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Annual Shareholders’ Meeting of Siemens AG

Joe Kaeser, President and CEO | Munich, January 28, 2014

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Joe Kaeser, President and CEO, Siemens AG

Ladies and Gentlemen,

On behalf of the Managing Board of Siemens AG, I warmly welcome you to our 2014 Annual Shareholders' Meeting.

2013 was an eventful year for the whole world, for many of us, but most especially for Siemens. Unexpected changes, unwelcome rumors, unfulfilled expectations, important decisions. It was a year when a great deal went well for us, but also a year when some things could have – and should have – gone better.

And when we ponder changes, we see that sometimes the reasons for them and the events that triggered them are not always identical. And that, by the way, also applies to success and failure.

Fortunately, one thing that has not changed is your interest in and your loyalty to our Company. That so many of you are attending today once again demonstrates that. Welcome to your Company. Welcome to Siemens!

Your confidence in Siemens is a special obligation for us. Many of you have been loyal to our Company for years, sometimes even for decades, some of you as shareholders and often also as current or former employees. A special salute to all of you here in the auditorium who have been associated with Siemens for a long time. It's wonderful to see so many of you today!

I'd also like to extend a heartfelt greeting to a person whom our Company owes a great deal, even though he was never a Siemens employee: our former Compliance Monitor and Germany's former Minister of Finance, Dr. Theo Waigel. Dear Mr. Waigel, I am very pleased you could join us today. You provided prudent guidance in a difficult time. And we greatly appreciate all you have done for us.

Cornerstones of responsible business conduct

Over the past few years, our Company has undergone necessary and extensive corrections, and there has been a return to fundamental values. Integrity and decency are not relics of the past. They are still the cornerstones of responsible business conduct – and that applies in an international context as well.

Integrity and decency are what require us to deal honestly and openly with our recent past. And that includes addressing responsibilities, making changes when necessary, and respecting and recognizing the lifetime achievements of the generations that went before us.

On that note, then, let me offer a special welcome to former leaders of the Company who are attending our meeting today, as well as the members of their families. In particular, I'd like to mention:

> The members of the different branches of the founding family,
> Former Chairman of the Supervisory Board, Dr. Hermann Franz,
> And Mrs. Christiane Kaske, widow of the long-time President and CEO of Siemens, Karlheinz Kaske.

A solid foundation for a successful future

Last year, we fell short of our own ambitious operational targets. But that hardly makes our Company a restructuring case. Our orders rose 10% on a comparable basis. And while revenue declined 1%, we generated net income of €4.2 billion.

This fiscal year, we expect an increase in net income of at least 15%, provided revenue remains at the same level. That is not what a restructuring case looks like. But it's not what a top performer looks like either.

Many, many individuals contributed to this solid performance. We owe the employees of Siemens special gratitude for their outstanding efforts, for their loyalty and for their dedication in a difficult time. Likewise, I'd like to recognize our customers and thank them for the loyalty to our Company.

I also want to thank my predecessor, Mr. Peter Löscher, a manager of profound integrity. He assumed the leadership of Siemens in a time when probably no one from inside the Company could have won back respect and recognition for the Company to such a degree.

And I want to thank the three other members of the Managing Board who left the Company during the past year.

> Brigitte Ederer, who already accomplished much for Siemens as General Director in Austria and who then bore special responsibility for our Company as the Managing Board member responsible for Europe and as Human Resources Director;
> Barbara Kux, who significantly contributed to Siemens' reputation as an ecologically sustainable corporation;
> And Peter Y. Solmssen, who together with his team restored Siemens' now widely recognized culture of integrity. We will carry on this legacy and continue to make sure that all our business is clean.

I also especially want to extend my thanks to the Supervisory Board chaired by Mr. Cromme. Not only the general public had a hard time with Siemens over the past year. The Supervisory Board, too, had to deal with challenging issues. That was not an easy task for any of the individuals involved.

This year, two employee representatives will be leaving the Supervisory Board: Lothar Adler, the Chairman of the Central Works Council. And Reiner Sieg, who represents senior managers. Both will reach the age limit for employees prescribed by law and will therefore retire. This is the last Annual Shareholders' Meeting for them. I want to thank both of them for their dedication. As staunch advocates of the interests of Siemens employees, they have made important contributions to our Company in service to the Company over many years. I would also like to include Mr. Josef Ackermann in my thanks; he resigned from the Supervisory Board last year on his own accord.

Customers all over the world count on Siemens

There is no doubt that we were not always successful last fiscal year. Nevertheless, we also achieved a great deal. Where we disappointed expectations or where competitors left us behind, we need to improve. But we are also happy about our successes.

> We won several important contracts that will secure jobs and strengthen us further as a Company. The contract for Thameslink, one of London's most important rail connections, comes to mind. Or the construction of the Riyadh Metro in Saudi Arabia. We currently have orders for more than €102 billion in our books. Above all, that makes one thing clear: Customers all over the world count on us, trust us, and want access to our expertise and capabilities to secure their future.
> The profitability of some of our Divisions is outstanding, for example, the Imaging & Therapy Systems Division in the Healthcare Sector; or Industry Automation and Drive Technologies in the Industry Sector; or Fossil Power Generation in the Energy Sector. Taken together, these four businesses accounted for more than 80% of our operating profit last fiscal year – and that with a revenue share of just 44%. They're leading us in the right direction – and that is the direction that must be taken.
> With the spin-off of OSRAM, we not only gave the lighting business an attractive future, but also found a solution that benefited you, our shareholders. The shares you received a few months ago have nearly doubled in value since then. I hope you held on to them until today.
> And we chose a promising solution for the Nokia Siemens Networks (NSN) joint venture that will also secure jobs here in Munich. Prudence and patience paid off for both OSRAM and NSN. This was not vacillation or hesitation; it was developing the right approach at the right time.

Even though we cannot be satisfied as far as operations and strategy are concerned, on the whole our financial performance was solid. That's why we can once again propose a dividend of €3 to you at the conclusion of the fiscal year. That upholds our commitment to continuity and stability in our dividend policy. At 57%, the dividend payout ratio is within the 40% to 60% corridor.

If you take into account the effects of the stock buy-back plan implemented in 2013 and the OSRAM spin-off, the year was really not all that bad for Siemens shareholders as far as payout is concerned. We will continue to aim for attractive returns for our shareholders, 140,000 of whom are employees, without neglecting investments in the Company's further strategic and operational development.

Learning from mistakes

However, the past fiscal year also showed us that there are things we must do better. We talked a lot about growth and allotted large amounts of money and substantial resources to that end. In fiscal 2011 and 2012 alone, we hired a net total of nearly 36,000 people in our continuing operations. In spite of that, we lost ground against our competitors.

And, in acquisitions and in the planning and implementation of several large and important projects, we were not as reliable as our customers expect us to be – nor as reliable as we expect ourselves to be. That cost us not only prestige but a lot of money.

In the last seven years, we've incurred special charges averaging €700 million – and that each year. In the last two years, the average soared to more than €1 billion per year. That is definitely too much. And we have to change that. Through transparency, discipline and consistency. And that also involves learning from our mistakes.

And we've started doing that. Over the past few months, we've focused on improving our technical risk management. For example, we'll involve Corporate Technology in the risk assessment of new types of large projects.

We have made progress in the difficult projects, of which you've had to hear in the press time and again. That applies to offshore platforms in the North Sea and to high-speed trains, as well as to the construction of the Olkiluoto power plant in Finland. Yet, these projects will keep us busy for years to come and represent latent material risks for the Company's profitability throughout that period of time. There are many conclusions we can draw from these setbacks. One of them is especially important to me. We must listen to customers better and engage them as partners more extensively and more closely in the implementation of complex projects.

That's why the expansion of customer support, the proximity of our regional units to customers, and the strengthening of our sales regions have been the top priorities for me since I took office.

A company can only be successful if it understands its customers well. The paths to customers must be shorter, and local support must be more direct. That's why we've restructured our regional organization. Going forward, we will do without one entire hierarchy level, namely our former regional Clusters.

Instead, 30 Lead Countries, which account for more than 85% of our revenue, will report directly to the Managing Board. These 30 countries will manage the rest of the countries through 100 sales regions and will also determine the amount of resources allocated to them. Additionally, Lead Countries will be directly responsible to the Managing Board for market coverage in their Region. All that adds up to shorter paths, faster decisions, better coverage of markets, even smaller ones, and, most of all, greater customer proximity.

Margins, employees, market share

We delivered a sound quarter to start our fiscal year. As expected, market conditions were not in our favor. We continue to focus on our productivity program for the year, and on the actions we will take beyond 2014.

But of course there are some things we have to improve in addition to that. We have recently lost ground against competitors, in terms of both profit margin and market share. Market share means growth, and growth secures jobs. Here, our competitors did better on average.

And the same applies to profit margins. On average, our competitors have outperformed us since 2011. We cannot and will not be satisfied with that. We are concerned about both profit and people. There's no need to construct artificial opposites here. Sustainable profitability in line with industry benchmarks is indispensable to us. Just as indispensable as the employees who earn the profit with their dedication and skills.

Profit is not about greed or craving recognition. Rather, it's about meeting the basic requirements for maintaining and improving our global competitiveness. Profit finances investments, innovation, market development, and particularly the state-of-the-art continuing education of our employees.

That's why consistently delivering stable profit on par with industry benchmarks is essential to securing jobs at Siemens. That's why we must quickly reduce the profitability gap to competitors and close it in the long term. Last fiscal year we invested €1.3 billion in measures to improve profitability. That investment must now start yielding results, and the agreed plans must now be systematically executed. Doing so will enable us to raise margins on the Sector level by 200 to 300 basis points relative to fiscal 2013 and so achieve a Sector margin of between 9.5% and 10.5%.

Internal order and more stringent leadership

Leading a company is not accomplished by grass-roots democracy. There has to be an internal order, a prioritization of tasks, and a consistent and prudent allocation of resources to businesses that serves the larger whole. And that “larger whole” is Siemens. Siemens must once again come first at Siemens. That calls for discipline and for setting aside personal interests.

We’ve used the last few months to strengthen this internal order at Siemens. And we will lead the Company more stringently:

> Customers will be managed by capable sales regions, which will be responsible for market coverage in their countries.
> A strong – and “strong” does not mean “big” – corporate governance unit, what I call the “Corporate Core,” will define guidelines for the Company in close coordination with the Managing Board, oversee their implementation, and maintain our internal order. In that capacity, it will support our businesses and have the authority to issue directives.
> The Business Units will be responsible for shaping and implementing strategy and for developing and manufacturing their portfolio of products and services. They will be accountable for the income statement and are thus globally responsible for their businesses.
> The Managing Board will represent the Company as a whole – always and everywhere. It will prioritize and integrate all businesses, Regions and functions, and thus maximize Siemens’ success.
> We have streamlined the Managing Board itself significantly and redefined the responsibility for the integration of Sectors and Regions – in other words, the matrix. That, too, is a step toward concentration, efficiency, and faster decision-making.

One measure of the “Corporate Core” was to review stock exchange locations for Siemens. The result of this review is the decision to delist Siemens’ American Depositary Receipts (ADR), an equivalent of shares, from the New York Stock Exchange (NYSE). Siemens intends to terminate its reporting obligations (deregistration) to the U.S. Securities and Exchange Commission (SEC).

In doing so, we take into account the change in the behavior of investors and the capital market, which now significantly differs from the original assumptions made when Siemens was listed. Independent from the delisting, the high standard of transparency in financial reporting and first-class corporate governance will continue to be top priority at Siemens.

The stock markets support our course. They’ve given us a lot of credit in the past few months. Siemens stock price has risen significantly since the summer of 2013 and has outperformed the DAX, not to mention several competitors. That’s both an obligation and an incentive. We will live up to that.

But whatever we do, it must add lasting value and deliver benefits – for shareholders, for employees, for customers, and for our partners in business and in society. Today we are already planning for the time after 2014 because one thing is certain: Siemens will be around far beyond 2014.

It is the principal task of the Managing Board to shape the Company's future, to chart its course, and to define milestones for achieving goals. We will do that ourselves; we will not allow anyone else to do that for us. We will present the results of this process when we release the second-quarter results in May. There has already been a great deal of speculation about the potential outcome of this process and its impact. Rumors and conjectures have abounded but, as usual, have disintegrated under the weight of reality. And I am sure that until May many more speculations will come and go.

Permit me to say a few words about that. What is correct – and important – is this: Our Company is not a restructuring case. We are global, competent, and powerful. In terms of technical abilities and in many areas, we are among the best in the world. Even though we lost ground in profitability, we will not regain that by frantically taking action or by making cosmetic changes but by rigorously and responsibly focusing on creating value.

The further development of our Company – in terms of strategy, content, and therefore also structure – is an ongoing process. In fact, it's entirely normal in a well-run company. We are not making changes for the sake of change. We are doing that to safeguard this great Company's competitiveness in the long term. And in so doing, our ambition to be the leader along the entire value chain of electrification will be the foundation for structural decisions.

Anticipating changes and seizing opportunities

Those who want to shape markets cannot be guided by what others have already done but must anticipate changes and seize opportunities. That is our aspiration. And we will work hard and tirelessly to achieve that. We won't be able to please everybody. The speed of international competition is too great for that. That's why we will have to set priorities. But we will make changes in a decent, responsible, and prudent way – just as is expected from Siemens and from us.

As we assess our portfolio in terms of strategy and operations, we will address the following issues:

> First: What are the growth areas of the future? What markets, what geographic regions, what technologies?
> Second: Where do the greatest profits for our Company beckon? Where can we make money in the long term and so create lasting value for shareholders and employees?
> Third: Why should customers choose Siemens and not one of our competitors? What are our success factors? What are our capabilities and what capabilities do we have to acquire quickly?
> Fourth: What synergistic value does Siemens gain from of current and future businesses? Why are we better as an integrated company? Do we have the best businesses on the field?
> Fifth: Where are there radical structural changes – so-called paradigm shifts – in the markets our businesses cover and what impact do they have on our strategy and on the continued existence or further evolution of our Company?

Electrification, automation, digitization

The excellent news here is that a large part of our portfolio is already in the “sweet spot” of major global trends, trends such as urbanization, demographic change, resource efficiency, and globalization.

These trends open up attractive opportunities – for us, but also for our competitors and for those who are attempting to enter the market with new technologies. Digitization has already profoundly changed the world. Yet, that’s just the beginning. Many companies from the digital world – especially software companies from the Old and the New World – are trying to venture into our domains and markets. We take that very seriously and pay due respect. But those who try that should also know: we’re already there. And we know our customers and their processes!

That’s why we will concentrate even more on what we do well: Siemens is the electrification company! Our Company is a powerhouse that covers the value chain of electrification like no other company – from power generation to the efficient use of power. We are a leader in automation, and we want to remain a leader. However, digitization is becoming the determining factor in shaping the future almost everywhere. That is what we will focus on in our strategy and that is how we will set up our Company’s structure.

Siemens is more than just a company. Siemens is an institution, a flagship for Germany, the synonym for “Made in Germany.”

Siemens stands for the virtues that the whole world associates with Germany:

- Outstanding engineering and relevance in technology and innovation;
- Quality and reliability;
- Ingenuity and determination;
- Stability and solid finances;
- And also social responsibility, for example, by providing excellent training and education for young people throughout the Company.

We stand out with our global footprint. And we’re proud of our long-standing relationships with customers and partners all over the world. These are the values and cornerstones on which we can build a successful future. And living up to these values day after day is what counts. That’s how we will act; that’s how hard we will work.

My colleagues and I bear the responsibility for the Company’s future. I consider that my commitment and my calling.

There will be no excuse for complacency or hesitation. Not with respect to the Managing Board, nor with respect to customers and the general public, and especially not with respect to you, our shareholders.

A culture of responsible ownership

For many decades, Siemens was a family enterprise. It was led by owners who had a natural interest in its long-term development. But these owners also knew that lasting success must be planned and developed every day, every quarter, every year. Not hastily, but rigorously and responsibly!

Many employees are also Siemens shareholders. I'd like to see that number grow so that a culture of responsible ownership develops within the Company. What I mean by that is that every employee, from Managing Board member to trainee, bears responsibility for the sustainable and lasting development of the Company. My message to everyone is this: Always act as if it were your own company!

Ownership obligates. We treat what we own with care. We want to protect, preserve and multiply what we own. We do not squander it. We do not neglect it. A culture of responsible ownership appeals to every individual's sense of responsibility. That's the kind of culture I want to establish, nurture, and put into practice by example at Siemens.

Siemens stands for responsibility – for the aspiration that our work will make life better for our children's generation. That is our commitment. That is our promise. And that is how we will write the next chapter of the Siemens story.