



**PRESS CONFERENCE ON THE REORIENTATION OF
SIEMENS IT SOLUTIONS AND SERVICES**

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Check against delivery!

At our Annual Press Conference in December, we announced that we would be setting up Siemens IT Solutions and Services (SIS for short) as a legally separate entity as of July 1 of this year and orienting it to the requirements and particularities of the IT industry. Since then, a detailed plan for the further development of SIS has been developed. Today, we presented this plan to employee representatives in the Committee for Economic Policy and outlined the course we intend to pursue. Allow me to make three points before explaining the specific aspects of this plan: First, I will elaborate on the portfolio of services offered by SIS and explain what Siemens' IT unit actually does and what it contributes to Siemens. Second, I will outline the market environment in which SIS operates. Third, I will briefly explain why expertise in IT and software is attractive and why this expertise will have strategic significance for our company and for our three Sectors Energy, Industry and Healthcare in the future.

IT and software competence is an important element for the Siemens Sectors

I'll turn to the first point, the portfolio of Siemens IT Solutions and Services. SIS is a provider of IT services and offers its customers. First, consulting services to improve IT infrastructure. Second, the implementation of the results of consulting activities – for example, the integration of various IT systems on one platform, typically an SAP platform. Third, on behalf of customers, SIS operates their IT infrastructure. That's IT outsourcing. And fourth, and this is a competitive advantage both for SIS and its customers, SIS cooperates very closely with our Sectors. So, in a way, SIS follows in the wake of our world-leading Sectors and offers our energy, industry and healthcare customers tailor-made IT solutions.

And SIS plays yet another role as Siemens' most important IT service provider. In fiscal 2009, SIS generated just over one third of its revenue from its client Siemens. And here SIS does meet the challenge of constant price adjustments. For the benefit of Siemens AG, SIS has steadily lowered its prices over the last three years, while maintaining the same high standards of quality

SIS's market environment will brighten up

Now I turn to my second point a look at the market environment in which SIS operates. The IT industry has not been immune to the massive impact of the economic crisis. However, as you can see here, in comparison with industries such as machine building and the automotive industry, which have had to cope with volume declines of more than 40 percent, declines in the IT industry have been moderate. Experts expect the IT industry to resume a growth rate of 5 percent this calendar year at the latest. So, SIS's market environment will brighten up.

In terms of profitability, however, it's evident that a number of competitors are doing better in the crisis. That makes it evident that overall the IT industry generally offers good growth opportunities and high customer retention potential. Growth periods determine who captures market share and revenue in the future. That's why it's so important to quickly and rigorously overhaul SIS right now to take advantage of the growth opportunities in the IT and software industry. The IT industry is characterized on the one hand by enormous price pressure and on the other hand by very short innovation cycles. In this competitive environment, only those companies prevail that quickly and flexibly respond to the market and that deliver solid value in the industries in which customers operate. I'll give you three examples of that:

All of you are aware of the current discussion throughout the world regarding the modernization of power grids. The intelligent power grids of the future, the so-called smart grids, will make it possible to draw, meter and feed in electricity at every point of the grid. In the future smart grid fields of "Smart Consumption" and "Smart Metering," SIS is very strong in Italy and the overall market leader in Europe. But to make smart grids smart, a great deal must be done to improve the IT-based control of these grids. Here, the close cooperation with the Energy Sector opens up attractive growth opportunities for SIS. Hence, together with SIS, the Energy Sector is able to develop if you will, from a single source software for power distribution grids and IT solutions for consumer metering.

The so-called "real-time factory" is the next major advance in industrial productivity. The way to make this vision real is to combine two software worlds that were previously separate. One world is Product Lifecycle Management (PLM for short), in other words, all the data needed to develop and produce goods. The other world is the world of business administration, the SAP world, which includes customer and supplier data, all financial controlling, bookkeeping, and so on. Merging these worlds so that all business processes of a company, from R&D and production to strategic planning, that's the Herculean task our Industry Sector and SIS are jointly working on. The Industry Sector is approaching from the PLM world; and SIS is approaching from the SAP world. What counts in the end is to create one pervasive solution from one source that improves the efficiency of business processes and so makes our customers more competitive.

The rising costs of healthcare have been in the news for the longest time. But one aspect that hardly receives attention is the cost-saving potential of improved healthcare processes. Examinations continue to be duplicated because there is no seamless exchange of data. And clinical procedures continue to be time-consuming and expensive. If one knows that today Excel lists are still the most modern IT tool for scheduling operating rooms in some hospital settings, then it's clear that the capabilities of hospital staff cannot be fully utilized. Gartner Group estimates that pervasive IT solutions have the potential to improve the efficiency in healthcare by 20 percent. Cooperation between our Healthcare Sector and SIS is the ideal way to develop such solutions. The Sector contributes clinical expertise; SIS adds IT competence. SIS has the capability to efficiently network diverse healthcare players, in other words, patients, clinics, physicians and health maintenance organizations. The advantage here is integrated, cost-efficient IT solutions from a single source.

Siemens' IT business will be developed further to meet structural requirements

These examples show that SIS operates in an attractive market. What counts now is to chart a course toward profitable growth. This is the task we are concentrating on.

And we will get SIS back into shape! Those are the three points I wanted to make up front. Now I turn to the specific measures we will take to put SIS on a sustainable foundation: We will use the same formula for improving structure and organization at SIS that we used at Siemens. Here is the formula: Reduce complexity and Focus the organization. In concrete terms, this means first that we will group the seven current businesses into the two pillars IT Outsourcing and IT Solutions; and SIS's worldwide sales organization will support these pillars.

In the IT Solutions business, we will drive the development of industry-specific solutions together with our Sectors. There is no other IT company in the world that has as much industry expertise to draw from as Siemens' IT business. The leading market positions of our Sectors Energy, Industry and Healthcare are the best prerequisite for being able to offer customers integrated industry-specific solutions and IT outsourcing as a complete solution.

As far as the international presence of the business is concerned, we will concentrate on core markets in which we are strong already and in which we have the best growth opportunities. This will mainly be in Europe, North America, South America and Asia. We will reduce the 47 operational units of SIS in our Regional Companies by about one quarter.

To spark growth, we will make additional means available. In total, we will invest more than 500 million Euros in SIS up to 2012. These funds will be used both to improve employee skills and, most importantly, to develop innovative industry-specific IT solutions for the Sectors. At the same time, we are determining whether we can strengthen SIS through selective acquisitions.

Of course, the cooperation in the operation of the company-wide IT infrastructure will also continue, and that will be a further stabilizing element in the further development of SIS. And this underscores the strong commitment of Siemens AG to guide its IT business into a long-term growth pattern and to give this business every option to

develop in the future. That concludes my comments on our plan to strengthen SIS. The potential is sizable, the market opportunities are attractive; and the combination of IT infrastructure and software competence in its Sectors and at SIS gives Siemens a unique selling proposition. This reorientation, however, involves significant structural changes, changes we will implement both responsibly and rigorously.

Necessary capacity adjustments to be as socially compatible as possible

We must adjust the organization to lower business volume. In the last two years, the revenue of this business has dropped 13 percent. And we must boost the effectiveness and efficiency of SIS. The consequence we must inevitably draw from this in a labor-intensive business is a reduction of the workforce. That's why we will reduce the 35,000 jobs worldwide by about 15 percent. At locations in Germany, a total of 2,000 jobs will be eliminated. As called for in our two-pillar strategy, we will first concentrate on streamlining administrative functions and exiting from the marginal activities of the portfolio. Job cuts in Germany will center on the major SIS locations in Munich, the Nuremberg-Erlangen metropolitan area, and Paderborn. Overall, the necessary restructuring measures and functional changes will be distributed among all regions without giving up SIS's geographic footprint, which is key.

We will make the workforce reduction as socially compatible as possible. And here we will make use of every option that has proven to be effective in the company.

That means: Short-term work contracts will not be extended. We will offer attractive early retirement packages. Wherever possible, we will try to find a mutually acceptable way to terminate work contracts. And to preempt one question right away, layoffs for operational reasons can only be the last resort.

We are now beginning talks with employee representatives. In the past, we have demonstrated that we implement necessary measures rigorously and come up with viable solutions; however, always through a constructive dialogue with works coun-

cils. Our expectation is that SIS will start operating as an independent IT company at the beginning of next fiscal year and then quickly take advantage of the existing business potential. Our position is clear: the business requirements have been defined. Only the aggressive implementation of our plans will make this business competitive in the long term and so secure jobs.