

Building Trust

LEADING CEOs SPEAK OUT:
HOW THEY CREATE IT,
STRENGTHEN IT, AND SUSTAIN IT.



Klaus Kleinfeld

PRESIDENT AND CHIEF EXECUTIVE OFFICER
SIEMENS CORPORATION

“By taking the long view...we’ve been able to offer...innovative products, systems, and solutions as [a] competitive advantage.”

– Klaus Kleinfeld

RESTORING PUBLIC TRUST

I remember well attending the meeting with President George W. Bush in a small room at the White House, when he challenged our group of assembled CEOs to restore the trust of the American people in business. I was struck by the sincerity of his call to action. As one of the few leaders of a European company present that day, I was also struck, probably more than my American peers, by how important that challenge is—not just for American business, but also for companies around the world.

American corporate systems and structures have become global models. The erosion of confidence in corporate governance in the United States has put at risk the reputation of business on an international scale. This has happened at a time when the globalization of business is just beginning to bear fruit for humankind—enhancing the flow of capital and innovative technologies to developing economies, and ultimately raising the standards of living in the most remote areas of the world. So the stakes are high, and the response to President Bush’s challenge is urgent.

As a Siemens executive, it is natural that I would emphasize the global implications of corporate governance. With operations in 190 countries, Siemens is the most global of all industrial companies. But of all those countries, the United States holds a special place. It is our largest market, home to 70,000 employees and the base of 11 of our worldwide businesses.

And as a member of a family that fled East Germany, I have seen firsthand the consequences of letting business standards deteriorate. Few countries had an industrial base that was as inefficient, obsolete, and corrupt in a very obscure way as East Germany’s. In an economy where the state controlled business enterprises, the concept of corporate governance did not exist. And in a totalitarian society, terms like “public confidence” and “public trust” had little meaning or relevance. One knows best the value of something when one has seen the consequences of its loss.

At Siemens, we look at the public as a diverse array of constituencies. Certainly this includes shareholders, the company’s owners. Our

customers, without whom there would be no reason for the company. Our 425,000 employees and managers, who work to satisfy our customers and create profits for our owners. The communities where we work, the media, government officials, regulators, financial institutions, suppliers, partners, retirees, unions, and a host of other publics. Because they all have a stake in Siemens, we call them our stakeholders. It is my belief that keeping all stakeholders in balance is key to maintaining public trust. Certainly, this is consistent with the principles Arthur Page articulated so many years ago.

When one group is favored over another, troubles eventually arise. For example, while a company's executives are important, particularly in times of competition for top talent, some of the worst corporate scandals were caused by emphasizing rewards for a select group of executives. This was done without considering the interests of shareholders and other employees. Perhaps the most frequent cause of imbalance among stakeholder priorities has been the exclusive focus on investors and the financial community to the neglect of other stakeholders.

With the stock price as the most visible scorecard for corporate management, it is not surprising that a generation of executives focused on the mantra of the 1990s—maximizing shareholder value. In the interest of satisfying investors seeking short-term gains from stock price rises, some companies focused solely on financial strategies rather than investing in R&D to improve the products and services they offered their customers. Others neglected their commitment to employees, borrowing from pension funds to finance the growth that they felt Wall Street demanded.

At Siemens, the investor is a very important public, but not at the expense of other stakeholders. We challenge the argument that shareholder interests are incompatible with those of the other publics. We also resist the instant-gratification temptation so prevalent during the boom of the 1990s. In fact, many financial analysts were critical of Siemens for refusing to take advantage of the higher “New Economy” multiples by selling off industrial businesses and expanding our IT and telecommunications portfolio. That would not have served our industrial customers and strategic partners well. Given the recent crash of the technology market, it also proved to be the wrong move for our investors.

Maintaining a balanced portfolio—like balancing stakeholder interests—has contributed to Siemens’ steady growth and financial stability for more than 150 years, during good times and bad. In 1884, company founder Werner von Siemens wrote to his brother: “I am not going to sell the future for a quick profit!”

Taking the long view makes it easier to satisfy all stakeholders’ needs and expectations. Take, for example, our business customers. They want top-quality products and services that enable them to satisfy their own customers, and to do it better than their competitors. Innovation can be a great competitive edge, but in a tough economy many of our customers do not have the funds to invest in R&D. By taking the long view, and maintaining our traditionally high levels of research funding even when profit margins are depressed by the economy, we’ve been able to offer Siemens’ innovative products, systems, and solutions as their competitive advantages.

Treating a customer as a stakeholder is the best way to create truly productive partnerships. It means that our customers have a stake in our development efforts on their behalf. And it means that we must understand fully each customer's needs, what creates value for him or her. For a company with a strong engineering heritage such as Siemens, this is always a great challenge. We strive constantly to overcome the temptation to let technology, rather than our customers and our market, drive the development of our products. Done right, it is an unbelievably constructive dialogue with very often outstanding results that strengthen the offerings of our customers. It also makes the world a better place: with more efficient energy production, distribution, and consumption; with easier worldwide communication; better medical diagnosis; and more effective treatments, to name just a few areas.

However, technology is not the only answer to innovation. For example, we've listened to our customers and created a solution to their needs—and made them stronger Siemens stakeholders—through a creative financing approach called “performance contracting.” With capital investment budgets reduced drastically, customers often are unable to take advantage of technological improvements that could reduce their operating costs dramatically. So we are now offering contracts where we will install new technologies and our customers will only pay us as they realize the savings.

The U.S. Postal Service, known for not having sufficient funding to handle all of its modernization needs, recently awarded Siemens a performance contract to develop and install an automated mail-for-

warding system. With 17 percent of the U.S. population moving each year, the postal service annually handles 40 million address changes, forwards 2 billion pieces of mail, and returns to senders another 1.3 billion pieces. By automating the current expensive and labor-intensive process, Siemens will provide the U.S. Postal Service significant savings. From those savings, Siemens will be paid for the sophisticated automatic-recognition and image-management technology we are developing for the postal service in our plants in Texas and Germany.

Besides providing the machines that handle more than 90 percent of America's letter mail, Siemens contributes to a broad spectrum of America's public services and infrastructure. Our power equipment generates one third of the country's energy; we provide the commuter trains to 11 major U.S. cities and security systems to all 438 major airports; we handle more than 150 million medical transactions every day and provide diagnostic equipment to hospitals in virtually every U.S. community; and we are responsible for building safety, security, and energy management in more than 20,000 facilities across the country.

A company in the infrastructure business knows well the importance of corporate citizenship, particularly in serving the community and treating local government officials as important stakeholders. Our employees are active in their communities, our managers serve on local foundation boards, and our executives seek out national leadership roles. Siemens is also proud to sponsor the Siemens Westinghouse

Science Scholarships, the prestigious awards for bright students from America's high schools, and the newly created Innovation Award competition as part of the National History Day program.

For busy leaders, it is tempting to support these good will efforts with encouragement and endorsements rather than personal participation. But I've always been guided by the words of the outspoken German novelist and poet, Erich Kästner, who said, "There is nothing good, unless you do it." Also I firmly believe in what Sir Karl Popper calls "piecemeal work"—the world only changes if you start in your own direct environment.

So I try to set the standard for our executives. I make sure to be present to honor the winners of the science scholarships and innovation awards. Reinforcing my interest and experience in our medical business, I serve on the board of the Centers for Disease Control Foundation. To cover both our national and local corporate citizenship obligations, I serve on the national board of the U.S. Chamber of Commerce and lead the Cybersecurity Task Force of The Business Roundtable, while also leading an investment development task force for New York Mayor Michael Bloomberg in Siemens Corporation's hometown. Reaching out to community stakeholders through high-quality national and local philanthropic programs is time consuming and expensive. There are some who say such use of the company's funds is incompatible with maximizing shareholder value; that it is a misuse of the investor's money. On the contrary, I believe that corporate social responsibility is a necessary condition for a company to be financially successful over the long term.

The Siemens culture fosters a leadership philosophy that we call “sustainable management.” Based on a view that a company exists in balance with the society and environment in which it does business, our culture recognizes that all Siemens stakeholders are important to the company. Sustainable management drives Siemens to continue to be one of the world’s leading investors in R&D, encourages us to adopt the toughest standards of corporate governance, and motivates us to participate in the communities where we do business. That focus on those longer-term, high-value principles such as innovation, governance, and social responsibility has produced significant returns for our shareholders, while companies that tried to take shortcuts have suffered in the stock market as well as the market of public opinion.

In many ways, the most important stakeholders for a corporation are its managers and employees. They certainly have a great stake in the company—their jobs, their livelihood, the quality of life of their families, and the pensions that provide them security and comfort in their old age. Managers and employees also provide the greatest leverage with other stakeholders. They are on the front lines with customers on a daily basis, they are the face of the company in the community, and their labors keep the company operating and providing products and services for the company’s markets.

At Siemens, we give our leaders the tools and the encouragement to communicate actively with their employees, always seeking to create two-way dialogue. We provide, for example, an online information and learning exchange, called “The Leader’s Forum,” where the top 600 leaders share best practices, obtain career-development information for their employees, and download materials they can use to explain

business news to those they supervise. Twice a month, the leaders meet online for a 90-minute chat with an author, business leader, or expert on timely topics such as selling, customer service, economic issues, and leadership strategies.

The CEO's role with the employees can be tricky. It is always a challenge to reach out to employees without bypassing the chain of command. In a company of 70,000 employees, it is also impractical for a CEO to reach all internal stakeholders in any sustained, meaningful way. So we have established a simple approach of a monthly e-mail letter personally addressed to each employee where I relate in a very personal way my observations about important happenings during the month. Each letter contains a link to a spot on our intranet, called the "President's Corner," where employees can go to learn more about the topics I write about. Each month, more than 5,000 employees take that opportunity and go to the President's Corner.

We are always looking for feedback, and I receive about 60 notes commenting on points in the letter. I answer each one personally. I also seek out employee comments through an approach we call "Listening Tours." Whenever I am visiting one of our 600 sites in the United States, I schedule 90 minutes for a meeting with 15 employees representing a cross-section of the local employee population. It's a time for listening to what's on the minds of employees, for answering questions, and for getting a feel for the local management culture. We also like to use town hall meetings for larger groups of employees, encouraging frank Q&A interchanges.

In a few isolated cases I've sensed a reluctance among employees to speak up, indicating a lack of openness or intimidation that we addressed quickly with the local managers. In most cases, the experience is encouraging, with plenty of constructive comments, and I leave with the feeling that our employees are living by the company's values and represent a good, high-performance culture. I am pleased also to see that my personal involvement in these frank, two-way interchanges have emboldened our managers to be more proactive in communicating with those they lead.

Ultimately, we will only meet the challenge of restoring public trust by setting high values and making sure that our executives, managers, and employees communicate them and live by them. Those values emphasize the company's commitments to all its publics, all those who have a stake in what the company does. Keeping those stakeholder interests in balance isn't easy, but it is essential to the long-term success of our companies.

Klaus Kleinfeld

PRESIDENT AND CHIEF EXECUTIVE OFFICER
SIEMENS CORPORATION

Klaus Kleinfeld became president and chief executive officer of Siemens Corporation on January 1, 2002, after serving one year as the chief operating officer of the New York-based company. He was named to the Siemens AG managing board on December 1, 2002.

He was executive vice president and a member of the executive board of the Siemens AG medical engineering group prior to his U.S. appointment. Before that Kleinfeld led Siemens' \$1 billion worldwide angiography, fluoroscopy and X-Ray systems business. Prior to his medical assignments, Kleinfeld established and led the Siemens Management Consulting Group (SMC).

Kleinfeld began his career with Siemens in 1987 in the corporate sales and marketing group, moving a year later to Siemens corporate planning and strategy. Prior to joining Siemens, he was a strategic product manager at the CIBA-GEIGY pharmaceuticals division in Basel, Switzerland.

Kleinfeld is a member of the board of directors of the Centers for Disease Control Foundation, the U.S. Chamber of Commerce and the Metropolitan Opera. He is also a member of The Business Roundtable and serves on the boards of the American Institute for Contemporary German Studies, The Turner Corporation and the Partnership for New York City. He was instrumental in establishing the "Siemens Kinderfond" foundation and the Siemens Caring Hands Foundation.

Kleinfeld earned a master's degree in business administration/economics from the University of Goettingen (Germany) in 1982, followed by a Ph.D. in strategic management from the University of Wuerzburg (Germany). He resides with his wife and family in Connecticut.

SIEMENS USA

Siemens USA provides a broad range of products, systems and services to America's top enterprises. With 70,000 employees at 685 locations in all 50 states, Siemens USA is composed of a diverse set of business units that includes power, automation and controls, information and communications, healthcare, transportation and lighting

With \$20 billion in revenues, the United States is Siemens AG's largest market. Every business day, Siemens USA:

- Treats more than 30,000 cancer patients with radiation therapy systems.
- Processes more than 150 million healthcare information transactions.
- Produces the generators that provide one-third of the nation's electricity.
- Provides consulting and managed IT outsourcing services for half of the Fortune 100.
- Handles 90 percent of the U.S. mail with its postal automation systems.
- Supplies one-third of the light rail vehicles in North America.
- Provides baggage handling systems for more than 100 major U.S. airports.
- Produces 200,000 automotive electronic components for 40 percent of U.S.-built cars.
- Manufactures 3.3 million energy-saving lamps.

As an active corporate citizen, the company dedicated about \$13 million in fiscal 2002 to community programs and non-profit organizations, as well as an additional \$3 million to American education through scholarships and research grants to more than 100 universities. Employees participate in Siemens Caring Hands programs in communities across the nation, volunteering to clean-up parks, walk for charities and revitalize city centers. Siemens USA is headquartered in New York City.

For more information, visit: www.siemens.com.

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