy and Healthcare Sectors, our revenue has remained stable and our profit has increased.

Looking ahead to 2010, we see a market environment that continues to be very challenging. After the double-digit percentage decrease in orders in 2009, we expect an organic contraction in revenue in the mid-single digit percentage range in 2010. Our high backlog of orders will act as a cushion. Profit Total Sectors should lie between 6.0 and 6.5 billion euros. Income from continuing operations should increase by approximately 20 percent compared to the previous year's figure of 2.5 billion euros.

In this fiscal year we face the challenge of successfully guiding our businesses through the crisis while simultaneously preparing the way for sustained and profitable growth in the fields of the future in emerging countries and in green markets. Almost no other company is in a better position to emerge from the crisis stronger than before. We are determined to take advantage of this opportunity.