



**Press Conference**  
**Fiscal Year 2009 – Second Quarter**  
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**Berlin, April 29, 2009**

Check against delivery!

In our program for optimizing procurement, we concentrated on three questions. First: What do we purchase? Second: How do we purchase? And third: How can we improve our procurement processes to make Siemens more competitive? I'd like to give you some details on how we are answering these questions and on what our activities will focus on in the future.

### Siemens Procurement Volume

In the past fiscal year, Siemens purchased materials, services and products worth more than 50 percent of our total revenue – or approximately €40 billion. This procurement volume is enormous. Reducing material costs and improving our relationships with suppliers are goals that Mr. Löscher announced early and which he has repeatedly committed to. In addition, we must better manage supplier-related risks during this global recession.

### Long-term Optimization of Procurement

Now is the right time for Siemens to optimize its procurement system. Prices for raw materials have hit rock bottom. Access to previously limited production capacities is much easier. And our company's stability and size make us a more attractive business partner for suppliers.

For some time we have been discussing ways in which we can better structure our Supply Chain Management (SCM); and not just temporarily – but for the long term. The optimization of our procurement will be an ongoing, integral task and a focal point at Siemens.

The impact of this initiative is far-reaching. A better procurement system will substantially improve our company's performance in many areas: in product quality, in

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customer care and satisfaction, in our power of innovation, and in our profitability. To summarize: This is about restructuring our entire procurement system.

### First Measures of the SCM Initiative

We began to implement this initiative in January. And we have already made solid progress in several key areas. We have launched joint programs with our most important suppliers to identify and implement measures that would benefit both sides. All in all, we have already identified more than 1,000 individual measures for optimizing our procurement system. One lever, for example, will be reducing the complexity of our product specification and increasing its standardization.

Another important point in our program is Global Value Sourcing. This will help us to better leverage the potential of our global procurement chain: This applies to both pricing and to conditions, as well as to the collaboration with our suppliers to drive product innovations.

### Goals of the SCM initiative

Over the long term, we want to work with our suppliers to establish the world's leading procurement network, push the development of technologies, and accelerate innovation cycles. We want to sit at the table with the best players in the market. The best suppliers have the best sub-suppliers. An international network of this kind is indispensable. The internal targets set by our Supply Chain Management Initiative are ambitious. But our approach is different from that of our competitors. Our purchasing managers will be measured against the savings targets – this doesn't have to take place in public. In price poker, you don't want anyone else to see your cards.

## Integrate Procurement Activities

One of the key levers for achieving these savings is to integrate procurement activities across the Sectors. At present, the share of cross-Sector managed procurement volume is only 29 percent of our total volume. By fiscal 2010, we intend to increase this share by 60 percent.

## Global Value Sourcing

A key point of the program which differentiates us is Global Value Sourcing. This approach goes far beyond just pricing and purchasing initiatives in emerging markets. It has much more to do with joint product development together with our key suppliers. Our goal is to increase, over the mid term, our share of Global Value Sourcing from approximately 20 percent in 2008 to more than 25 percent.

Global Value Sourcing is about adding long-term value for Siemens through the development of a highly competitive supply network. This network will help us benefit from the technological know-how of our suppliers and enable us to bring our own innovations to the market more quickly and more efficiently.

## Intensifying Cooperation with Suppliers

A further measure is the intensification of our cooperation with selected suppliers. At present, we purchase materials and services from more than 100,000 suppliers worldwide. We want to select those suppliers from this pool who contribute most to our value add and strengthen their ties to us. By implication, this means that we intend to reduce the number of our suppliers by 20 percent over the mid-term. This move will, at the same time, enable us to cut back our procurement administration costs.

The media have reported that we have 370,000 suppliers, and that we want to reduce this number by 20 percent during the course of this year. Both numbers – 100,000 and 370,000 – are correct. A short explanation: Siemens works with 100,000 different supplier companies. Many of our suppliers have various production sites and locations – as do we. Every supplier location has its own supplier address. In total, we have more than 370,000 individual supplier addresses, for more than 100,000 companies.

Now to the steps we are taking: The first step is to consolidate the various addresses of supplier companies, wherever possible. This will provide a better overview of our supply structure and reduce red tape considerably.

The second step is the reduction of the more than 100,000 companies that currently supply us. We intend to reduce this number in the mid-term by 20 percent.

Our goal is to make Siemens the world leader in Supply Chain Management. In order to achieve this, we must install a global procurement network in which each supplier provides the best possible contribution to our company's value chain.