A.1 LETTER TO OUR SHAREHOLDERS

Dear shareholders,

Fiscal 2012 was not an easy year for us. Even though we achieved one of our best results ever – despite the difficult economic environment worldwide – we didn’t fully attain our goals of outperforming the market and our competitors.

To move forward, we’ve launched a new Company-wide program. Presented in November 2012, the initiative will enable us to make effective, concrete adjustments in our operations – changes we’ll have to make if we’re to continue generating profitable growth of the kind we’ve achieved in the last few years.

For my colleagues on the Managing Board and myself, the trust that you’ve placed in our Company is an invaluable source of support. Your commitment creates trust, and trust unites us all: you, our shareholders; our 370,000 employees worldwide; our customers in the industrial countries and emerging markets; our partners in business, government and the scientific community; and, above all, the countless people around the globe who use Siemens products and solutions every day.

Our strength – Customer proximity
This year, our Annual Report highlights the ways in which we’re creating trust by partnering closely with our customers worldwide and developing innovative technologies that meet the needs of people with different interests, from different cultures and with different aims and requirements. In five special reports, we’d like to show you how our products and solutions are improving the lives of people everywhere.
Our first report takes us to Bangalore, India, where explosive growth is pushing the local infrastructure to its limits. In planning a new airport for the booming South Asian metropolis and its surrounding region, the operators selected Siemens to supply a complete tailor-made solution and provide long-term technical support. This close partnership is a sign of enormous trust, since it entails tremendous responsibility: the reliable operation of such vital infrastructure facilities is indispensable for the Bangalore region’s further economic development.

From India, we move on to the town of Beuren in southern Germany, where our technology has helped give a young cancer patient new hope. In a long-term partnership, our engineers cooperated with doctors at Tübingen University Hospital to develop the Biograph mMR scanner, which enables physicians to monitor the impact of cancer therapies while minimizing radiation exposure. To the relief of 15-year-old Christian and his family, the Biograph mMR showed that his treatment had been successful. And we’re very pleased to report that – after a year of uncertainty – the young man is back in school and again leading a normal life.

A third report provides impressive evidence of how our IT-based services are uniting people all around the world. Johannes Zuckschwerdt is responsible for developing new services for a manufacturer of highly specialized machine tools in southwestern Germany. His customer, Ton de Bruine, heads a company that produces metal components in the Netherlands. Thanks to our ePS Network Services, Zuckschwerdt can monitor the operation of de Bruine’s machines remotely, via an encrypted online server. By notifying his customer when machine parts need to be replaced and indicating how workflows can be improved and production increased, Zuckschwerdt saves de Bruine time and money while helping him meet tight deadlines and enhance the efficiency of his production processes.

In a fourth report, you’ll meet Jens Hald Jensen, head of the project team that’s assembling and testing six-megawatt wind turbines in the Danish town of Østerild. These powerful turbines are just one of the innovative products and solutions we’re creating to help shape the future of energy and tap the opportunities that Germany’s transition to a new energy system will provide in many other countries worldwide. We want to pass on to our children a world that’s as healthy, bountiful and beautiful as the one we’ve inherited. And we’re convinced that we’ll reach this goal if business leaders and government policymakers work together to tackle the challenges ahead, taking a balanced, targeted approach to achieving a reliable, clean and affordable energy supply.

I urge you to take a look at all five special reports. They’ll provide you with an inside look at our day-to-day operations and at the ways we’re leveraging our strengths as an integrated technology company, increasing our customers’ competitiveness, reinforcing our own business success and improving the lives of people worldwide through our investments in research and development – investments that totaled €4.2 billion in fiscal 2012.
Our goal – Excellence

We’re closely connected with people everywhere – with workers in factories, with the operators and users of infrastructure facilities, with engineers in laboratories and research centers. And it’s because we’re so closely connected with people in so many different regions and environments that we’re also able to precisely gauge their needs and their technology requirements. We know, for instance, that customers across the board are increasingly demanding tailor-made IT applications and software solutions. And we’re the ideal partner to provide these solutions, since we have the necessary industry expertise and products – in areas ranging from power plant controls and building management systems to healthcare solutions and manufacturing technologies. NASA, the U.S. space agency, utilized IT of this kind to develop the Mars rover Curiosity, whose fascinating images are yet further testimony to our engineering excellence. We know the challenges posed by the restructuring of the world’s energy supply. And we know the challenges facing today’s city planners. To address these urban challenges, we’ve been showcasing future-oriented solutions for the world’s fast-growing cities at the Crystal, our urban development center in London, since September 2012. As a company that’s been internationally oriented since its founding, we also know the world’s new high-growth markets: the BRIC countries and the so-called second-wave countries like South Africa, Indonesia and Turkey. We’ve been active in all four BRIC countries for more than 100 years. In Russia and South Africa, we’ve had operations for over 150 years. Long-term partnerships like these build trust and create opportunities to promote sustainable development on a local basis while generating profitable growth for our Company. All four of our Sectors are exploiting these opportunities worldwide by continuing to sharpen their focus on the megatrends of our globalized age – climate change, demographic change and urbanization. Our Healthcare Sector has also profited from the rigorous implementation of Agenda 2013, the efficiency-boosting program we launched in November 2011.

All in all, Siemens is well positioned to seize the opportunities of the future – as we demonstrated again in fiscal 2012. Continuing a decade of substantially improved performance, we posted a 7% increase in revenue and generated €5.2 billion in income from continuing operations, one of our largest profits ever. I would like to thank Siemens employees around the world for their commitment and their contribution to this success. As fiscal 2012 also confirmed, our earnings per share have considerably increased over the last decade as well: still just €2.92 in 2002, they now total more than €5. And thanks to our tradition of foresighted financial policies, we can be sure that our operations will continue to have a very stable basis in the future.

But fiscal 2012 makes clear that we haven’t always adapted flexibly enough to changes in our markets and in our market position, and we haven’t placed sufficient emphasis everywhere on continuously improving our Company and driving its efficiency. New orders declined 10% during the year, and, although we increased our revenue, we didn’t meet the targets we’d set for profitability relative to our competitors.

Our review of fiscal 2012 shows that we’re good – but not as good as we can be. Looking to the future, this means we’ll have to intensify our efforts in order to outpace our competitors once again and achieve the results that we as Siemens employees and you as our shareholders have a right to expect of our Company.
We aren’t anticipating any substantial boost from economic developments worldwide – at least not in fiscal 2013. For this reason, it’s all the more important that we ourselves take effective action to enhance our productivity, maintain the strong financial basis that’s always been our hallmark and better adapt to the challenges of our markets and the global economy.

And that’s why we’ve launched Siemens 2014, a Company-wide program that will help us recapture a leading competitive position within the next two years and thus continue to pursue our One Siemens targets. Siemens 2014 will strengthen the One Siemens system, drive its implementation and reinforce our strategy for achieving profitable growth and generating annual revenue of up to €100 billion. It will also keep us on the same track for success that we’ve followed in recent years and that enabled us to achieve record results in fiscal 2011.

Our goal is to raise our total Sectors profit from the latest figure of 9.5% to 12% by increasing our gross productivity by about €6 billion.

To help us reach these targets, Siemens 2014 will apply five levers:

> First, we want to cut costs. To this end, we’re optimizing our procurement operations, improving our global capacities and activities and enhancing the quality and efficiency of our processes and project management.
> Second, we want to continuously strengthen our core business activities by, among other things, making targeted acquisitions in key areas and scrutinizing our less profitable businesses to ensure that they don’t burden our long-term performance.
> Third, we want to refine our sales setup and optimize our local market access worldwide while making our organization more flexible and adjusting operations to regional conditions and potential.
> Fourth, we want to simplify our internal processes and regulations in order to provide our business units with greater leeway for independent entrepreneurial action and partnering with customers. For example, we’re substantially reducing the number of Company- and Sector-wide regulations for our global and regional businesses.
> And fifth, we’re streamlining our global support infrastructure by eliminating redundant functions and duplicate processes.

Our capital – Trust
The measures we’ve defined have been very carefully considered. We’ve made no secret of our Company’s weaknesses, and we’ve set transparent goals. To boost our competitiveness, we’ve assigned clear responsibilities and taken steps to ensure that Siemens 2014 will be rigorously executed. Some measures have already been taken. For example, we’ve decided to tighten the focus of our portfolio in the area of renewable energies, to exit from the water technologies business, which is highly fragmented by region, and to reinforce our market position in the area of vertical IT through the purchase of LMS International NV, a leading supplier of industry software for lifecycle management. As these moves demonstrate, the new Company-wide program is already having an impact and strengthening the trust that our customers, the capital markets and you, our shareholders, have placed in us. Over the next two years, we’ll keep you regularly informed of the steps we’re taking to implement it.
With your interests in mind, we’re proposing that OSRAM be publicly listed via a spinoff. We’re convinced that OSRAM Licht AG will be an attractive company for investors since, as an independent entity, it will operate even more successfully than before.

The share buyback program that we finalized at the beginning of November 2012 was also in your interest. In the course of the buyback, we repurchased Company shares with a total value of €2.9 billion. We financed the program primarily through bonds, and the interest rates we paid were the lowest to date on the European capital market – yet further proof of the great trust that our Company enjoys within the business community and beyond.

The unchanged dividend proposal of €3.00 that the Managing Board and the Supervisory Board will make to the 2013 Annual Shareholders’ Meeting is also a sign of trust and continuity. We want you to profit from the positive developments at our Company – and we want you to continue placing your trust in us. Because Siemens is and will remain a strong company – for our customers worldwide, for our employees, for our partners in the business and scientific communities, for our stakeholders in society and particularly for you, our shareholders.

I’m looking forward to the challenges of the year ahead and to our continuing dialogue.

Peter Löscher
President and CEO of Siemens AG