Overview & Investment Thesis:

- Siemens' portfolio of businesses has been strategically re-positioned to take advantage of global megatrends impacting the longer cycle industries: demographic change (increasing population and aging societies drives the need for healthcare), urbanization (a growing number of large, densely populated cities), demand better infrastructure, climate change (requiring increased energy generation, distribution and utilization efficiency and reduced emissions) and globalization (increased interdependency between national economies).
- Siemens exited or has been preparing to exit a number of highly cyclical areas such as automotive parts, communications equipment, semiconductors and electronics assembly while strengthening its position in in-vitro diagnostics (IVD) and renewable energy (wind and solar thermal).

- Siemens drive for innovation comes naturally when considering its heritage and the fact that the Company is active in a number of highly technical industries. However, its accomplishments are beyond the ordinary, including the dynamo machine, the first commercial bulb light, the first electric streetcar, the construction of the first public power plant and the first images of the inside of the human body. Currently, the Company owns roughly 58,000 patents worldwide, placing it 2nd in Europe and 12th in US by this measure. This innovation leadership translates into market leadership.

- Siemens occupies leading global market position in most of the businesses it operates in:
  - The leading company in the power (electricity) infrastructure market worth roughly US$290 billion and growing - the third largest company in conventional power generation, second largest company in the field of power transmission and third largest company in the field of power distribution. It is the only manufacturer worldwide with know how, products and solutions spanning the entire energy conversion chain;
  - Leads the industrial automation sector, being the technology leader in discrete automation and electrical drives; and
  - Number one supplier of: offshore wind mills, rail signaling equipment and, through recent acquisitions, in-vitro diagnostics.

- Unlike its archrival, GE, Siemens did not include in its guidance significant windfall profits from the various governments' stimulus programs. While this was, in our view, prudent, we recognize that the Company's expertise has attracted considerable interest in the various infrastructure projects being tendered out by governments across the world, from 800kV high voltage direct current (HVDC) transmission lines in China to record railway orders in Germany.

- Following the bribery scandal, the management change initiated in 2007 when Peter Loescher, CEO, took over, and in our view, was particularly fruitful with a number of successful measures targeted at streamlining the Group's operations being implemented:
  - The Group rolled out a selling, general and administrative (SG&A) expense improvement program which had a group-wide scope and contributed significantly to the bottom line result. Despite sustained acquisition activities and severance charges, the SG&A expense as a ratio of revenues was reduced for 2010 to 14.6% from a level of 16.7% for 2007.
  - The Group initiated a Supply Chain Management initiative, targeted at improving the efficiency of procurement activities by reducing the number of suppliers, better matching the revenue and procurement volumes by increasing purchasing in emerging markets and increasing the share of cross-sector managed procurement. In fiscal 2010, this initiative was transferred into a new and permanent organization for supply change management with Siemens.
  - A program for reducing the number of legal entities to fewer than 1,000 has been recently completed. This compared to 1,300 legal entities under the Siemens corporate umbrella at the end of 2009, down from 1,800 at the end of 2007.

- Siemens has also been preoccupied with reducing its financing costs and providing top notch financial solutions in the business-to-business area. Its specialized division in charge of financial services, recently renamed 'Financial Services' , applied for a German license to conduct banking business. Financial Services focuses on the management of financial risk to which Siemens is exposed, on the tailoring of financing solutions for the Group's customers and on the provision of finance for other companies, primarily in the fields of industry, energy and healthcare.

- The Group has exhibited prudent cash flow management and pro-actively reduced the amount of leverage to well below the long term stated target of 0.5x-1.0x Adjusted Net Debt/ EBITDA (earnings before interest taxes depreciation and amortization), reaching a 0.08x at the end of fiscal 2010. The amount of short term financing needed has been proactively reduced by the issuance of €4bn of long term debt during the fiscal 2009. With a net industrial cash position estimated to reach €5bn by the end of the end of the year (excluding financial services). Siemens, in our view, is in an enviable position to pursue growth opportunities, either organically or acquisitively.

Business Description:

A diversified engineering group, headquartered in Munich, Germany and currently employes about 405,000 people, with major interests in industrial infrastructure, energy and healthcare and operations in 190 countries. Its industry sector is involved in industrial automation, drive technology, building technologies, lighting, industry solutions and railway. Its energy sector operates in fossil power generation, renewable energy, oil and gas infrastructure, power transmission and power distribution. Its healthcare sector is present in diagnostics, clinical information technology and imaging technologies.

Industry Growth Drivers/Trends:

- Intensive restructuring over recent years enables the Group to take advantage of the cyclical up-swing. Its business areas are mostly leveraged to global GDP growth.
- High growth industries (2x-4x GDP growth):
  - Renewable energy generation - driven primarily by the success of the wind industry and rapid adoption and implementation of environmentally friendly regulation.
  - In-vitro diagnostics and the electronic health records industries - growth is supported by increasing need for healthcare, notwithstanding the healthcare systems reforms.
- Medium growth industries (1.5x-2x GDP growth):
  - Industrial automation, significantly impacted by the economic downturn and reduction in the level of industrial capex, has been benefiting strongly from the recent upswing in ecomonic activity, primarily in the emerging markets.
  - The rapid adoption of energy efficient building technologies and recognition of the value-add by such technologies bode well for the upstream suppliers.
  - The lighting industry is driven by new technologies (in particular LED) and the widespread ban of incandescent bulbs. Siemens is on path to quickly capitalize on the increased interest in the area by spinning-off its lighting division, OSRAM.
  - The power transmission industry is supported by the need to connect renewable power to the grid, by increased energy demand in developing countries, lacking the infrastructure as well as by the aging infrastructure in the developed world.
  - One of the main technological answers to the need for increased energy efficiency is the introduction of smart grid elements (smart metering, demand monitoring, two-way power, etc.) which is expected to drive the power distribution industry.
- In line with GDP growth industries:
  - Rail equipment - revitalized by increasing cost of energy and stimulus packages.
  - Fossil/traditional power generation - driven by the utilities' capital expenditure cycle.
  - Imaging equipment.

Competitive Advantages:

- Depth and breadth of its research and development programs: it invested an impressive €3.8bn or 5.1% of sales in R&D last year.
- The sector and geographic diversification allows for better risk management, while at the same time providing synergies in procurement, research and financing.
- Leadership advantage in a number of broad as well as niche high growth industries; its technological expertise and pool of talent are amassed in a strong brand identity.

Competitors:

- **Industrial automation:** Rockwell, Mitsubishi, Schneider, ABB, Emerson, Honeywell
- **Building technologies:** Honeywell, Johnson Controls, Schneider
- **Lighting:** Philips, GE
- **Rail equipment:** Alstom, Bombardier, GE, Invensys, Thales, Ensaldo
- **Fossil/traditional power generation:** GE, Alstom, Mitsubishi
- **Renewable energy:** GE, Vestas, Gamesa, Enercon
- **Oil and gas equipment:** GE, MAN AG
- **Power transmission:** ABB, Alstom
- **Power distribution:** ABB, Schneider
- **Medical equipment:** GE, Varian, Sonova, Roche, Abbott, Beckman Coulter

Barriers to Entry:

- **Technological advance:** Siemens is the owner of an impressive number of patents covering its entire portfolio of businesses. This is leveraged by the fact that Siemens, and other incumbent competitors, have significant R&D commitments.
- **Economies of scope and scale:** Can leverage its R&D, procurement and financing capabilities to its broad array of engineering businesses, many of them technologically related, across more than 190 countries. Such synergies are difficult for a new entrant to reproduce.

Customers:

- In terms of end-markets, Siemens' business is exposed mainly to utilities, hospitals, general industry, transportation, construction, oil and gas producers, metals and mining and independent power producers. The consumer exposure is marginal (under 5%).
- Diversified portfolio of businesses: no significant exposure to single customer at group level.

Officers and Directors:

Leadership team: Gerhard Cromme, Non-Executive Independent Chairman of the Supervisory Board; Peter Loscher, President & CEO; Joe Kaeser, CFO; Barbara Kux, Chief Sustainability Officer (CSO); Herman Requardt, CEO Healthcare Sector; Wolfgang Dehen, CEO Energy Sector; Siegfried Russwurm, CEO Industry Sector.

Corporate Governance:

- **20 member board** – of which 10 are independent; the functions of chairman of supervisory board and CEO are separated. The German Codetermination Act requires that the company shareholders and its employees each select one-half of the Supervisory Board's members.
- The Group's environmental, social and governance (ESG) metrics, as measured by Bloomberg, have improved over recent years and it now scores above average in most categories, including ESG disclosure (53.31), energy per sales, water per sales and community spend.
- Siemens exceeded its stated goal of generating €25bn in revenue from products and solutions for environmental and climate protection by fiscal 2011 (€27.6bn reached for fiscal 2010). The new revenue target for the group's Environmental Portfolio is to exceed €40bn by the end of fiscal 2014.
- Siemens had been named one of the members of Dow Jones Sustainability Index (DJSI) World for eleven years in a row and is leading the Diversified Industries category in 2010.
- The Group has issued a sustainability report since 2008 using the Global Reporting Initiative (GRI) guidelines and the reports are audited by independent consulting firms; the Group also employs a designated Chief Sustainability Officer since 2008.
- The value of the group level executive compensation was the equivalent of 0.57% of the operating income (adjusted EBIT) of the company.

Ownership:

Insiders own 5.60% of outstanding shares. Institutions own 24.15% of outstanding shares. Notable holders include: Norges Bank 1.75%, Union Investment Group 1.31%, DWS Investment 1.24%, Allianz Global Investors 1.16% and Capital Research Global Investors 1.00%.

Capital Allocation/Uses:

- Group's stated capital structure target involves a 0.5x-1.0x Adjusted Net Debt/EBITDA ratio; the equivalent reading of 0.22x for fiscal year 2010 suggests ample scope for increased leverage; nevertheless management is prudently postponing addition of significant debt.
- Group's share buyback program initiated in 2008; by 2010 aimed to buy up to €10bn of shares and is the equivalent of about 18% of its market capitalization. €4bn has been spent with no share repurchases in 2009 and 2010 as the company preferred to increase its dividend.
- Group paid roughly €1.4bn in dividends to its shareholders during the fiscal 2010 and has ear-marked €2.5bn for dividends at the end of 2010. The dividend paid for fiscal 2010 is €2.70/share, representing a payout ratio of 60%. Going forward, the Group targets a dividend payout ratio of between 30% and 50%. Siemens grew its dividend at a compound annual growth rate of 10.44% over the last 10 years. The current dividend yields 3%.
- Capital expenditures have reduced to €2.5bn for 2009 and €2.3bn for 2010 from €3.7bn in 2008 as the Group adapted to a reduced demand due to the global economic downturn and to preserve financial flexibility. The Group's midterm capital expenditures target is in the range of 95%-115% of the depreciation and amortization expense and capital expenditure is expected to increase for the fiscal 2011, particularly in the industry and energy sectors.
- The Group has been pursuing a number of small and medium sized bolt-on acquisitions to strengthen its position in key segments of its business portfolio, in particular medical equipment and renewable energy. At the same time the Group is expected to generate cash flows from number of divestitures of non-core, underperforming assets.

Business Segments*:

	Revenues (%)		Operating Profit (%)	
Business Mix	2009	2010	2009	2010
Industry Automation	7.6%	8.2%	9.1%	13.5%
Drive Technologies	9.9%	9.1%	11.2%	11.0%
Building Technologies	9.2%	9.2%	4.6%	5.9%
OSRAM (Lighting)	5.3%	6.1%	1.2%	7.3%
Industry Solutions	8.9%	7.9%	4.8%	.50%
Mobility	8.4%	8.5%	5.2%	6.6%
Fossil Power Generation	12.9%	12.5%	17.1%	19.6%
Renewable Energy	3.8%	4.3%	5.1%	4.8%
Oil and Gas	5.6%	5.5%	6.7%	6.3%
Power Transmission	8.1%	8.1%	9.7%	9.9%
Power Distribution	4.3%	4.0%	5.8%	5.4%
Imaging and IT	9.4%	9.7%	15.6%	18.8%
Workflow and Solutions	2.0%	2.0%	(0.7%)	.35%
Diagnostics	4.6%	4.8%	4.5%	(10.0%)

"Sectors" only; excluding cross-sector businesses, corporate items and equity investments.

Financial Statement Summary: (€MM, years ended September 30)

Income Statement	2008	2009	2010
Total Revenue	77,327	76,651	75,978
Normalized EBIT	3,508	9,548	9,595
Normalized Net Income (cont. ops)	1,521	2,089	4,741
Normalized Fully Diluted EPS (cont. ops)	1.52	2.16	5.21
Return on Equity (cont. ops)	6.0%	8.4%	14.2%
Balance Sheet			
Net Debt	9,327	9,354	4,485
Common Equity	26,774	26,646	28,346
Net Debt: Common Equity	34.8%	35.1%	15.8%

Key Profitability Ratios and Figures:

Y/E September 30	2008	2009	2010
Operating Margin	4.5%	12.5%	12.6%
Interest Coverage	7.5x	9.1x	14.5x
Return on Equity (cont. ops)	6.0%	8.4%	14.2%
S&P Credit Rating	AA-	A+	A+

Sourced from Thomson Reuters, Company Filings, PIC.

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