

SIEMENS

**Interview with Peter Löscher
President and CEO, Siemens AG**

**SiemensWorld
October 11, 2012**

Mr. Löscher, the Siemens Business Conference in Berlin attended by around 600 of our top managers has just ended. What were your impressions?

It was a very good event that looked at the past fiscal year and set clear goals for the future. We expect to see, under the anything but easy conditions in 2012, one of the best operational results in our company's history.

Despite this, we aren't satisfied since we didn't reach our goal of being better than the market and competitors. So we drew our conclusions. I think it's important that we all have a common understanding of what lies ahead. Each of us knows what needs to be done, and now it's about tackling the work.

The program you announced in the summer is certainly among these tasks. How do you explain to the management and employees why a hefty billion-euro profit isn't enough despite the weakening global economy – and that a program is necessary?

Siemens has a clear strategy and is highly successful in many fields. With *One Siemens*, we also have a demanding target system and want to grow with capital efficiency with a revenue goal of 100 billion euros in the medium term. This is all set and official. In past years we continually improved the company and reached a profit level that is far higher than the average of past decades. In 2011 we achieved record results – in a very good market environment. 2012 was a more difficult year. The level we are at now, however, is still quite respectable.

But we did not reach our overall goal for the year. As a leading company, we want to be better than the competitors. We don't want to bob along somewhere in the broad masses of the middle field.

The development in the past year was therefore not good enough. We believe our new company program will get us back in top form and enable us to stand at the top again despite a challenging global economic situation.

And why weren't we as strong in 2012 as in the previous year?

We clearly banked on growth in the global economy and on the recovery in the second half of the year expected by the economists. But then the forecasts were steadily adjusted downward.

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And instead of seeing a recovery, we had to deal with a worldwide downturn. In Europe, where we do around half of our business, many countries are even in a recession. We didn't succeed in adjusting to this development fast enough.

So external factors were primarily responsible for the weaker results?

We couldn't expect any tail winds from the economy. But – and I want to clearly address this point – we also have homemade problems, such as with individual projects like connecting wind farms in the North Sea and with insufficient profitability in some businesses. In addition, our costs are too high and we must be faster to better respond to changes.

You presented the framework of the program for the first time today. Will it fundamentally change the company?

No, the company's fundamental setup in four Sectors is good. Nothing will change here. The new program is specifically aimed at improving our competitiveness and quickly getting us back to where we can achieve continual improvements vis-à-vis the competition. We have defined five action areas here that apply company-wide and will be specifically developed by the respective Sectors. And incidentally, the employee and shareholder representatives on our Supervisory Board have reacted very positively to the program and support it.

What is behind these five elements?

First: targeted actions to reduce costs. We must produce at lower cost and plan, for example, to more closely integrate research, development and production to this end.

Second: We will further develop our sales structure – our go-to-market – and take the size of countries and markets and the differences in our businesses into greater account. For example, we definitely do not need a complete copy of the Siemens organization everywhere, but instead different solutions reflecting regional conditions and potential.

Third: We want to simplify procedures and processes and reduce complexities. Our goal must be to spend more time with customers and less energy on filling out forms or answering queries from headquarters. The concrete goal here is fewer central guidelines and fewer circulars.

Fourth: We will further optimize our worldwide infrastructure. Our regional infrastructure Clusters are the right approach here. But we want to eliminate, for example, redundant functions and parallel processes on the Cluster and country levels and further improve efficiency.

And fifth: We will take a close look at businesses in our Sector structure whose profits haven't met our expectations for a longer time. We will take specific countermeasures to overcome permanent burdens on the company resulting from insufficient profits in individual businesses. And we want to further strengthen our core business.

We plan to have clearly defined responsible individuals for each of these elements, concrete actions and schedules.

What financial indicators do we have to keep our eye on here?

The development of our gross margins shows that we must reduce our costs compared to our competitors – from development, through procurement to the finished product ready for shipping. Our expenditures for research and development as well as for administration and sales – our OPEX – have also risen too sharply overall. For one, this is about productivity. For another, we must improve our cash position again – which means generating more cash from our operations. The goals of the program and its impact can ultimately be summarized and measured with these two indicators.

When will we see the concrete actions?

Right now, we are developing the individual actions with the Regions, Sectors and Corporate Units. When we present our figures for the past fiscal year on November 8 we will also show milestones and can give concrete numbers.

How many jobs will this cost?

That isn't the program's starting point. We aren't setting job numbers as a target, but are setting action areas – the five elements. They will be backed by concrete measures. Where there are structural issues or markets fundamentally change, there can also be changes in the workforce –

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like we recently announced, for example, with the wind business in the U.S. or the transformer business in the Energy Sector. There will always be such issues and we will tackle them. In a company of our size, the number of jobs is never constant. There are always adjustments in both directions – upwards as well as downwards.

For employees and managers, the ever-faster pace of changing burdens isn't easy!

That's true. Our times are marked by extremely rapid changes and our markets are volatile. But don't forget one thing: Tomorrow Siemens will be 165 years old. Compared to many challenges faced by our predecessors, our problems today are put into perspective. We must be aware of them and act.

That's why I think it's so important that we don't take a "one size fits all" approach, but proceed specifically from country to country and business to business. In the end, our employees are also seeing how the markets are massively changing and orders are declining. But they expect in return that we take counteractions and clearly address and correct our own mistakes. No one is simply an observer here; each of us must contribute to the success of the team.

Will the program replace our One Siemens target system?

No. The strategy and target system remain. The program underscores One Siemens and will serve to help us reach good results as in 2011 and reach our goal of successfully measuring ourselves against the best competition, even without the support of the economy.