

# **SIEMENS**

***Annual Shareholders' Meeting of  
Siemens AG***

Presentation by the CEO  
Peter Löscher

Munich, January 24, 2008

*Check against delivery!*

Ladies and Gentlemen,

I, too, very warmly welcome you, the owners of our company, to the Annual Shareholders' Meeting. The dialogue with you is very important to me. That's why I am very happy we have this opportunity to talk.

My report has five parts:

- First, I would like to describe the impressions I gathered in my first weeks and months in office.
- Second, I will report on our progress in the area of compliance.
- Third, I will give you an overview of how the company's business developed in the past fiscal year and in the first quarter of fiscal 2008.
- Fourth, I'd like to explain the reasons for reorganizing the company.
- And fifth, I'd like to look ahead and provide an assessment of market and business developments.

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It was an incomparable moment for me when I stepped before the press at Wittelsbacherplatz on May 20, 2007, together with Dr. Cromme, Mr. Heckmann, Mr. Huber and Mr. Hiesinger. I was born and raised in Villach, a Siemens town. And from my earliest childhood, I witnessed the pride Siemens employees took in our company. On that day, the 20th of May, I, too, had the privilege of joining the ranks of Siemens.

And something else impressed me on that day and moved me. All members of the Supervisory Board voted for me – unanimously.

Given the difficult situation of the company, this was not at all something I took for granted. Rather, I was very grateful to all involved for this generous advance trust.

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What can you expect from me? In essence, three things:

First, I believe in the roots of our company, which are internationality and innovation power. And I am committed to multiplying the legacy of the company's founder, Werner von Siemens, and to passing on this legacy to future generations of Siemens people. This sense of duty is not limited to employees. It applies equally to you, the shareholders, the owners of our company.

Second, you can expect me to do everything in my power to make sure your company lives up to its values "responsible," "excellent" and "innovative" and grows profitably and successfully.

Third, I stand for no compromises in dealing with violations of the law.

In a nutshell: What counts for me is clean business everywhere and always and highest performance that meets highest ethical standards! Highest performance and highest ethical standards are not a contradiction. In fact, you need both to achieve lasting success. That is also a claim that goes back to our founder and to which we are committed.

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It has now been nearly seven months since I took office. I would like to share with you some of the impressions I gathered in my first weeks and months.

From the start, I traveled a lot. I wanted to listen. I wanted to get to know the people who are important to the company, people at many locations throughout the world: customers, employees, shareholders, people who otherwise support our company.

- So, I visited a lot of customers. In Europe. In Asia. And in America.
- I got to know numerous employees on the most diverse levels of the company and talked with them about their experiences and ideas. In Erlangen and in Nuremberg. In Munich. In Berlin. In Vienna. In Shanghai. In Mumbai. In Tokyo. In New York. And in many other locations. Time and again I engaged in dialogues with works council members and union representatives.
- I held many talks with you – our investors. Especially in Frankfurt, in London and in the U.S.
- I also met with political leaders both inside and outside Germany. And I regularly hold talks with representatives of the press.

I also talked with Professor v. Pierer and Dr. Kleinfeld. And particularly in conjunction with the reorganization, I sought out Dr. Franz. The members of the Supervisory Board, above all Chairman Dr. Cromme, have supported me and continue to support me both in word and deed. Openness and trust has marked our cooperation from the start.

Given the sporadic opinions critical of the renewed candidacy of Dr. Cromme and Dr. Ackermann prior to this meeting, I would like to emphasize: in no way can I understand how one can arrive at this opinion.

It was mainly these two gentlemen who stood their ground and rigorously asserted a change of course for the company in the turbulence brought about by the corruption affair.

Dr. Cromme just mentioned that the SEC and the Department of Justice have agreed to meet with us soon for discussions aimed at reaching a fair and comprehensive settlement as early as February. It would be fully unthinkable that we would already be at this point today and that I would have the opportunity to shape Siemens, without the drive and determination of Dr. Cromme and the gentlemen on the Chairman's Committee. And I would also like to expressly Mr. Huber for his support along the way. This is a close-knit team.

I see the support of all members of the Supervisory Board as a guarantee that Siemens stays its current course and makes progress. But we still have a long way to go to reach our destination. That's why I ask you to give those who support this course a clear vote of confidence.

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I would also like to thank all members of the Supervisory Board, both shareholder and employee representatives, personally and on behalf of the entire Managing Board.

Dr. Cromme has already mentioned it and I would like to join him: Peter von Siemens is retiring today after a total of 21 years on the Managing Board and on the Supervisory Board.

Dear Mr. von Siemens, I am happy and grateful for the support and the tremendous dedication of the Siemens family. I would like thank you personally for supporting and advising generations of executives who led this company that bears your family's name and that has been shaped by its founder, your great-great-grandfather.

I am also very pleased that with Mr. von Brandenstein the Siemens family is again making one of its members available for the work of the Supervisory

Board. The Siemens family is part of our company culture and was, is and will be important to our company.

I would also like to thank my Managing Board colleagues

- Dr. Radomski,
- Prof. Wucherer,
- Dr. Sharef,
- Mr. Lamprecht and
- Mr. Montes.

Effective December 31, these five gentlemen retired from the Managing Board. All of them have accomplished much for the company over years and decades. I sincerely thank them on behalf of the Managing Board and all Siemens employees.

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In the months since I took office, I have discovered again and again that Siemens is above all perceived as a company that has made and is making technological history. Siemens is synonymous with German engineering throughout the world. In the talks I had with customers, I was pleased to often hear that they consider us the company that has the capability to decisively shape technological development in the future.

From my own experience I know that our competitors envy our global organization and our deep roots in many countries. Our familiarity with the cultures of these countries and the thinking of their people is one of the great assets of our company. However, these talks also showed me where we need to improve. Here, the assessments of customers and employees largely coincide with the assessments you, our shareholders, make.

The points that occur again and again are:

- Siemens must be easier to understand.
- Responsibilities and decision-making processes must be easier to follow.
- And we must become faster.

We have responded to this by reorganizing the company.

Faster, more focused, less complex – those were the objectives. I will talk about this in more detail later.

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But my first priority (as CEO) was and is compliance. Where do we stand today in the area of compliance?

At last year's Annual Shareholders' Meeting, the imprint of the serious allegations of corruption was still fresh.

First assessments held that it was just a few individuals who violated the law. Today we know that this is not the case. This behavior led our company into the most serious crisis of the past decades. And it will take years for us to completely overcome this crisis.

This applies to the tangible, financial damage: The costs for investigating and clarifying these incidents now amount to about €1.1 billion. Add to that another €520 million of tax liabilities and sanctions, whose scope we cannot estimate, and the thousands of hours our employees are working to accelerate the clarification of cases.

Intangible damage is much harder to measure – the loss of reputation and trust in the general public and disappointment and uncertainty among our customers, our employees and you.

It pains me personally that for months more than 400,000 employees stand accused because a proportionately small number of managers violated basic principles of law and also of decency and ethics.

We cannot undo this. But we can find out who is responsible. Nothing will stop us on the way. Our actions are based on facts. And we will go where the facts lead us.

Whoever is proven to be responsible will be held accountable. This also involves taking precautionary measures on behalf of the company to maintain possible damage claims in the future. However, all employees accused of wrongdoing are presumed innocent until proven guilty. Prejudgments are not acceptable. This, too, marks a culture based on law and just and fair treatment.

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In the past weeks, I have repeatedly said that Siemens has an excellent and comprehensive set of guidelines in place. There was no deficiency there. Rather, our leadership culture failed. The rule that everyone has to stop at a red light was ignored. There is no exception to this rule – never and nowhere and for no one.

The AUB matter belongs in this general context. At the Germany-wide meeting of the Siemens works council members in Nuremberg, I took a stand publicly. And I'd like to repeat that here today: It is my personal impression that strange and misguided activities took place over many years.

To the extent these activities were nurtured from the core of the company, I explicitly apologized for this on behalf of the company to the works councils, to the workforce and to IG Metall. To me, this apology was appropriate and long overdue!

The investigations of Siemens and its former Com Group have been concluded by public prosecutors and tax authorities in Germany. They ended with a court decision and a settlement with the relevant tax authority. The court imposed a fine of €201 million. It has been determined that non-tax-deductible expenses for the years from 2000 to 2006 amount to a total of about €1.3 billion.

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The company has introduced a number of measures to uncover misconduct and sharpen the awareness of employees. We're doing this to meet our own commitment – clean business everywhere and always. At the same time these measures send a strong signal to authorities in Germany, to the Securities Exchange Commission in the United States and to the general public. We are serious about this. We are consistent. We have made a clean break. I would like to mention three examples from the past months:

- First example: In November we launched an amnesty program for employees that will run out in a few days from now. This program encourages employees to report compliance-relevant incidents. In return, the company waives damage claims and employees are not fired. This program has been well received. So far, several dozen employees have used it. And that's positive, because this can help speed up investigations and discovery of facts.
- Second example: We have established a disciplinary committee to determine appropriate disciplinary measures and enforce them in cases

where suspected misconduct or violations of law or the company's guidelines have been substantiated.

- And the third example: In the future, we will annually publish the number of employees who are dismissed for compliance violations or against whom disciplinary action was taken for compliance violations. Last year, there were 470 such cases and 130 employees had to leave the company.

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Now I'd like to give you an overview of fiscal 2007 and the first quarter of fiscal 2008.

As far as business operations are concerned, fiscal 2007 was the most successful year in the history of our company. We were able to raise net operating profit from continuing operations (after taxes) by 48 percent to about €4 billion. Orders increased by 12 percent and revenue increased nine percent compared to the previous year.

The world economy grew 3.8 percent last year. So we have clearly exceeded our goal of growing at twice the rate of the global economy.

I'm particularly pleased that we've met the targets of the Fit42010 Program. On March 31, in other words at the halfway point of fiscal 2007, the margins of all Groups were within the target margin ranges. And at the end of the fourth quarter, all Groups had already achieved the more demanding target margin ranges of the new Fit42010 Program for the first time!

The generally positive development of our business is reflected in the valuation of our company. During fiscal 2007, that is between October 1, 2006, and September 30, 2007, our share price increased 40 percent.

Further increasing the Siemens share price is very important to us. The share buyback program we introduced in November will contribute here. As far as this is concerned, I can report that we will launch the program with an initial tranche of about €2 billion this coming Monday.

Overall, the first quarter of fiscal 2008 meets our expectations. Business volume has developed very positively. New orders climbed nine percent compared to the same quarter last year and revenue increased 10 percent on a comparative basis to €18 billion. Group profit from Operations climbed 16 percent to €1.7 billion. Regarding fiscal 2008 as a whole, we are again aiming for revenue growth that is twice as fast as the global economy's growth. Our goal for profit is to have it grow twice as fast as revenue. And we achieved this in the first quarter.

So much for the figures and issues of the past fiscal year and the first quarter of fiscal 2008.

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I turn now to my fourth point: the reorganization of our company.

In light of such a successful fiscal year, one could indeed ask oneself: Is such a comprehensive restructuring really necessary? The answer to that is: yes, it is necessary! Because even though we are delighted by our success, we still have to recognize that we can and must further improve our financial performance.

Hence, we must confront the changes in our economic environment, for instance, the continuing internationalization of markets. Obviously, this also involves increasing the profitability of the company from a strong market position. To achieve this, we will among other things align the compensation system for our leadership more closely with the respective target margins.

The organization of our company has not changed for almost 20 years. We believe its further development is imperative. By the way, it's one of Siemens' recipes for success to face up to new demands and to drive change on its own initiative. Ultimately, for the last 160 years, our company has always shaped change from within.

We are continuing this process of change and are following the mode of preceding generations – and that mode is evolution and NOT revolution.

Three basic principles have guided us:

- First, Siemens was and is an integrated technology company. There are no efforts to go in any other direction.
- Second, our broad international organization is one of our most important success factors. We will not waver in holding on to this.
- Third, our further development follows a strategy we adopted three years ago that had been laid out by Prof. v. Pierer and Dr. Kleinfeld. We remain committed to this strategy.

Here are the cornerstones of our strategy:

- We are concentrating on activities in global growth markets.
- A No. 1 or No. 2 market position is imperative for all of our businesses. This is ambitious, but it's also a clear guideline for us.
- The best competitors are the benchmark for our profitability.

If we meet these requirements, then we'll be able to offer you an attractive return on your invested capital. And we'll have the resources to invest continuously in our innovation power and in our future. Profitability and innovation power – these are the pillars of both sustainable success and sustainable job security.

Over the past years, our company has intensively analyzed what trends could determine developments for Siemens in the foreseeable future. Mr. Kleinfeld fully described the results for you last year. Summarized, it's about three themes:

- First, demographic change
- Second, increasing urbanization
- And third, global climate change.

The consequences of these developments won't affect humanity far off in the future. We are already dealing with these issues today.

- Demographic change, for example, is causing healthcare costs to soar worldwide.
- The rise in energy consumption is driving the costs of natural resources to previously hardly conceivable heights.
- Climate change demands that governments and citizens take action. At the World Climate Summit in Bali in early December, many countries agreed to significantly lower carbon dioxide emissions – Germany up to 40 percent by the year 2020.
- Global competition among business locations demands ever greater efforts to improve in the areas of quality, productivity and efficiency of manufacturing processes.

Answers to these challenges can only be provided by innovative technology – for example in the areas of:

- Power generation and transmission,
- Reduction of energy consumption,
- Water supply and wastewater treatment,
- Increased efficiency in industrial production,

- Managing the transportation of people and goods and the intelligent networking of transportation systems,
- In building technology in the broadest sense,
- And in healthcare.

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We have rigorously aligned our portfolio to these three areas. Here are just three examples:

- First, we have invested heavily in medical technology, above all in in-vitro diagnostics. That is, processes that enable us to diagnose diseases at the earliest possible point or even to recognize predispositions for diseases. With the acquisition of Dade Behring, we now occupy a leading global position in this area.
- Second, we have invested massively in energy technology, above all in wind power. We have since become the world leader in off-shore wind parks. Furthermore, we have acquired key technologies that enable us to separate carbon dioxide in the fossil-fuel combustion process. There is a good chance that the first CO<sub>2</sub>-free power plant will bear our logo. Last week we announced that, together with our customer, E.ON, we will develop a pilot facility by 2010 that will capture CO<sub>2</sub> from the flue gases of power plants. Large-scale commercial deployment is expected around 2020.
- Third, we made substantial investments in industrial technologies. The next evolutionary step in industrial production is the seamless integration of the real world that produces tangible products and the virtual world of computers that simulates these products and the manufacturing facilities needed in advance. Here, we have further expanded our leading position with the acquisition of UGS.

The sale of Siemens VDO Automotive to Continental AG also belongs to the overall changes in our portfolio. At last year's Annual Shareholders' Meeting, Mr. Kleinfeld announced that Siemens sought an IPO for this Group. And we were serious about pursuing this option. Ultimately, however, it became clear that the sale of this business was the best option and the option that maintained the greatest value.

We are convinced that in the sale of this Group to Continental for a price of €11.4 billion, we chose the best option for you, our shareholders, and for the future of this business.

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After orienting our portfolio to the trends demographic change, urbanization and climate protection, we are now taking the next logical step.

- We are structuring our operations in three Sectors: Industry, Energy and Healthcare.
- Mr. Hiesinger, Mr. Dehen and Mr. Reinhardt will lead these Sectors. This setup will make us more focused.
- Beyond this, we have eliminated from the organization both the Corporate Executive Committee level of the Managing Board and the Group Executive Management. Instead, we direct business operations from the Managing Board.
- This means that beyond the Managing Board, we have no more COMMITTEES. Rather, there are INDIVIDUALS responsible at each level.

This will speed up our decision-making processes and increase the transparency of our organization. Siemens will thus be easier to understand and faster.

We have also reassigned the regional responsibilities within the Managing Board.

- Peter Solmssen is responsible for North and South America, in addition to legal and compliance matters.
- Hermann Requardt is responsible for Technology and Innovation on the Managing Board as well as for Asia, Australia, and the Middle East.
- Siegfried Russwurm, our new head of Corporate Human Resources and Labor Director, is responsible for CIS, Africa and Europe, including Germany. Here we have the most employees.

To counter occasionally heard misunderstandings I would like to re-emphasize the following: Our regional organization will NOT become less important in the future. Rather, its importance will actually be enhanced. I know what I am talking about because I was the head of a regional organization in Japan for a several years.

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We are demonstrating our confidence in the future success of our new organization by setting higher target margins for our businesses.

At the Annual Press Conference in November, we announced a new target margin range for our healthcare business of 14 to 17 percent. Today we published new target margins for our Industry and Energy Sectors.

Starting now, the Industry Sector has a target margin range of 9 to 13 percent, while the Energy Sector's is 11 to 15 percent. So, on a comparable basis, we have raised the target margin ranges of the operating Groups by two percentage points at the high end, respectively.

We will also achieve these goals by leveraging the synergy potential of our organization. Thus, we want to lower our company's SG&A costs by 10 to 20 percent in the coming three years. To accomplish this, we have launched a company-wide project under the leadership of Mr. Kaeser and Mr. Hiesinger.

We will publish preliminary results in an interim report at mid-year. And as a result, Siemens should grow even more with a lean and effective administration.

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I'll turn now to my last topic: the assessment of the developments in the market and our business in the current fiscal year.

Three developments currently influence the world economy.

- First, experts expect the home mortgage crisis to trigger a significant decline in U.S. economic growth. This also holds risks for the global economy. These uncertainties have increased significantly just in the last few weeks.
- Second, Asia's share of the global economy is increasing. It remains to be seen whether economic growth in Asia remains stable if the U.S. economy weakens.
- Third, whether and how much the high price of oil curbs the global economy is hard for us to predict at this juncture. The world economy turned in a robust performance last year even though the oil price surged to \$70. Now, price per barrel has again soared. That means renewed insecurity.

What effects do these developments have on our business?

- In any case, the record high prices for oil have a positive effect on the oil-producing countries, above all the Gulf States and Russia. Therefore, this could very well lead to pockets of strong regional growth.
- For instance, we have a strong market position in infrastructure projects in the Gulf Region and Russia. Our strategic participation in the Russian power plant manufacturer Power Machines has enabled us to establish a good starting position for the modernization and expansion of Russian power facilities. Or, take our partnership agreement with the Austrian company Strabag. This agreement gives us good chances to participate in the infrastructure projects for the Winter Olympics in Sochi.
- What's more, we have an excellent portfolio of products and solutions in the area of energy, from power generation to transmission and efficient usage.
- On top of that, the market for renewable energy is booming. Our biggest challenge in the wind power business is to expand our production capacity fast enough. In November and December of last year alone, we booked three major orders for a total of 227 wind turbines with a capacity of 2.3 megawatts each. This will supply about 350,000 households with CO<sub>2</sub>-free electricity.

For a variety of reasons, then, we assume that the U.S. real estate crisis will NOT DIRECTLY affect our business. We have a strong order backlog and so are all set for the time being.

Last year, the ratio between new orders and revenue, the so-called book-to-bill ratio, was 1.2. In the first quarter of this year, this metric even reached 1.3.

In addition, since the majority of our business activities are determined by long economic cycles, a drop in spending would only be noticeable at a later point, if at all.

And at Siemens, our own strong value-creation capacities in the U.S. dollar sphere must always be taken into account when evaluating fluctuations in currency exchange rates. Our traditionally strong international presence is proving to be a great asset in the current insecurity of the global economy. Continued strong development of our businesses in China and India will of course have a stabilizing effect if there are economic slowdowns in other parts of the world.

To drive sustainable growth in Asia, we are currently expanding our position in the middle segment, in addition to the high-end segment. The middle segment represents between 30 and 50 percent of the respective market and is growing particularly fast.

We'll only be successful in this segment if we establish strong local value creation and procurement. We want to expand both significantly. For example, by more closely collaborating with Chinese, Indian, Korean and Vietnamese suppliers.

All in all, we believe that in the current year we will be able to maintain the strong growth of the previous year. In so doing, we're concentrating primarily on organic growth. But we're not excluding the option to make acquisitions that expand our business portfolio; however, they will no longer be of the same magnitude as in the past three years.

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Dear valued owners of our company,

In the past year, mistakes and failures of the leadership culture of our company came to light that plunged our company into a deep crisis. Our employees feel victimized by allegations and accusations.

And our former employees, who want to look back with pride on their accomplishments, must also justify themselves to friends and family. They can neither understand nor believe the news they are hearing from and about our company.

This does not let us rest. And it distresses me personally! But it's not throwing us off course. Rather, it drives us to renew our commitment to those values that made Siemens strong in the past and that enabled our company to gain a legendary reputation and standing in the world:

The Company Culture that Siemens owes its founder and that is the pillar of our success.

This company culture distinguishes Siemens as a community that is value-oriented. And these values are:

- Responsible
- Excellent
- Innovative.

We're responsible because

- We consider ourselves to be part of the societies in nearly 190 countries in which we operate. Our thoughts and actions transcend the daily, the quarterly and the yearly. Siemens' thoughts and actions were sustainable long before this term entered our everyday vocabulary. Because our company was never geared to short-term success. Rather, our aim has always been continual, long-term success.

We're also responsible because

- We keep in mind that we have a legacy to pass on to future generations. And that doesn't just involve managing the legacy. Rather, it also means multiplying this legacy by using innovation to achieve an edge and explore new opportunities.

We are responsible because

- We invest in the future, not only through innovation but also through education. Of course, to our own advantage. But beyond that as well with a view for society and those groups that are in need of particular attention. Thus, we decided to increase our education budget in Germany by €30 million by the year 2012. This will create training positions for 250 disadvantaged youth. In this way, we're giving young people a chance.

Young people:

- Who did not do well in school, or
- Who have been on the waiting list for a long time at the German Federal Labor Office [Bundesagentur für Arbeit], or
- Who, as immigrant children lack basic skills in reading, writing and arithmetic.

We consider "excellent" one of our company values because:

- We achieve top results with the brightest people and the most efficient processes and so lastingly increase the profitability and competitiveness of our company.

We are innovative because

- Our innovations have been answering the toughest questions of every era for the last 160 years, and because we help our customers create value with our leading technologies.

Responsible, Excellent and Innovative – that is the legacy that Werner von Siemens left to the following generations. Today, we carry the responsibility. And we do so respectfully and thankfully, determined to lead Siemens into a great and sustainable future. Siemens – your company – is in the process of regaining its past strength and its reputation throughout world.

A reputation based on our technological capabilities and on the people who work for this fantastic company. In the name of more than 400,000 employees, I would like to thank you, dear owners of our company, for your trust. We are on the right course. We are making progress, step by step and day by day.

I now look forward to the dialogue with you.