

SIEMENS

Semiannual Press Conference

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AG

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Ladies and gentlemen,
Good morning!

Before we proceed to the usual business of the press conference, please allow me to make two personal comments.

In this day and age, employees, customers and shareholders expect strong leadership more than ever. They are looking for clear signs of stability — and rightly so. Confidence in a company's management and its ability to keep the company on course over the long term is essential.

The current public discussion regarding the future management of Siemens is causing great uncertainty both internally and externally. A clear decision on this issue is expected. However, the Chairman's Committee of the Supervisory Board informed me of its intention to postpone this decision once again.

I consider this lack of clarity regarding the company's management and my own mandate to be burdensome and unacceptable for the company and its employees. For this reason, I have decided to no longer be available for the extension of my contract. The Supervisory Board has requested that I be available until September 30. Of course, I will honor this request. We informed you about this yesterday.

It has been a great honor for me to have served as President and CEO of this magnificent company for the last two years. At Siemens, we have been able to achieve extraordinary success as a business, and the company is now optimally positioned for the future. I thank all of those who contributed to this success.

Siemens and the people of Siemens are very dear to me. I regret leaving a company that has been such a large part of my life over the last 20 years. However, Siemens must not be paralyzed — the company's ability to act must not be impeded. I hope my decision makes that possible.

Now I'd also like to say a few personal words about Heinrich v. Pierer's decision to step down from his position as Chairman of the Siemens Supervisory Board.

Dr. v. Pierer's decision saddened me; and I'm sure it distressed and saddened all Siemens employees. I associate integrity and exemplary behavior with his person, and I personally owe Dr. v. Pierer much gratitude. Those who know Heinrich v. Pierer know that he has always put the interests of the company and its employees ahead of his own. He has remained true to this principle with his decision.

Heinrich v. Pierer's achievements on behalf of the company are outstanding: He made Siemens a global player and a leader in many fields of technology. And he deserves our greatest admiration and respect for these achievements. And we will continue to do everything in our power to keep the company on the course of success that Heinrich v. Pierer set when he led the company.

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Ladies and gentlemen,

Many of you were in Lisbon two years ago when we launched our Fit4More Program.

Since that time we have worked hard to achieve the targets we set for ourselves.

Today, I'm very happy to report that we have **successfully completed the Fit4More Program**. Let me briefly summarize the results:

- **All Groups have reached or even exceeded the margin ranges**
- **Group profit from operations jumped nearly 50 percent to nearly €2 billion**
- **Revenue rose 10 percent to nearly €21 billion**
- **Orders gained 9 percent and are now at slightly over €23 billion**
- **We have been able to improve both revenue and orders for 9 quarters in a row**

That's a brief summary of selected results of the Fit4More Program; now I'd like to discuss Siemens' financial performance over the last three months in more detail.

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In the period from January 1 to March 31, the book-to-bill-ratio, in other words, the ratio between orders and revenue amounted to 1.14. Net income jumped 36 percent to nearly €1.3 billion; earnings per share increased 37 percent to €1.34. Net cash amounted to a negative €901 million.

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A look at the Siemens Groups and Regions shows that our company is growing across the board. The Power Groups are the front runners in orders:

- With a 54 percent jump to €5 billion in orders, Power Generation (PG) achieved the greatest order volume ever in one quarter
- PTD's orders increased 38 percent to €2.5 billion

You could almost say "as usual:" Our consistent performers Med and A&D were able to improve again in the second quarter:

- Med's orders amounted to €2.5 billion; that's a year-over-year increase of 21 percent. Here, the acquisition of Bayer Diagnostics is included in the calculation; on a comparable basis, orders increased 5 percent.
- And A&D boosted its order volume by 18 percent to €4.2 billion

At our Transportation Group (TS), orders decreased nominally in Q2: Here, the effects of last year's record second quarter is noticeable (base effect). In addition, a major order in Asia was delayed during this reporting period. All in all, however, I am not worried about TS. Our books are full of orders.

We saw greatest regional growth in Europe. It was 19 percent. I'm especially pleased with our growth in Germany; orders grew 5 percent here. We see decreases, especially due to base effects, in the Middle East, Russia and Africa.

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And our Groups and Regions are also growing revenue. Here the outstanding Groups are:

- PG with a 25 percent jump to €3.1 billion
- Med with a 21 percent increase to €2.5 billion; excluding the acquisition of Bayer, the increase was 4 percent.
- PTD's revenue bounded upward by 17 percent to €1.8 billion
- A&D advanced by 16 percent to €3.7 billion
- Siemens Building Technologies (SBT) gained 14 percent year-over-year and is now at €1.3 billion
- And TS recorded a 16 percent increase in revenue, that is €1.2 billion

The regional revenue leaders are countries in the Middle East, Africa and the Commonwealth of Independent States (CIS) with a 30 percent gain. Revenue in Europe increased 16 percent; in Germany it increased 6 percent.

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As I have already indicated, all Groups achieved their margin ranges. A&D (14.2 percent), PTD (8.1 percent) and Med (13.4 percent) and SFS, with a return on equity of 52.6 percent, were well above their margin ranges.

As expected, PG is back in its margin range with 10.7 percent. Siemens Business Services achieved a genuine turnaround with a profit margin of 5.2 percent. I'd like to take this opportunity to congratulate the colleagues at Siemens IT Solutions and Services on their outstanding performance.

SBS was integrated in the new Group Siemens IT Solutions and Services, SIS, on

January 15. But we promised to provide Q2 figures for the "old" SBS.

Transportation technology has also continuously fought its way up; TS reported a 5 percent profit margin, and that is within its margin range.

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Achieving margin ranges was and is a primary objective of our company program. But Fit4More has also been a tremendous help in concentrating the company's capabilities on goals and on achieving these goals. Even in difficult times, times we are still experiencing today, every employee always knew what the goal was and what his or her individual contribution to achieving it should be.

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The results of Fit4More are impressive:

- We have achieved our goal of growing profitably and twice as fast as the world economy. In the past 2 years, our volume grew more than 15 percent annually. The world economy's growth rate was 3.5 percent in 2005 and nearly 4 percent in 2006.
- We have taken many steps to focus our portfolio on attractive growth markets.
- We have reinforced our innovation leadership.
- And we have established strong levers to enable us to achieve our objectives.

The capital markets are acknowledging our overall progress: our company's value has risen by almost 54 percent since April 2005. All major analysts recommend buying our stock. That shows: there is plenty of confidence in us out there!

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The basis of our success was our two-pronged strategy: On the one hand, we have developed sustainable solutions for weaker parts of our portfolio. With one exception,

the mobile telephone business. We don't want anything like that to happen to us ever again! That taught us a lesson. I stated my position on this issue in detail at the Annual Shareholders' Meeting in January.

On the other hand, we have made massive investments in innovations and acquisitions to continue to setting trends in attractive markets.

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When making acquisitions, our motto is: Strengthen our strengths! Here's the list of our acquisitions you are familiar with. I'll talk about our most recent major acquisition, the U.S. company UGS, in just a moment.

Ladies and gentlemen,

With Fit4More we have built an excellent foundation to strategically develop the company and to increase company value. Now we want to take advantage of the momentum gained with **Fit4More** and further accelerate the pace of profit and growth. So, today, we are launching our new, medium-term program **Fit4 2010**. (Fit for 2010).

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We have identified the key drivers for the lasting financial success of our company in **Fit42010**. Success to us means increasing competitiveness to increase the value of the company. The drivers of success on the corporate level are:

- Volume growth
- A reasonable level of profitability
- The generation of cash

We have defined specific targets for these three drivers of success at the corporate level. Addressing all three drivers will enable us to achieve lasting success as a company. The target metrics at the corporate level are:

- First, the volume target remains unchanged — we still want to grow twice as fast the world economy.
- Second, we are adding a new, stronger focus on the return on capital employed. (RoCE)
- Third, also new, the cash conversion rate (CCR), which indicates how much of the company's profits are converted into cash.

On the level of **Group operations**, we will continue to use profit margins as proven control metrics. We have updated the margin ranges for this purpose.

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I'd like to explain the last two target metrics RoCE and Cash Conversion Rate in more detail:

The RoCE metric contrasts profit before interest on outside borrowing and after taxes with the total capital employed; so the return on the total capital is indicated. This puts the spotlight on the profitability of the company. The advantage of RoCE is that it is very transparent, which is why it is highly regarded by investors. RoCE is easy to comprehend and comparable. It can be calculated directly from the publicly available financial reporting of a company. Thirteen DAX companies currently report this metric. Internationally, RoCE is sometimes called return on investment (ROI) or return on investment capital (ROIC).

The rule of thumb for calculating RoCE is simply to divide profit after taxes and before interest on outside capital by the average capital employed. You will find a more precise explanation and calculation in your press folder.

We want to achieve an RoCE of 14 to 16 percent in 2010. Last year our RoCE was about 10 percent. You can see that we are setting ambitious goals for ourselves in this area, too.

Our third financial target at the corporate level, in addition to growth and profitability, relates to cash. The specific target we have set here is a cash conversion rate of one

minus volume growth rate.

Our goal is to convert profit from operations 1 to 1, but we have taken into account that growth always requires investments.

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As I said a moment ago: We will continue to use profit margins as a control metric for the Groups; however, we have reevaluated the margin ranges. In doing so, we took three dimensions into account:

- First, the business strategy of the Group,
- Second, a comparison with the best companies in the industry
- Third, developments in individual markets and the expectations of the capital market

The result of our evaluation is that we have raised or extended the margin ranges for 9 of our 11 Groups.

That, ladies and gentlemen, concludes my comments on the target metrics of Fit₄2010.

In the implementation of this program, we will rely on the three proven levers Operational Excellence, People Excellence, and Corporate Responsibility.

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We have defined "portfolio" as the fourth lever for Fit₄2010. Here, we are sticking to our motto "strengthening our strengths." We will do this in a way that will put us in the No. 1 – or No. 2 – position in the world's most attractive markets. Only a leading position will enable us to earn enough money to be able to continue to make the massive investments in research and development that we have made in the past, on the one

hand, and on the other, to continue to strengthen our portfolio. After all, we want to grow and to create the preconditions needed to offer secure and attractive jobs in the future.

Over the past 24 months, we have taken major steps to focus the company on attractive, future-oriented markets. Obviously, this process is not complete and in fact never will be completed. That is because adjusting to and focusing on markets of the future is an imperative for every company.

We understand attractive markets to be growth markets that are experiencing additional momentum – you could also call it a tailwind – due to global megatrends such as demographic change and urbanization. However, investing in growth markets only makes sense if we already hold a leading position there or can capture such a position at reasonable cost. We call the intersections of the leadership positions of our Groups and the individual markets our application fields. These are:

- Energy & Environmental Care
- Automation & Control, Industrial & Public Infrastructures as well as
- Healthcare

Many of you are familiar with this classification. We showed it at our 2006 Media Summit in Berlin.

We hope to build on our already strong positions in these application fields by continuing to make substantial investments in innovations and also by further strengthening the company through acquisitions.

By the way, I'd like to point out that this year's Media Summit will be held on June 26 and 27 in Erlangen and Nuremberg.

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Ladies and gentlemen,

I'd like to put the following examples of innovations and acquisitions in the context of climate change, which is currently the subject of much public discussion. There is a good reason for this: It is quite possible that no other company can contribute more to combating climate change than Siemens. My examples are from the application field of Energy & Environmental Care.

The first example comes from the area of conventional power plant technology. Please keep in mind that conventional power plants form the backbone of the world's energy supply. Increasing the efficiency of existing power plants is one of the best ways to lastingly reduce CO₂ emissions. This applies not only in Germany, but all over the world.

The largest and most efficient combined cycle turbine in the world will leave the assembly plant in Westhafen near Berlin tomorrow at noon and travel to Irsching near Ingolstadt, where our customer E.ON is building a new power plant. To give you an idea of the size of this turbine: The turbine is 13 meters long and five meters high and weighs 440 metric tons. That makes it about one-third heavier than the new A380 Super-Airbus.

With 60 percent efficiency rating in combined cycle operation, this turbine sets a new world record in efficiency. As a comparison, the average efficiency of power plants in Germany is 38 percent. In combined cycle operation, the turbine's output is 530 megawatts, enough to power some 620,000 three-person households or a large city such as Hamburg.

This turbine will enable us to save 40,000 metric tons of CO₂ per year compared with the best combined cycle turbines that exist today. That is equivalent to the CO₂ emissions of 9,500 mid-sized cars traveling 20,000 km per year. So the bottom line is: More energy, fewer natural resources, fewer emissions.

My second example is wind power. Our acquisition of Bonus three years ago has been a complete success: Our wind power business has grown almost 50 percent in the last 12 months alone. In the meantime, we have become No. 1 in the market for offshore wind power plants. We are currently building the largest offshore wind park in Europe,

with 140 wind turbines in the North Sea south of Glasgow. The park's output of 322 megawatts is enough to provide power to 200,000 Scottish households. The project is scheduled to be completed by the summer of 2009.

My third example is filters for power plants. Coal-fired power plants will continue to generate the lion's share of power worldwide. The primary energy sources anthracite and lignite are distributed relatively evenly all over the globe, and the supply is assured for at least the next hundred years. It is likely that the world's oil and natural gas reserves will be exhausted much sooner than that; also, these reserves are concentrated in specific regions.

Our acquisition of the U.S. company Wheelabrator has secured us a leading position in the area of filter systems for power plants and products that reduce emissions. The figures reflect this growth: Wheelabrator's revenue has more than doubled over the past 12 months.

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Now I would like to show you another example from the application field "Automation & Control, Industrial & Public Infrastructures." This example clearly shows what more efficient technologies can do to reduce CO₂ emissions.

Industrial production is the second largest source of CO₂ emissions in Germany. And it is a fact that replacing all industrial motors with energy-saving motors and variable speed drives could save 40 million metric tons of CO₂ each year. Forty million metric tons is equivalent to some four percent of the total annual CO₂ emissions in Germany. And the replacement of existing industrial motors represents a huge energy-saving potential: 88 percent of industrial motors in Germany are unregulated, and that wastes an enormous amount of energy.

Here's a brief explanation of how a variable speed drive works: If you will, a variable speed drive is a motor with "dimmer." A frequency converter attached to the electric motor regulates the motor's rotation speed and, in turn, its energy consumption. Our

acquisition of Robicon has made us No. 1 in the world market for variable speed drives.

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Let's stay in the application field of "Automation & Control, Industrial & Public Infrastructures." At the Annual Shareholders' Meeting, we announced our plans to acquire the Texan company UGS; and we now expect the closing to take place in May. This acquisition will make us the only provider that can link the "digital factory" with real production.

Digital simulation enables close coordination of the development of new products and the design of new manufacturing facilities. This reduces the error rate and customers can save a great deal of time in the run-up to real production. Time to market can be reduced by up to 40 percent, and this is an advantage that pays off especially in the automotive and aircraft industries.

No other competitor can offer added value of this kind to customers. Once again we are leading the way.

Ladies and gentlemen, we are already known as trendsetters in the area of medical technology. Our acquisition of Diagnostic Products Corp. and Bayer Diagnostics has made us the first integrated diagnostics company in the world. This means that we are the only provider that can offer a broad product range for all links of the clinical value chain (prevention, diagnosis and treatment). In addition, we have the capability to use information technology to connect the individual links in the chain and make hospital workflows fast, efficient, and cost-effective. By the way, our acquisitions have put pressure on our competitors. Now we are happy to see that they are following our example and — in doing so — confirming our strategy.

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Here are two more examples of recent innovations from our Medical Solutions Group. The first innovation, Total Integrated Matrix, or Tim for short, is a breakthrough in magnetic resonance tomography. Tim enables whole body imaging for patients as tall

as 2.05 meters without having to move the patient. This minimizes risk for patients with severe injuries. It takes only 12 minutes to scan the entire body, that's half the time needed by the previously fastest equipment. Tim's resolution is also four times higher than that of existing equipment.

The bottom line is that Tim offers patients faster, more accurate diagnoses, which means that lifesaving measures can be taken more quickly and be better targeted. Siemens is the No. 1 supplier worldwide in the magnetic resonance tomography market.

The second innovation is our syngo DynaCT for angiography, that is, the medical imaging of blood vessels. Before, patients were examined in the sterile angio room, and when an intracranial hemorrhage was suspected, they had to be moved to another room for a CT scan. That meant that valuable time was lost in life-threatening situations before bleeding could be localized and stopped. We can all imagine what the consequences of such a delay could be.

Thanks to our DynaCT, the scans can be done directly during treatment without moving the patient. The C-arm that you see in the picture allows the radiation source of the DynaCT to travel around the patient and generate slice images like those produced by a stationary CT scanner. The advanced 3D imaging software offers a clear view of low-contrast areas such as organs and fluids. Doctors can see cerebral hemorrhages and tumors. Siemens is a market leader in angiography systems for neuroradiology.

We also intend to remain a trendsetter in the area of automotive technology. This business offers excellent growth opportunities but is especially capital intensive. That is why we plan to take Siemens VDO Automotive public; we want to tap a new source of capital for growth without curtailing the growth opportunities of the other Groups. Preparations for the IPO of Siemens VDO Automotive are on track.

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Ladies and gentlemen,

The success of Fit₄2010 depends on whether we become a role model in transparency and compliance throughout the world. That is why our corporate values and our Business Conduct Guidelines are the foundation of Fit₄2010. As for recent events, we will investigate all cases irrespective of the persons concerned. We do not tolerate any misconduct in our company.

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On the level of operations, Fit₄2010 will help us concentrate on cash and capital efficiency. And as far as the second half of this fiscal year is concerned, we aim to maintain the strong momentum of the first six months.

Now, I'll be happy to answer your questions.