

Annual Press Conference 2007

Munich

Peter Löscher
President and Chief Executive Officer
Siemens AG

Check against delivery!

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Thank you, Mr. Heimbach, Ladies and Gentlemen, I would also like to warmly welcome you to our Annual Press Conference. Before I review the fourth quarter of the fiscal year that just ended, I would like to address a very recent development.

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For the first time in our company's history, we have defined a target for optimizing our capital structure. This target is calculated by dividing our adjusted industrial net debt by our EBITDA and should be in the range of 0.8 to 1.0 by 2010. With this measure, we are completing the target metrics of our Fit4 2010 Program. Given our strong operative cash flow and the high proceeds expected from the transaction for Siemens VDO, we see great potential for optimizing our capital structure. For this reason, we are planning on launching a stock buyback program worth up to 10 billion euros. This will create value for our shareholders and enable us to maintain our financial flexibility.

We are convinced that a more efficient capital structure will enable us to strengthen earnings per share and, at the same time, secure more cost-efficient access to capital markets and strategic flexibility.

This decision also reflects our confidence in the operational strength of our company – a strength which we again substantiated in the fourth quarter after the outstanding results of the second quarter:

- We achieved outstanding results in Q4. Once again, we clearly exceeded our target of growing twice as fast as global GDP. New orders soared 21 percent and revenue grew 9 percent. By comparison, global GDP was 3.5 percent in the quarter that just ended.
- In the fourth quarter, **ALL** Groups reached the higher margin ranges set in the Fit4 2010 Program. In doing so, all Groups were able to increase their absolute profit as well as their margin.

We are particularly pleased that our profit growth significantly outpaced our revenue growth. In the future, we will also pay very close attention to this.

- Net income from continuing operations climbed by **a factor of 10** to 1.4 billion euros.

- Due to a number of special effects from non-operational items, however, overall net income for the quarter is substantially below that of the comparable quarter from last year:
 - The largest single special effect was the sale of Siemens VDO Automotive, which had a negative tax impact of about 1 billion euros. But this was only an advance negative effect of a divestment that is highly successful.
We achieved a sale price of 11.4 billion euros for SV, which amounts to the highest EBITDA-multiple ever paid in the industry. We expect this to have strong positive effects on our earnings this fiscal year.
 - In addition to this, substantial costs accumulated in connection with our internal investigations. This clearly shows that we are making every effort to clear up the past quickly and comprehensively and that we are thus living up to our claim that compliance is our company's top priority.

So much for the non-operating special effects of the last quarter.

- The Supervisory Board and the Managing Board propose a dividend of 1.60 euros per share compared with 1.45 in the previous year.

Now, let's take a look at the fourth quarter figures.

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New orders grew 21 percent to slightly over 21 billion euros compared to Q4 2006. Revenue climbed 9 percent to 20 billion euros. Income from continuing operations soared nearly 166 percent and reached a record of nearly 2 billion euros. Income from continuing operations increased by a factor of 10 to 1.4 billion euros, up from 139 million in the previous comparable quarter.

Earnings per share were 1.35 euros higher than in the fourth quarter of 2006, reaching a level of 1.45 euros. Free cash flow in the fourth quarter jumped 165 percent to 2.6 billion euros, up from 963 million euros in the comparable quarter last year. This upsurge impressively demonstrates our ability to effectively convert operating income into cash. How did the margins of the Groups develop?

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By mid fiscal year, all Groups had achieved the margin ranges of the Fit4More Program as expected. In the successor program Fit4 2010, the Managing Board set more demanding margin targets that were expected to be achieved by fiscal 2010 at the latest. Now we have already achieved these targets in the fourth quarter of fiscal 2007. Strong economic conditions also helped us here. Where do we stand in fulfilling our Fit4 2010 goals from a fiscal year perspective?

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In the Fit4 2010 Program, we **aimed** at growing twice as fast as the global GDP. We **achieved** more than three times GDP growth in new orders, and well over double GDP growth in revenue.

We also **aimed** at significantly increasing our profitability. In Group profit from operations, we **achieved** a jump of nearly 70 percent to about 6.6 billion euros. All Groups succeeded better than before in translating revenue growth into profit. Here, I would like to point out two specifics: First, the profit upswing of about 1 billion euros at Siemens IT Solutions and Services. Second, a loss of more than 400 million euros from our stake in Nokia Siemens Networks.

We **aimed** at achieving a higher rate of return on capital employed, known as ROCE. As you know, we set a target range for continuing operations of 14 to 16 percent for fiscal year 2010. We **achieved** a ROCE of 12.7 percent after 9.6 percent in fiscal year 2006. The fourth quarter contributed more than its share to this increase with a ROCE of 15.5 percent.

The completed or announced acquisitions from fiscal 2007 will lead to a significant jump in invested capital and will so temporarily lower ROCE.

We **aimed** at achieving a stronger focus on cash to finance our organic growth. We **achieved** a cash conversion rate of 1.73 compared to 0.69 in the previous fiscal year. The fourth quarter contributed above average to this increase with a CCR of 1.83.

The bottom line is that we can say that the Fit4 2010 program is off to an excellent start. That makes us confident that we will be able to exceed the stated targets and to catch up to our competitors in terms of profitability.

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We must also improve in the area of compliance. Overall, we are indeed making good progress here. To keep you updated here, we can tell you that our internal analysis of cash and check payments as well as sales-related business consulting agreements has been substantially concluded in all Groups and Regions. Therefore, we believe that we are now very close to determining the volume of non-tax-deductible payments and that this volume will remain within a defined range as investigations continue. We undertook this analysis in addition to the independent and ongoing investigation being conducted by Debevoise & Plimpton.

As a result of this analysis, the following was determined to be non-tax-deductible and booked accordingly:

- As previously communicated in October, the former Group Siemens Communications owes 179 million in taxes in Germany for the period 2000 to 2006 because the tax deductibility of payments amounting to 449 million euros could not be definitively confirmed.
- All other Groups owe a total of 264 million euros in taxes in Germany for the period 2000 to 2006 because payments amounting to 599 million euros could not positively be confirmed to be tax deductible.
- Outside Germany, there is a tax liability of 75 million euros for the period 2000 to 2006 because the tax deductibility of payments amounting to 258 million euros could not be positively confirmed.

Details on these findings are explained in detail in the document "Legal Proceedings," which is part of the Earnings Release. You will find both documents in your press kits.

We are pleased that this brings us one major step further in clearing up our past.

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Our goal for the future is nothing more and nothing less than to deliver highest performance AND meet highest ethical standards. As a consequence, responsibility for operations includes responsibility for compliance. In other words: Compliance must be a central pillar of our leadership culture and an integral part of all our business processes.

To make our uncompromising stand on compliance even clearer, we will announce annually the number of individuals we dismissed during the year for compliance violations, or the number of individuals whose unethical or illegal actions resulted in disciplinary action.

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In the past fiscal year, 470 employees who violated our internal guidelines had disciplinary action taken against them:

- For 14 percent of them, we found proof of corruption or violation of antitrust laws.
- With another 24 percent, embezzlement or fraud was proven.
- The remaining 62 percent of the cases concern other kinds of violations, such as violations of our anti-discrimination regulations or internal work regulations.

Of the total of 500 individuals against whom disciplinary actions were taken:

- 30 percent were dismissed.
- About 8 percent had part of their salaries cut.
- The remaining 62 percent were warned or admonished.

Our position on compliance does not allow gray areas or compromise. The investigations by Debevoise continue, and we will continue to report on the status of these investigations each quarter.

Ladies and Gentlemen, This concludes my remarks on the fourth quarter and the full fiscal year. I'd now like to turn our attention to the future and tell you about the measures we will be taking to strengthen our business and further develop our company.

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Our goal here is to:

- reduce complexity,
- become more focused, and, as a result
- be faster and more successful in the market.

Let me explain the new company setup in six points: **First:** Siemens will remain an integrated technology company. Siemens is **NOT** and will **NOT** be a financial holding company.

Second: Our company will be run by one Managing Board with operational responsibility for the business units, the Regions and central functions. The distinction between the Corporate Executive Committee and the Managing Board will be removed. Every Board Member will be at the top of a chain of command with clear escalation paths. This will enable us to increase the transparency of our organization. With clearly drawn lines of responsibility and reduced complexity, we will gain speed in our business decision-making processes.

Third: We will organize our businesses by grouping them into three Sectors:

- **Industry**
- **Energy**
- **Healthcare**

These Sectors generally correspond to the application fields you know from our Fit4 2010 program. Each of these Sectors will be headed by an operationally responsible CEO who is also a Member of the Managing Board. This means that each Sector is headed **NOT** by a committee, but by **ONE** responsible individual. The first operational level below the Sectors will be Divisions, and the second level will be Business Units. Operational units on both levels will be also led by one CEO. External financial reporting will be adapted to the new structure in the second half of fiscal 2008. Reporting will then be based on the new structure and introduced with the presentation of the third quarter results in July. Of course, it's too early for further details. But I would like to emphasize one thing: we will become even more

transparent than we already are today. That way we will increase our transparency for our investors.

Fourth: One of the roots of our success is our broad international presence. We will definitely maintain this in the future. There was, there is and there will be in the future a so-called “Ms. Siemens” or “Mr. Siemens” as THE central spokesperson for our company in the countries in which we operate. However, we want to further develop this function and strengthen the entrepreneurial responsibility of this function for the benefit of our customers. In the future, the Regions will continue to be represented by Members of the Managing Board.

Fifth: We will keep the fundamental structure of the matrix with worldwide operating business units and Regional Companies. At the same time, we will practice the originally established “right-of-way” rule for the global businesses.

Sixth: It should be apparent that such changes in the company’s structures will also have an impact on headquarters here in Munich, in the Regions and in the operating units. After all, one can’t change all the operating units and leave the central departments untouched. We will very closely examine the assignment of corporate functions to the different levels of the new structure. Here, we are comparing ourselves with our competitors. This comparison shows that our selling, general and administration costs (SG&A) amounted to about 17 percent in the past fiscal year; they were substantially higher than those of our competitors. To incrementally close this gap to our competitors, we plan to reduce our SG&A costs from 10 to 20 percent by the year 2010.

Just one remark on the timetable for further developments. On November 28, we will submit a complete proposal for our new organizational structure to the Supervisory Board for its approval. Providing approval is granted, we will begin implementing the new structure in January 2008.

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I just outlined this before – we will allocate the businesses of the current operating Groups to the three Sectors of Industry, Energy and Healthcare. The Group level will therefore be eliminated in the new organization.

The Industry Sector will consist of the businesses of Automation & Drives, Siemens Building Technologies, Industrial Solutions and Services, Transportation Systems and Osram. Our Power Generation and Power Transmission and Distribution Groups will form the new Energy Sector. Siemens Medical Solutions will comprise the Healthcare Sector.

SIS and SFS will retain their status as cross-sector businesses as they both substantially support the business of the other Sectors and serve external customers.

We will use the reorganization of our businesses as an opportunity to reevaluate the synergy potential in the existing Divisions – the worldwide businesses of the current organization – and leverage them wherever possible. Now I'd like to provide a brief profile of these three Sectors.

Slide 11**The Industry Sector:**

Grouping our industry business into one Sector will enhance the collaboration. And this will enable us to offer more comprehensive solutions to major customers and further expand our competitive edge. A further advantage is that we can use the worldwide sales network of our Automation and Drives Group for the product business of Building Technologies and Osram. We have long set the trend in offering products and solutions that simplify and accelerate industrial processes. No other company can match us in special industrial process expertise and in the ability to use this expertise for developing value-creating solutions. We are Number One in such attractive markets as industrial automation and rail automation. Our Simatic platform sets the standard for industrial controls. We are building on this success and increasingly using Simatic in other areas.

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The Energy Sector:

The outlook here is outstanding: The world's population is growing, urban centers are growing even faster, global economic growth remains at a high level, and demand for energy is rising. At the same time, it's becoming increasingly apparent that economic growth and rising energy demand must be harmonized with the environmental protection and the preservation of natural resources. Moreover, higher oil and gas prices will require upgrading the installed base of power plants in many countries. All in all, we estimate that the energy market will grow 11 percent per year between 2006 and 2010. Siemens is the technological leader in power generation with both conventional power plants as well as with plants that use alternative energy.

Just to mention two examples here: **First:** Our combined cycle plant, currently being installed for our customer EON in Irsching near Ingolstadt, Germany, achieves a world-record efficiency of 60 percent in combined operation. **Second:** We are the market leader in offshore wind power plants. Just a few weeks ago, we signed a contract to deliver 140 3.6-megawatt wind turbines for the Greater Gabbard offshore wind park 25 kilometers off the coast of Suffolk in the United Kingdom. Order volume here is in the hundreds of millions euros range. This is the biggest contract ever for our wind business and it underscores our leading position in offshore wind parks. We announced our most recent major order yesterday. We are providing 86 wind turbines, each with an output of 2.3 megawatts for the Wolfe Island Wind Project in Ontario, Canada.

We also play in the Champion's League in the field of power transmission and distribution. In June we received an order to build a record-capacity 5,000-megawatt HVDC link between Yunnan Province in southwestern China and Guangdong Province in the south. The link will be 1,400 kilometers long!

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The Healthcare Sector:

As a result of the world's population growing and also living longer, the growth in the healthcare market can safely be considered highly reliable and predictable. Today we

are the only company that offers in one stop solutions for the entire clinical value chain – from prevention, diagnostics and therapy to post-intervention care. Or, in other words: We are the only company that integrates in-vitro diagnostics – that is, diagnostics in the lab – with in-vivo diagnostics – that is primarily imaging procedures supported by modern IT processes. Our recent acquisitions of Diagnostic Products Corporation (DPC), Bayer Diagnostics and – most recently – Dade Behring have made us THE leading provider of in-vitro diagnostic solutions. At the same time, Siemens Medical has doubled the potential market for its products and services to 57 billion euros and so opened up further attractive market segments. With this in mind, we decided to raise the target margin range to 14 to 17 percent.

A footnote on the acquisition of Dade Behring: this past Tuesday we completed this transaction. Dade Behring is now a part of Siemens Medical Solutions Diagnostics.

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Ladies and Gentlemen, We are certain that our new structure will make our company less complex, more transparent and more focused, and, as a result, faster and more successful. Given that, we believe we will exceed the current targets of the Fit4 2010 Program. That's why we will raise the target margins.

We have already done this for the Healthcare Sector. For the Energy and Industry Sectors, we intend to communicate the new target margins at the end of January.

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Before I summarize my comments, I would like to make a few remarks on the development of the size of our workforce. We are booking Siemens VDO Automotive (SV) and Siemens Enterprise Communications (SEN) and thus their respective workforces under the category "Discontinued Operations." Overall, our growth is stable: accordingly, we are creating jobs. In fiscal 2007, we hired 12,200 new employees worldwide (excluding consolidation effects). On balance, 1,400 more people joined Siemens in Germany than left us.

Allow me now to summarize my remarks:

First: We want to send a strong signal to the financial markets and will invest up to 10 billion euros in a stock buyback program by 2010. We are doing this because we

have full confidence in the operational strength of our company and because we want to emphasize the attractiveness of our company to our investors.

Second: Our business volume grew faster than we had planned in our Fit4 2010 program – both in the fourth quarter and in the full fiscal year.

Third: For the full fiscal year 2007, we achieved one of the highest Group operating profits in the history of our company. Operationally, we reached a record level in the fourth quarter. We succeeded in converting our volume growth into operating profit, and profit grew faster than volume.

Fourth: Our Fit4 2010 Program is off to a very good start. In the course of establishing our new structure, we will set more ambitious target margins. In our Healthcare Sector, we have already raised the target range to between 14 and 17 percent.

Fifth: For us, highest business performance is inseparably tied to highest ethical standards. Compliance is a self-evident and integral part of our business practices. The individual who is responsible for business operations is just as responsible for compliance.

Sixth: In this fiscal year we will carry out a comprehensive restructuring of our organization and make it more transparent, more focused and faster. Responsibilities will be clearly defined. Provided the Supervisory Board approves, we will begin implementing the new structure in January 2008.

Seventh: For Fiscal 2008, we once again want our volume to grow at least twice as fast as the global GDP. We want earnings from operations to grow at least twice as fast our business volume. One key requirement for our operating units will be to close the profitability gap to our most important competitors.

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Ladies and Gentlemen, October 12, 1847 was the day Werner Siemens and Johann Georg Halske first opened their business in Schöneberger Strasse 19 in Berlin. We launched our new global communications campaign on that very day this year. You can see some of the ads here in this room. I believe we can justifiably say that the people of Siemens have always contributed a large share of the answers to the most urgent questions of their day.

So it was in the days of Werner von Siemens – and so it is today, in the age of demographic change, accelerating urbanization and threatening climate change. So it will remain in the future.

Over the course of 160 years in business, our company has actively embraced and shaped change. And, ultimately, our ability to change is one of our greatest strengths. What has **NOT** changed is our capability to ask difficult questions in the interest of our customers and to give the right, value-creating answers to these questions. We are proud of this – and that's why I am very proud to be responsible for leading this fantastic company. I am glad to do this. And we are making progress every day.

Thank you.