One Siemens –
Our framework for sustainable value creation

Energy efficiency, industrial productivity, next-generation healthcare and intelligent infrastructure solutions – these are the topics that define our actions and are pioneering fields for the future. The four reports on the preceding pages provide concrete examples of what we’re doing to make our vision a reality. They show how we’re acting sustainably, leveraging business opportunities and mastering the challenges we face.

Our strategy points the way: with clear financial targets, strategic directions and concrete focus areas. How do these elements interlock? Where do we currently stand? And what are the next steps? The following pages provide the answers.

Questions and answers about our strategy

What are Siemens’ goals?

We want to sustainably increase the value of our Company for all our stakeholders – for our shareholders, employees and customers as well as for society as a whole.

How is our Company strategy structured?

We’ve formulated strategic perspectives for different timeframes. The basis is our long-term vision: “Siemens – The pioneer in energy efficiency, industrial productivity, next-generation healthcare and intelligent infrastructure solutions.” Based on this vision, we’re steering the Company with a medium-term strategy. Our One Siemens framework concretizes this strategy. Within this Company-wide strategic setup, we formulate business strategies for the various markets.

What was the basis for developing the current strategy?

Our Company, our customers and our markets are subject to both long-term trends and short-term economic developments. Demographic change, urbanization, climate change and globalization are megatrends that entail major challenges for policymakers, entrepreneurs and scientists around the world. At the same time, however, they offer tremendous business opportunities that we intend to rigorously exploit. We also consider economic development forecasts, observe our competitive environment and leverage our particular strengths as a technology Company. To be viable, our strategy must be consistent with the values espoused by Siemens and build on our Company’s long tradition of success.
What strategy is Siemens pursuing to reach its goals?

We’re gearing our efforts to what we call our three strategic directions: focus on innovation-driven growth markets; get closer to our customers; and use the power of Siemens. Each of these directions is broken down into three focus areas that have tremendous potential for achieving a sustainable increase in Siemens’ value. For example, we’re expanding our service business and encouraging lifelong learning and development among our employees.

Is Siemens following a separate sustainability strategy?

Sustainability and business success are two sides of the same coin for us, as we’ve already showcased in numerous examples in this Report. Siemens is sustainably managed. That’s why we’ve consciously decided not to formulate a separate sustainability strategy, since our Company strategy is already geared to making long-term progress in terms of profitability, the environment and society. The fact that this Annual Report is for the first time a combined Annual and Sustainability Report is further proof of our overarching understanding of sustainability.

How does the strategy address changes in markets?

To continuously occupy leading market and technology positions, unrelenting efforts and perseverance are required. Pioneering topics in research and development, for example, often bear fruit only after years. At the same time, changes are taking place in ever-shorter cycles. That’s why we continuously monitor and evaluate the impact on our business of new developments in the economy, technology and society. New opportunities are currently arising, such as the energy transition in Germany, the new natural gas extraction boom in the U.S. and the rapidly growing demand for affordable healthcare in the emerging markets. Beginning in fiscal 2013, our Company-wide Siemens 2014 program has been supporting our One Siemens framework – thus empowering us to recapture a leading competitive position.

How is the strategy put into practice at Siemens?

Our report on the modernization of the Kirishi power plant → on pages 4-21 illustrates how we’re implementing our strategy. Siemens is a pioneer in the market for combined-cycle power plants – a market that is thriving thanks to the development of advanced technologies – and has been continuously boosting the efficiency of gas-based power generation for years. The plant’s upgraded Unit 6 combusts natural gas with record efficiency while producing less environmentally harmful carbon dioxide than its predecessors. That’s typical of the products in our Environmental Portfolio. And the twelve-year service contract we landed for Kirishi is an exemplary success story in the strategic focus area that aims at expanding our service business.

How does Siemens measure the success of its strategy?

We measure our success primarily in terms of the development of the key financial figures for revenue growth, capital efficiency and profitability as well as for capital structure. For further information, please see C.2 FINANCIAL PERFORMANCE SYSTEM on pages 173-178 of this Annual Report.
Throughout history, many of our business successes have been closely linked with pioneering technological achievements. Harnessing our creativity and spirit of invention, we want to continue capturing, maintaining and expanding our leading positions in innovation-driven growth markets. Where necessary, we’re strengthening Siemens’ portfolio. Our Environmental Portfolio is an example of how we’re systematically leveraging the opportunities provided by sustainable business activities in growth markets.

**Be a pioneer in technology-driven markets**

For generations, innovative Siemens engineers have been conquering new markets and tapping growth fields. With this special strength, we want to continue achieving leading positions in new business fields characterized by growth and technological innovation. We’re strengthening our power of innovation by leveraging synergies worldwide and increasingly utilizing external expertise. More than 1,000 cooperative research projects with universities, research institutes and industry partners are already enabling us to gain valuable knowledge for our future business.

**Strengthen our portfolio**

To achieve sustainable, profitable growth, we keep our business activities focused on particularly attractive future markets. Active portfolio management – based on the principle that all our businesses should capture and maintain No. 1 or No. 2 positions in their respective markets – is a key part of our focus. Why? Because leading market positions are a prerequisite for profitability and growth and enable us to sustainably increase Siemens’ value. As our Company’s history proves, size is not the only driver of success. Often Siemens has been most successful when we’ve been at the forefront of technological innovation.

**Provide a leading environmental portfolio**

Our Environmental Portfolio serves as an example of how we strive to align our business activities with major trends of our times, in this case climate change. In addition to its environmental benefits, our Environmental Portfolio enables us to compete successfully in attractive markets and generate profitable growth. In fiscal 2013, revenue from continuing operations from the Environmental Portfolio amounted to €32.3 billion, which accounted for 43% of our revenue in this fiscal year. Technologies from our Environmental Portfolio enabled customers worldwide to slash their CO₂ emissions by 377 million metric tons in fiscal 2013, which is the equivalent of the following twelve cities’ combined yearly emissions: Berlin, Cape Town, London, Los Angeles, Melbourne, Mexico City, Moscow, New York City, São Paulo, Seoul, Singapore and Tokyo.
Siemens is close to its customers throughout the world. While maintaining our strong position in our established markets, we want to expand our position in the world’s rapidly growing emerging countries. To build strong partnerships in these new markets, it’s necessary to expand local development and production capacities and create solutions tailored to regional requirements. In the emerging as in the industrialized countries, the important factors for success are outstanding innovative services and rigorous customer orientation.

Grow in emerging markets

We want to be present in attractive markets worldwide and participate in the enormous economic expansion now taking place in the emerging countries, where we’ve already achieved strong growth over the past few years. In those countries the demand for economical products and entry-level solutions is intensifying. We’re addressing this demand through our SMART initiative. We’re increasingly offering entry-level products that are simple, maintenance-friendly, affordable, reliable and timely-to-market.

Expand our service business

We want to be the supplier of choice for all follow-up investments. That’s why we offer perfect services as well as perfect products. Our local service employees, who – in many cases – have been fulfilling their customers’ needs and requirements for decades, are one of our greatest assets. By expanding our service business, we want to increase customer loyalty. And it’s here that our value-added services are making a contribution. Going beyond conventional product services, we apply the knowledge we’ve gained in our product and solutions business to advise our customers effectively and accurately. All in all, more service business can enable us to generate steadier revenue and leverage new potential for profitable growth.

Intensify our customer focus

Many of our successful products and solutions are developed in close cooperation with our customers. Proceeding from an in-depth understanding of their unique requirements, our employees all around the world create tailored solutions for our customers. That’s why we invest in the ongoing training of our consultants and engineers. It’s also why we’ve set up consulting for large customers in a way that enables them to obtain everything they need from a single source – the whole range of products, solutions and services offered by our technology Company. In a nutshell: we’re enhancing our reputation as a strong local partner by providing consulting with added value and by reacting quickly and flexibly to local market requirements.
Encourage lifelong learning and development

Our employees have been the driving force behind innovation for 166 years. Their expertise, abilities and passion will continue to advance Siemens in the future. Our highly developed culture of lifelong learning gives them the tools they need: all around the world and at all levels of our organization, we directly foster not only our people’s knowhow but also their pioneering spirit, initiative and their willingness to assume increasing responsibility.

Empower our diverse and engaged people worldwide

Siemens is a Company with a strong international orientation. People from some 140 countries work at our ten largest Regional Companies alone. Collaboration in multifaceted teams has proven to be a powerful source of inspiration. Working together, people from different backgrounds and with a broad range of skills, experiences and qualifications can generate a wealth of totally new ideas. This is how we understand diversity, and we foster it in every possible context. We regularly conduct employee surveys to find out where we can further enhance our Company’s processes. The results of these surveys, which are conducted in 40 languages worldwide, provide us with valuable input that we systematically exploit.

Stand for integrity

Siemens is committed to fair competition. In our drive to succeed on the world’s markets, we aim to comply with all applicable laws and regulations. Therefore, the actions of our employees are guided by transparent and binding principles of ethical entrepreneurial behavior. A clear and unequivocal opposition to corruption is a further cornerstone of our Company culture. To the best of our ability, we fulfill our responsibilities to the environment, society and our employees and thus use the power of Siemens, while meeting the highest standards of occupational safety and health management.
We want to outpace our competitors over the long term and set the standards for operational and financial excellence in our industries. We measure and compare the success of our development on the basis of a target system that defines indicators for revenue growth, capital efficiency and profitability as well as for the optimization of our capital structure. Our goal is to sustainably increase Siemens’ value.

**Revenue growth**

The most important driver for sustainably increasing our Company’s value is profitable revenue growth. Our concrete goal is to achieve revenue growth that exceeds that of our key competitors; to assess our performance we compare our average revenue growth with theirs. We have also established strict criteria for acquisitions.

**Capital efficiency and profitability**

Our aim is to be profitable and to use the capital provided by our shareholders and lenders as efficiently as possible. We measure our capital efficiency in terms of return on capital employed (ROCE (adjusted)). Simply expressed, this indicator is defined as income from continuing operations before interest divided by average capital employed. We’ve set an ambitious target of 15% to 20% for capital efficiency throughout Siemens.

At the Sector level, we want to continuously achieve top EBITDA margins compared to those of the best competitors in our industries – throughout business cycles.

**Capital structure**

Sustainable profit and revenue growth can be achieved only on the basis of a healthy capital structure. Therefore, in addition to our metrics for operations, we’ve defined a yardstick for managing our capital structure: the ratio of adjusted industrial net debt to adjusted EBITDA. We intend to further optimize this ratio in order to better regulate our debt-to-equity ratio. We’re also aiming to ensure unlimited access to debt financing instruments in the capital markets as well as the servicing of our financial obligations.

For further information on our framework for sustainable value creation, please see:
- C.1.3 STRATEGY on pages 170-172
- C.2 FINANCIAL PERFORMANCE SYSTEM on pages 173-178 of this Annual Report.