

Final Transcript
Speech of Dr. Klaus Kleinfeld, CEO, Siemens AG
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Good afternoon, President Böge, distinguished members of the European Commission and European Parliament, honorable ministers, ladies and gentlemen.

Competition is an extremely important subject for business as well as for society in my view. It's an honor for me to have the opportunity to address you all here today and to have such a knowledgeable, international audience. As you know, Siemens has recently been helping a lot of the press to increase their circulation. And we've been making headlines particularly in an area in which you are all experts. Therefore, I think some of you are thinking that I am walking right into the lions' den today! That thought occurred to me too!

But frankly, I see this as a huge opportunity to address some points very openly here with you. Before I go on to the more fundamental views, let me be very specific on the recent aspects. We have a clear policy, which I absolutely stand for, which is zero tolerance for any type of illegal behavior. I really want to say here from the bottom of my heart that all of you should be aware of this. When the allegations came up we put together a first-class team of experts that are working literally day in day out to clear up issues and give us an opportunity to clean up things. We started a broad-based, independent investigation by hiring an independent law firm through our Audit Committee. This was arranged to ensure the maximum independence possible. Debevoise, a very internationally renowned law firm, is the company that we hired here and they are supported by Deloitte's arm of forensic accounting experts. On top of it, we hired one of the top anticorruption advisors, Michael Hershman, to support us and give us ideas on what are the benchmarking practices. This is so that we do not have to wait until all of the results have come in but can start immediately with actions of change. We created the office of an Ombudsman. I must say today after a couple of months experience with that already that this is a very good process. We have hired one of the top white collar crime experts with Daniel Noa. The state of Baden-Württemberg was very supportive in freeing him up at an early point in time

and we have supported the team with a lot of excellent talent from inside of our company as well as through another very renowned law firm called Davis Polk. It is really our intention to, at an earliest point in time, separate the speculation from the facts and to allow us to have full transparency here to clear up things and then clean up the problems.

Our clear goal is to see this challenge as an opportunity. Like in many other areas where we are already today the benchmark, we also want to become the benchmark in transparency. Our goal is that in three to five years down the road people would be look back and say the way Siemens handled that is clearly a benchmark for how one can do this best. Well, one thing that is also very clear, if I can summarize my own view as well as the view of my colleagues: We view competition as an utmost concern to Siemens. I'm absolutely sure that we wouldn't have been around for so many years if we hadn't done many things right, many things sustainably right, and that those allegations that are brought up today are not a systemic description of what Siemens really stands for.

This year marks our 160th anniversary. Siemens has been around for 160 years, and we've mastered many challenges. When I look at how we've mastered that, I think there is clearly a DNA that stems from the early days of our foundation. This stands for innovation, for great employees, for outstanding teams as well as strong international presence. And I believe that in all of the discussions, sometimes internally but very often externally and with people in the political space who do not have experience in the economic space, I believe that some fundamental understanding of how value is created by a company is flawed. Therefore I'd like to spend a couple of minutes on our view on how to sustainably create value.

There is no company, no institution that can sustainably create value if they don't create customer value. Customer value is the only sustainable way to make your company successful over the long-term and have it grow. Particularly when, like us, you are in a capital goods industry. The good thing in a capital goods industry is that you are talking about large investments and about very rational decisions. I mean usually it's not a one-person decision. There are usually a couple of people involved and therefore it is simply measured in a very rational way along only two dimensions,

very easy to measure. One dimension is how does our solution how does our product, how does our system reduce the cost on the side of the customer, and by that contribute to the productivity, or how does our system, solution or product help our customers to have a higher and better performance. And performance here is something that is tangible that the customers can charge for, can charge their customers for. If you now look at Siemens and our value-add structure, it is very simple that we have never been and most likely we will never be the low-cost bidder in the industry. Just given our value-add structure, and frankly that's not frightening, because as I told you for 160 years we've been managing to flourish and do well.

But why? Why could we cope with a situation like that and still create customer value and create customer value on a sustainable and a long-term basis? And have many if not most of our customers being repeat customers coming back not only from one contract to the other but often from one generation to the other? What you really need is you need a culture of innovation. You need a culture of innovation with the best technical brains so you literally have to make sure that you are attractive for the best technical people. Those individuals that you get into your organization must not only be specialists who work well particularly in their own cubicle, but also individuals who really enjoy working together as a team because today's technical complexity can only be handled by true high-performance teams. And you just can't be happy and lean back if you achieved that one day. You literally have to make sure that your team, your people are technically capable and passionate every day, because every day you have to innovate, every day you have to speed up and have to keep your company faster and better than what others can offer. You might be wondering: Why is he talking about that? Wasn't he starting with competition? Let me close the loop here, and let me close it with a little bit of a personal anecdote. And the summary of that anecdote, and I'll give you the anecdote after that, is that we are talking in essence about the competitive advantage of creating customer value. And the essence boils down to, and in today's world probably even more so than in the past because the world is flat, who has the better people on board and who has the people that can in a better way work together and have a more capable team. What it really boils down to is to individuals, to human beings, and as we all know it has a lot to do with our own motivation, with our own passion. So it really means how do we get out of bed every morning and how do we keep in touch with the reality how do we

get motivated? And the truth of the matter is that the ice cold breath of your competitor breathing down your neck ideally every day is pretty much a wonderful motivator, one of the best actually and one that companies don't have to pay for.

And now let me give you the personal anecdote about why I'm so convinced. Before, in my old life so to speak, I was a product manager at Ciba Geigy in the pharmaceutical division in Basel. My window was facing the Rhine River and on the other side I saw the company called Sandoz. Unfortunately, Sandoz was also exactly my competitor in the area that I was a product manager. During particularly nice days I always used the company canteen that allowed me to stroll along the Rhine River, and pretty regularly this was the same stroll the competing product manager from Sandoz did. We met each other and we were always friendly with each other and greeted each other, but there was this particular curious look in his eyes as well as in my eyes. Is he smiling? How does he look today? Does he have something in the back of his mind? He looked extremely relaxed and I tell you after that lunch when I came back to my office there was a special energy in myself. Special energy and an extra eye on execution to make sure we keep the upper leg here in the competition.

So my first conclusion here is competition is the ultimate prerequisite for innovation and for creating high-performance teams and for fighting complacency. Complacency that can so easily spread particularly in large but also in small organizations. What is my second conclusion? My second conclusion on competition also comes from an even earlier experience of mine. An even deeper experience. I was born in Bremen. I grew up there in that town in the north of Germany, and it had a large shipping industry as I grew up. The shipbuilding industry was booming and as kids we were extremely proud because the ships were getting larger and larger and the newspaper always told us that not only the ships were getting larger and larger but also that our shipyard was the largest, one of the largest that Germany as well as Europe had and the most modern. For every launch of a ship we went to the Weser, which is the river there, and we looked from the other side of the Weser onto the ship getting launched. Boy, were we proud of what we saw. And it was a true passion. It was a true positive emotion, we were so proud of all the things that happened there. We literally, because when you build a ship it creates a lot of noise I don't know who of you had the experience, we literally felt the noise was the best noise that we could have

thought of. In today's world it would probably cause a lot of environmental protest demonstrations against it. We saw it as an ultimate sign of health, an ultimate sign of good things happening there. One day just out of the blue, as ships were still being built there and not fully finished, the company AG Weser went bankrupt. Just from one day to another this great modern super shipyard went bankrupt. I was sad and I was shocked. People around my neighborhood lost their jobs, many of them highly qualified, highly motivated, I didn't understand it as a boy. Later when I studied business this was one of the driving forces. I wanted to understand what had really happened there and I learned that there was a change in the industry. Asian competitors had come onto the market and the shipbuilder wasn't competitive. AG Weser and others had gotten massive amounts of government subsidies. By the way, the smaller shipyards were not so good in getting subsidies, and interestingly they got smaller but they focused on niches. Interestingly the large subsidized companies died and the small ones you can visit today. They are specialized, and very often they have a worldwide excellent position and they flourish.

That leads me to my second conclusion. Protectionism ultimately is the wrong policy choice. It is counterproductive in the long run. Not only for governments but also for companies. I believe the only good policy choice is to encourage and nurture competition. Now the question is how do you do it in a smart way because I know that as policy-makers you are always in the dilemma of whom do you support, which pressure group do you listen to, and which ones do you ignore, and there are certainly more than enough around of those in the world. My impression is that a cluster-oriented industry policy is the smartest approach to becoming competitive as a region, as a nation or even across borders as we just saw this weekend when the European Union celebrated its 50th anniversary.

What's the prerequisite here that we all have to look at? The correct and most important prerequisite is that we have demanding customers willing to innovate and willing to set their eyes and money behind significant industry trends and be the trendsetters. We must also have specialized suppliers and partners, vigorous competition and also intelligent government support to foster innovation to build cluster elements. All that ideally is not just on a regional competitiveness basis but also on a global competitiveness basis. So when we do all that we can increase pro-

activity, drive innovation and stimulate business. We can see that on a large scale working when we look at Silicon Valley. But we can also see that on a smaller scale when we for instance look a little bit further north of here to Nuremberg, Erlangen, where we have what we call the Medical Valley. It is home to companies like Siemens, to Draeger, Fresenius, and looking at the universities, they are flourishing in that area. We alone have 104 R&D agreements with the respective university Friedrich Alexander Universität in Erlangen. Fifty-seven projects currently going on, 130 graduates work currently with us and that includes already some of the top managers that have made it through the ranks. But you can also see it from an economical perspective. This little valley, this region has grown in the last years on average, from 1991 to 2004, on average 4.5 per cent. In the same period the average for Germany was 1.3 per cent, so it is something that sets it apart, and I could also go in depth into the most important cluster in Germany, which is the automotive cluster and here in the south of Germany Stuttgart – Ingolstadt – Munich. You see really the top-notch players worldwide, particularly in the upper end Daimler Chrysler, Porsche, Audi, BMW-Group. You also see that this attracts a lot of these suppliers: it attracts Bosch, Siemens VDO, and Continental. When you look at the universities, Technical University Munich, University of Stuttgart, and when you look at specialized suppliers, particularly small- and medium-sized enterprises, you can see that there is a massive attraction coming in through clusters. In total the automotive industry employed 750,000 people in 2006.

That shows you the power of a cluster approach and brings me to my third conclusion. I believe that competition works, drives economical growth particularly and gets an additional synergistic effect if put together into a cluster. Only that promotes social stability and prosperity. Now what do we have to do as governments as well as companies? Governments need to have policies that encourage competition such as deregulation. Support cluster upgrades and their formation. It takes a little while and sometimes it doesn't even cost money. It just requires a little bit of friendliness. A little bit of friendliness like a welcome train to welcome those personally who inquire about investing there. Those type of things very often, I speak from own experience, make the final cut there. Investing in education is very critical. I always bear in mind where I'm coming from not just as a company but also I think particularly as a nation and even as a region. We will never be the lowest cost bidder,

for heaven's sake. That's a good thing but that means we need to be the most innovative and the fastest. In terms of fastest, we sometimes suffer, but we cannot let happen in terms of the technical capabilities. It really concerns me that we currently have about 2,300 unfilled positions in Germany, and it takes longer and longer and longer to fill them. Mainly in the area of technical people.

One also has to obviously invest in the physical infrastructure. What does business have to do here? Business has to constantly strive for excellence. Unfortunately, I have to emphasize that here. Outside of Europe that would be easily understood, like motherhood and apple pie. But here I think we have to emphasize that because it needs to be clear that management has to focus on constantly striving for excellence and also should constantly strive for innovation and put their money where their mouth is, investing in R&D. Be open to partnerships and also invest in people and employees. We as Siemens are happy to play our role here. Just to give you a few numbers from last year. We are roughly a 100 billion euro company with 96 billion in orders and 87 billion in sales. Last year we grew 16 percent, which in absolute terms came out to 12 billion euros. That was our growth last year. You are roughly talking about a mid-sized publicly traded company, a company like Xerox or a company like Henkel that's the size that we added to our company last year. Our earnings grew by 35 percent and we currently have about 480.000 employees worldwide.

Very often people do not see also how strong our presence is here in Germany and we are very proud of that. It's our home cluster and we do a lot here, a lot also in the innovation area. For instance, our worldwide development as well as factory center for gas turbines are in Berlin, and they are currently building the largest, the most effective and the cleanest gas turbine that has ever been built. It's called the H-frame turbine and it weighs more than the Airbus A 380. It's a little smaller, though not much smaller, and it has an efficiency in combined cycle of more than 60 percent. This has never been reached before and in combined cycle generates 530 megawatts, which is enough to supply a town with 620,000 3-people-households, like Hamburg for instance. One gas turbine in combined cycle. It's also cleaner due to innovation. It saves 40,000 tons of CO₂ annually and that's comparable to 9,500 medium-size cars driven an average 20,000 kilometers a year. That's one example from the energy area.

Same thing in the healthcare arena. Innovation that comes here is not only from Europe, but about 200 kilometers north here from a little tiny town called Forchheim. That's where we have our worldwide center for computer tomography. In computer tomography we are worldwide a leader. We are the only ones that have a dual source imaging system computer tomography machine on the market. Now you might ask yourself why can't he talk customer value to me because that might be important what can the machine do and it can do a lot of things that others can't. It does a heart scan in 6 seconds, a full heart scan in 6 seconds, and that's very important particularly when your heart beats fast. That's typical particularly for infants and for small children that they can also be treated with a full body scan in 20 seconds, and that might be extremely important particularly when you just had an accident and people need to diagnose you before they can operate on you. So, in reality not only does it allow for more applications and time critical applications, it really saves a lot of lives. And I could go on with a lot of other examples, I want to stop right here. We also invest a lot in R&D, we invested last year 5.7 billion euros in research and development. We actually increased our research budget by 500 million last year. 500 million more, and 5.7 billion in total. That's by the way to my knowledge, Commissioner Verheugen, more than the budget of the European Commission for R&D in total last year. We employ roughly 50,000 people in R&D worldwide, 21,000 of them in Germany. By the way last year on an average business day, we filed 20 new patents in Germany. On an average business day! There are very few companies that have that innovation power.

We have in Germany 162,000 employees in around 140 locations. We hired 9,100 new people last year in Germany alone, and we currently have about 9,600 apprentices working with us, getting trained with us. We also believe that we need to do more to create interest of people in a technical career. And we looked at what to do there. We have a long-standing tradition of university programs. When our senior leadership asked themselves when was the point in time when we decided that we'd like to study engineering or something that has to do with natural science, we all came to the conclusion that that decision was taken much earlier in our life. That in reality the passion for technical things is created at a very early point in life through some personal experience. Therefore, we concluded that we would put together a

little research box, called a "Forscherkiste." It's in reality two boxes for Kindergarten and elementary school levels. We passed out about 1,000 of those in Germany, and it has a lot of experiments that you can do with in pre-school and elementary school level. It comes along with a one-day training course for one of the teachers there, because we realize that many teachers today, if not most, are afraid of doing experiments because their own natural science education was not solid enough. So they are afraid of getting into that. Frankly, it's a huge success and I think money and time well spent. In the US, we created at the high school level one of the most reputable competitions, called the Siemens Competition in Math, Science and Technology. We've built it over many years and it's a nationwide competition. And today whoever makes it to the finals can be sure they get more than one offer for tuition to the top universities that exist in the US. We also here have long-standing relationships to high schools, and we support a lot of high schools and we will be doing more in that area.

So that comes to my conclusion here and just to give you two more facts: Siemens makes up about 1.6 percent of Germany's overall exports, so we keep the export machine in Germany humming, and it's humming really nicely I think for the whole economy. And in total, Siemens accounts for 1.2 percent of the German gross domestic product. My clear point to you is we want to maintain a competitive environment that demands even more and drives us to even greater accomplishments for the good of our customers. We are active in a lot of areas that are not just nice areas, nice product areas to be in, but they are areas where we have fundamental challenges that we as humans better find answers to quickly. And my view is we need innovation probably today more than ever before to make life livable on this planet. We have to cope with 3 billion more people very soon on this planet. We have to cope with urbanization going at a speed, at a rate that we've never seen before. We better make sure that there are more people around, more companies around that can deliver answers to issues like climate change. That we can cope with one of the biggest challenges, particularly in the developed nations, which is healthcare costs, the coping with an aging society, which in my view, by the way, is not just a challenge but also an unbelievable opportunity, particularly for Europe. One that we better grab and we better grab it soon before others do. We also believe that more critical infrastructure is needed when you look at the third world and at the

developing world. We really have to find answers to that. And we as Siemens are clearly committed to help particularly in these areas and to be a trendsetter. With that I hope I gave you some food for thought and hopefully some points for discussion over lunch. Thank you very much for your attention.