Siemens to strengthen responsibility and sustainability with new Managing Board compensation system

- Managing Board members’ individual responsibility to have greater weight
- In addition to capital market performance, sustainability targets included for first time
- Contractual maximum compensation agreed
- New compensation system makes Siemens a pioneer among DAX companies

Siemens intends to adjust the compensation system for its Managing Board members in order to align the system more closely with the company’s sustainable development and thus with the Vision 2020+ company strategy. By implementing the new system, Siemens is taking on a pioneering role because the new approach already reflects the draft version of the German Corporate Governance Code of May 9, 2019, and the draft version of the act transposing the European Union’s Second Shareholder Rights Directive into German law. In addition, the new concept not only considers performance on the capital market, but also places emphasis on targets for environmental protection, professional development of employees and customer satisfaction. In the future, the broad-based MSCI World Industrials Index – instead of a comparison with five main competitors – will be the yardstick for the comparisons that determine the value of the stock awards. The new Managing Board compensation system, which already applies as of fiscal 2020, will be submitted to shareholders for endorsement at the Annual Shareholders’ Meeting on February 5, 2020.

“The reorientation of our compensation system is another important and logically consistent step in our efforts to sustainably shape Siemens for the next generation.
Our new Managing Board compensation system takes into account the interests of all our stakeholders and clearly shows Siemens’ long-term responsibility – not only toward shareholders, but also toward customers, employees and society,” explained Jim Hagemann Snabe, Chairman of the Supervisory Board of Siemens AG.

**Sustainability index as new criterion**

In the future, the value of the stock awards, which will continue to have a four-year vesting period, will not only be based on the company’s capital market performance – measured in terms of total shareholder return – but also on sustainability targets. These targets will be measured using the new Siemens Environmental, Social & Governance (ESG) / Sustainability Index. This index comprises three equally weighted metrics that are derived from the company’s strategic goals and consider key social and political matters: reduction of CO₂ emissions, the number of training hours per employee – in particular due to the challenges posed by digitalization – and the Net Promoter Score for measuring customer satisfaction. Incorporating the sustainability dimension into its compensation system makes Siemens a pioneer among the companies on Germany’s DAX stock index. As early as 2014, Siemens became one of the world’s first major industrial companies to set itself the goal of becoming carbon neutral by 2030. Since fiscal 2014, Siemens has succeeded in reducing its CO₂ emissions by around 41 percent – from 2.2 million tons to 1.3 million tons in fiscal 2019. By the end of fiscal 2020, Siemens’ CO₂ emissions are to be cut in half.

**Greater focus on individual responsibility**

By implementing its new compensation system, Siemens is also honoring the promise made through the strategic dimension of Vision 2020+: Siemens’ Operating Companies are receiving more entrepreneurial freedom and more leeway for decision-making. These changes are also coupled with greater accountability. The new compensation system mirrors these strategic measures by placing a sharper focus on the responsibilities of the individual Managing Board members: for Managing Board members with business responsibility, the profit margin at their respective businesses will now be the relevant metric determining one-third of their short-term variable compensation. For the other Managing Board members, the Group’s return on capital employed will continue to be the corresponding metric. The
target for basic earnings per share and the individual targets will remain unchanged for all Managing Board members.

For the short-term variable compensation, the former maximum payout amount of 240 percent of the target amount has been reduced to 200 percent. The Supervisory Board’s option of adjusting the payout amount for the annual bonus upward or downward by as much as 20 percent has been discontinued.

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