

The Siemens logo is positioned in the top left corner. The word "SIEMENS" is in a bold, teal, sans-serif font. Below it, the tagline "Ingenuity for life" is written in a smaller, black, script font. A large, decorative graphic of many thin, teal, wavy lines flows from the left side of the page, curving upwards and then downwards towards the bottom right, where it partially overlaps a blue rectangular box.

SIEMENS

Ingenuity for life

Annual Shareholders' Meeting of Siemens AG

Speech by Joe Kaeser, President and CEO
Munich, February 5, 2020



Joe Kaeser President and CEO of Siemens AG

Ladies and gentlemen,

We can look back on a successful and eventful fiscal 2019. And the new year began no less eventfully.

While the first quarter of the current fiscal year started out slowly as expected, Siemens has taken center stage in the public climate debate. Activists in the Fridays for Future movement and other environmental organizations have loudly spoken out on social media and in the streets. And they're also continuing their protests both here in the hall and on the sidelines of our Annual Shareholders' Meeting.

Our contribution to sustainability

As I said, Siemens has taken center stage in the climate debate. But, unfortunately, not because nearly five years ago we were the first major industrial company worldwide to pledge to be carbon neutral by 2030. And not because we're already close to reaching the half-way mark on our way to carbon neutrality. And certainly not because our innovative products and solutions enabled our customers to abate nearly 640 million tons of CO₂ emissions in fiscal 2019 – incidentally, an amount equivalent to 80 percent of Germany's total annual CO₂ emissions.

No, we're now the subject of a public outcry because we accepted an order. The order calls for delivering the signaling system for the rail line linking a coal mine and the port where the coal will be shipped. Much has been discussed and written about the order. And there are many opinions and emotions about it.

Admittedly, we failed to see the overall picture involving this order in time. But it's also a fact that we're complying with all legal provisions and that the Carmichael Mine has received all necessary permits from the Australian authorities. Moreover, the great majority of the indigenous population in the region has also approved the project. Still, we acknowledge that we must better prepare our company for dealing with the environmental and societal impact of our direct or indirect participation in controversial projects.

This is particularly true for Siemens Energy, the new company scheduled for public listing in September 2020. This leading energy company will be in the midst of the world-wide energy transition and public debate. We'll have to be prepared for this. To ensure that we're prepared, we've decided to establish at Siemens Energy a Sustainability Committee in which independent public leaders will also be represented. This committee will be able to report and escalate sensitive projects – regardless of whether we are directly or indirectly involved.

The climate crisis is real, it's global, and it's an existential threat to millions of people. Ultimately, everyone on this planet is affected. We're probably one of the last generations of business managers who can achieve a turning point in the climate crisis in time. The diagnosis is clear. We need effective and timely solutions – now.

It's good and important that our children take their future into their own hands. It's right that they warn us and shake us up. But protests alone solve nothing. If you refuse to engage in dialogue and collaboration in order to find solutions, you forfeit the moral right to discredit those who are making enormous contributions to a better and cleaner world through the energy and commitment of hundreds of thousands of motivated employees and through the investment of billions of euros in innovation.

In any case, we'll thoroughly analyze our entire value chain. Our goal is a faster and more comprehensive reduction of emissions in all parts of this chain. We are earmarking a total of €1 billion to be spent here by 2025. This money is flowing into new technologies, new sustainable products and concrete measures to reduce emissions along the entire supply chain. With this commitment, we're taking sustainability to a new level.

Stake increased in Siemens Gamesa Renewable Energy

Siemens Energy will be able to take on an important role in the worldwide energy transition from conventional power generation to renewable energies. This also applies to contributions to everything from fossil fuels to synthetic fuels and energy systems based on green hydrogen. For this transition, a robust, profitable and innovative business with renewables is a key requirement. And this, for us, is Siemens Gamesa Renewable Energy, or SGRE. This is exactly what our decision yesterday is aiming at. We're increasing our stake in SGRE to around 67 percent. To do this, we're acquiring Iberdrola's 8.1 percent stake in the company. We will then transfer our entire stake in SGRE to the future Siemens Energy.

We must rigorously pursue a successful energy transition, and we must do so in a manner that's acceptable to society and the economy. We must bear in mind that the energy industry is part of a highly integrated, global value chain. The conditions for decarbonizing an economy are not the same in all regions of the world. There are clear differences, for instance, between industrialized and developing countries. We must and will take this into account in our sustainability strategy.

To do this, we want to maintain a solution-oriented dialogue with all interest groups – or stakeholders, as they are called in international usage. Our doors are open – because we know we can accomplish so much together. Siemens also achieved a great deal in the past fiscal year. Let me tell you about it.

Winning streak continues: Full-year forecast achieved at all points

Fiscal 2019 was a good year for this company of ours. Despite a clearly cooling economy, we met our full-year forecast at all points. While many other industrial companies had to revise their outlook, and some competitors in the meantime struggled to survive, we were able to tick off four green checkmarks beside our forecast figures.

As predicted, revenue grew moderately by three percent. The relation of orders to revenue, the so-called book-to-bill ratio, was greater than one, coming in at a very good 1.13. Orders grew by a substantial six percent, giving Siemens a record order backlog of €146 billion at the end of the fiscal year. Adjusted for severance charges, our Industrial Businesses achieved a profit margin of 11.5 percent. This figure was exactly in the middle of our target range. Basic earnings per share, adjusted for severance charges, reached €6.93, which was also within our previously defined range.

It's great, of course, to have one successful year. But having a winning streak is truly something else. In fiscal 2019, we succeeded in reaching or even exceeding our forecast targets for the sixth year in a row. You can see many green checkmarks on the slide presentation – and in fact, there were even two in each of the years from 2016 to 2018. The double checkmarks indicate that we successfully raised our forecast during the course of the year.

We're growing again: Steady upward trend since 2014

We're back on a growth track again. In the 1990s and at the beginning of the new millennium, Siemens impressively showed how growth works. Even if profitability didn't keep pace. Now, we're back on this growth track. This time, with a considerable increase in the profitability of our operating businesses. For example, our adjusted EBITA margin increased by nearly 40 percent between 2013 and 2019 – from about eight percent to about 11 percent. Those who are looking for lost years will find them between these two growth cycles.

This achievement was possible only with a reliable management team and great, committed colleagues throughout the world. My warmest thanks to all! But as Germany's famed national soccer trainer Sepp Herberger once commented: "After the game is before the game." We'll work hard to continue this winning streak in 2020 as well!

A strong Siemens team

Siemens is on a growth trajectory. You can also see this from the fact that we brought on board around 43,400 new employees in fiscal 2019, including 5,300 here in Germany. Today, Siemens has over 385,000 employees – as many, by the way, as the big American companies Google, Apple and Microsoft combined.

Capable and productive employees are our greatest asset. And to secure their skills in the digital age and to support them in their personal development, lifelong learning is essential. That's why we invested €515 million in training and continuing education in fiscal 2019 – above all for providing digital skills. And we are also training young people – currently around 10,900 apprentices and university students in work-study programs. This makes us one of the private sector's biggest training institutions worldwide! And that, ladies and gentlemen, is how Siemens is shaping the future.

While the training and skills of our employees are important, strong motivation can move mountains. So how do our colleagues feel about working for Siemens? Our regular employee surveys show a positive picture. I'm especially pleased that 81 percent of our employees recently declared: "I can fully apply my skills and abilities in my work." And no less than 91 percent said they know exactly what is expected of them at work. Both figures were three percentage points higher than two years ago.

These are excellent results for a company that's changing as extensively and rapidly as Siemens now is. The fact that Siemens is perceived as a good employer both internally and externally can also be credited to Janina Kugel. I very much regret that she's leaving the company, for we're losing a great colleague and personality. I'd like to warmly thank her for her outstanding work.

Partner of choice for customers

Dedicated and expert employees are also key to reliably meeting customer expectations. And since customer satisfaction is another very important asset, I'm happy to say that we've set a new record here. We've improved our so-called recommendation rate – our Net Promoter Score – by more than 70 percent since 2013. Siemens is the partner of choice for customers around the world. And this trust was also reflected in concrete orders in fiscal 2019: Our order backlog reached an historic high of €146 billion (on September 30, 2019).

We achieved many successes in the market. I'd like to touch on just a few of them here. At Digital Industries, we entered and expanded future-oriented partnerships. For example, we're supporting Volkswagen as its integration partner in setting up a new industrial IT platform in all its 122 factories. This means that plant systems in all Volkswagen factories will be networked with one another. The company's suppliers will follow.

There were also many major orders and customer successes at Smart Infrastructure (SI) during fiscal 2019 – too many, in fact, to highlight specific examples here. Our Smart Infrastructure team did an excellent job – especially here in Germany.

Our strong Mobility business also proved that it's the first choice for customers throughout the world. I'd like to spotlight just two examples: the order from Russian Railways for the Velaro RUS and the new trains for the London Tube. The combined volume of these two orders is €2.8 billion.

Gas and Power won some great orders in a persistently challenging market environment. One of these is in Açu, Brazil, where we're building a 1.3-gigawatt combined cycle power plant. We'll also provide long-term service for the plant, including its operation and maintenance.

We're investing in the future

In fiscal 2019, Siemens continued to heavily invest in the future. This is particularly true for innovation. During the year, we spent €5.7 billion on research and development alone. This marks a 40 percent increase compared to 2013.

In fiscal 2020, we plan to increase our research and development expenditures again to a total of €5.8 billion. We're making targeted investments in business areas that have strong growth prospects. They include, for example, investments to steadily improve our offerings for industrial customers in fields like artificial intelligence, edge computing, 5G networks and cloud solutions. These investments will enable us to further expand our position as the global market leader in industrial digitalization.

Rising dividends and above-average total shareholder return

As a shareholder, you will also benefit from our successes in fiscal 2019. We're proposing a dividend of €3.90. This marks the sixth year in a row that we've raised it. Siemens' dividend policy is not only attractive but also reliable.

The development of our share price was also quite satisfying. One indicator that is often disregarded here is total shareholder return. If you held the shares you bought on July 25, 2013 – the last time Siemens issued a profit warning – and reinvested the dividends, then your total return at the end of 2019 was 82 percent. In the same period, the 30 companies of the DAX index showed a comparable total return of only 60 percent. And the average return of our main competitors was just 29 percent.

We make real what matters

With the presentation of Vision 2020+ in August 2018, Siemens oriented its actions on its purpose. We make real what matters! The purpose of our company is to create value for all stakeholders – for customers, employees, shareholders and society.

Many have followed our example. Nearly 200 CEOs of the largest American companies have now committed themselves to exactly the same purpose. Today, companies can no longer act as if the only purpose of business is to make a profit. Those days are over. Today, companies have to keep a close eye on all stakeholders. At Siemens, we measure the value we create for society on the basis of the 17 sustainable development goals set in the United Nations Agenda 2030. These goals define what is understood as sustainability and progress by the international community. Our efforts here are recognized and understood worldwide.

And recognition has also come from the renowned American business magazine *Fortune*. For the fifth year in a row, the magazine has ranked Siemens No. 1 as the “most admired company” in its industry. A company that sets standards. In the name of the Managing Board, I'd also like to thank all our Siemens employees worldwide for this outstanding performance. And I trust I can also do so on behalf of everyone here today.

Vision 2020+: Milestone for Siemens

This achievement is all the more remarkable when one considers that our markets were characterized by geopolitical and geo-economic tensions, restrained growth and technological upheavals. At the same time, we're implementing our Vision 2020+ strategy concept in order to achieve what is probably the largest transformation in our company's 172-year history. Vision 2020+ marks a structural and economic milestone for Siemens as well as an emotional milestone for many of us. Today we're setting our company's course for an entire decade. Focus, accountability, adaptability – these are the success factors for the next generation.

The Siemens brand will consist of three companies that concentrate on their respective markets: the new, industrial Siemens AG, Siemens Healthineers AG and, coming soon, Siemens Energy.

Siemens Healthineers: Focus pays off

We took the first step in focusing our company on March 16, 2018, when we listed Siemens Healthineers AG on the Frankfurt stock exchange. It was a very good first step. The share price of Siemens Healthineers has since increased by more than 50 percent, significantly outpacing Germany's MDAX stock index.

The company's market capitalization has grown from €28 billion to €43 billion (on December 31, 2019). This impressively demonstrates that the valuation of this business as an independent and focused specialist was able to develop significantly better than within the conglomerate. Given its market capitalization, Siemens Healthineers would rank as the eleventh most valuable company in the DAX stock index, which consists of Germany's 30 largest companies.

Siemens Energy: Leading role in energy industry

We want to repeat this revaluation – experts call it re-rating – with our energy business. There's a lot to be said favoring the success of this new company. The demand for energy, more specifically electrification, is increasing worldwide, especially in developing countries. Some 850 million people still have no access to electricity today. At the same time, the world has to radically reduce its CO₂ emissions. Satisfying this growing demand while reducing emissions is a massive challenge – and a major opportunity as well.

And no other company can master this task as well as Siemens Energy. In fossil power generation, in power transmission, in renewable energy, in the oil and gas business, and in new businesses like hydrogen and storage technologies.

A robust, profitable and innovative business with renewables is an especially important prerequisite for success. By increasing our stake in SGRE, we're taking the next step: renewable energy will be a pillar in Siemens Energy's portfolio.

From 2014 to the present day, Lisa Davis has been responsible for Gas and Power and has led Siemens' energy business through challenging times. She has paved the way for the independence of Siemens Energy. Thank you very much, Lisa! On behalf of all of us, I wish you all the best for your time after Siemens.

It's now the sole responsibility of Michael Sen, the designated CEO of Siemens Energy, to successfully execute the public listing together with his team. All the while, it's essential to keep a close eye on implementing measures to improve earnings in the energy business in fiscal 2020. This need was quite obvious in the first quarter of the current fiscal year.

Milestones to public listing

Although the timetable for the public listing is ambitious, we're right on track. The legal separation of all Siemens Energy activities from Siemens' other activities should be largely completed by the end of March 2020. Subject to your approval, esteemed shareholders, Siemens Energy will be spun off as an independent entity. You'll have the opportunity to vote on this spinoff at an Extraordinary Shareholders' Meeting of Siemens AG planned for July 9, 2020. You'll receive a separate invitation to this event. We're thus placing the largest part of Siemens Energy AG into your hands. The public listing is scheduled for the end of September. As a Siemens shareholder, you'll then receive a number of Siemens Energy shares that is still to be determined. For the time being, Siemens AG will continue to be an anchor shareholder holding a strong minority stake in Siemens Energy.

The new Siemens AG: Digital Industries, Smart Infrastructure, Siemens Mobility

You may be asking yourself: What will the future of Siemens AG look like after the spinoff of Siemens Energy? Siemens AG, or the new industrial Siemens, will bundle the Digital Industries, Smart Infrastructure and Siemens Mobility businesses. All three are outstanding businesses that have what it takes to be leaders in their respective markets. The businesses of the new industrial Siemens AG embody in pure form our success formula for the future of industry: E-A-D – or electrification, automation and digitalization.

We assume that investors will honor the spinoff of Siemens Energy and the focus of the new Siemens AG on industry and infrastructure by reassessing the company. Above all, because the new Siemens AG – as a focused industrial company – will have a significantly higher level of profitability. The company's growth will accelerate in the medium term.

Let's take a look now at the individual businesses of Siemens AG: Digital Industries is the global market leader in automation and sets standards in industrial digitalization. By offering industry's most comprehensive portfolio of integrated software and automation systems, we support our customers in their transition into digital companies. Over 180,000 customers and 7,500 partners worldwide trust our knowhow and our unique Digital Enterprise portfolio.

Smart Infrastructure provides state-of-the-art solutions that are shaping the future of sustainable and efficient urban centers. The advancing electrification of societies offers excellent business opportunities worldwide. Smart Infrastructure is investing heavily in cutting-edge technologies at the so-called grid edge, the interface between smart networks and smart buildings. We're confident that these investments in digitalization will pay off for the benefit of our customers and shareholders.

In terms of content, Siemens Mobility is part of Smart Infrastructure and is thus a core industrial business. The business has been delivering excellent results quarter after quarter over the past six years. And when it comes to reliability in executing major orders, providing digital innovations and margin quality, it's setting standards in an attractive market. The business also offers prime examples of how infrastructure can be digitalized. We're currently digitalizing the rail network for Bane NOR, the Norwegian government's railway infrastructure agency. We're talking here about 4,200 kilometers of track and over 350 railway stations. We're making very good progress on this €800-million project. Those who talk about digital infrastructure these days can't ignore this lighthouse project.

It's incomprehensible that we aren't leveraging these opportunities in Germany. We're missing a unique opportunity to show the world how digital mobility management of the future works: Made in Germany – Powered by Siemens.

The Siemens ecosystem

With Vision 2020+, we've redefined our aspirations. We're giving our businesses much more entrepreneurial freedom and responsibility. In turn, we're calling on them to accelerate their growth and achieve higher, sector-typical margins. Next-generation Siemens will no longer be the complex conglomerate we've long known and loved.

Allow me a personal remark here: In one month, I will have worked at Siemens for exactly 40 years. Siemens in 1980 and Siemens in 2020 are two different worlds and generations, technologically, economically, structurally and culturally.

Just think about the rise and fall of our communications businesses. Think about the public listing of our semiconductor business. Think about the compliance crisis, which threatened nothing less than the existence of our company and taught us many lessons. Think about how we made healthcare technology a highly profitable business and, more recently, a respected company. Or how we became a top provider of renewable energy by founding Siemens Gamesa Renewable Energy. Or think about how our customers and even our competitors respect our industrial business. Because we are the ones who are shaping the future of *Industrie 4.0*. Drawing on our unique combination of hardware and software, we are setting the standards for the Fourth Industrial Revolution.

It would be easy to cling to what already exists and rest on our laurels. We experienced the fatal consequences of such a course at our communications business. Now, we're doing it differently. We're building new companies and creating perspectives for the future. There's a lot of talk in the public about "dismantling." Others incorrectly believe our restructuring will be completed with the spinoff. How short-sighted! In fact, this is where the "freestyle" event begins, the major undertaking. All three Siemens companies can actively shape the transformation of their businesses. They can now be authors, directors and leading actors in the merger endgames of their respective industries. Only then will future generations proudly, confidently and gratefully hold a birthday party in 2047 – on Siemens' 200th birthday!

That's why we're following Vision 2020+ to create a robust ecosystem consisting of three strong Siemens companies. Put briefly, their ambition is to be among the best, preferably the very best!

And how will these three Siemens companies work together in the future? The answer is: by collaborating wherever it adds value for them. This can be technology platforms. Or collaboration in entering and developing regions or markets. Or shared services like IT and procurement. The ecosystem lives from and evolves through shared interests and advantages. Circulars, majorities and holding structures aren't the way to do it.

A strong brand – and a strong community

Siemens is a strong brand. It opens doors everywhere in the world. This brand holds the Siemens ecosystem together. It stands for engineering skills, quality, innovation, reliability and integrity. For me, however, Siemens is more than just a brand. Siemens is a community of great people throughout the world who share the same values and are united by one goal: improving the quality of life of people around the world. Making real what matters. Together with 385,000 colleagues, day after day, year after year. I'm especially proud of this. And I know our employees are as well!

