Capital Market Day 2020

Operational Excellence Section
Jochen Eickholt, Member of the Executive Board of Siemens Energy
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Our Management Team
What we stand for

Christian Bruch
CEO
Passion for transformation

Maria Ferraro
CFO
Clear focus on EBITA & Cash

Jochen Eickholt
Member of the Executive Board
Better performance through Operational Excellence

Tim Holt
Member of the Executive Board
Service and digitalization as value drivers
For us, Operational Excellence means driving …

… profitability
Footprint consolidation. Project management and supply chain excellence. Simplification and selectivity.

… cash flow
Inventory reduction. Cash conversion focus.

… revenue
Getting closer to our customers. Winning better business.

Clear commitment to create value and deliver on business plan
Next level performance focus
Operational Excellence

Gas and Power: Annual gross cost savings by FY23

PG2020 and GP2020+\(^1\)

**Realized savings**

~€500 m

Offset by lower business volume

**Savings to come**

>€500 m

Full impact on bottom line

**Already identified**

€1 bn target as per CMD 2019

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1 PG2020 and GP2020+ as presented at Siemens Capital Market Day in May 2019

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Transforming Siemens Energy
A step change in Operational Excellence

- Less complex, more agile and flexible
- Leaner, simpler product line-up
- Better execution, be selective
- Efficient and better sourcing
- Fewer parts, less complexity, additive manufacturing
- Winning better business
Our footprint is too complex
Too many sites

Global footprint

Sites

104 Sites globally¹
75 Manufacturing¹
89 Sales and Execution, Engineering²
73 Service³
15 R&D centers¹

Best-cost country share in workforce
<25%

Note: All figures as of FY19 | 1 >50 employees | 2 >25 employees | 3 Service-relevant internal facilities

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Ending “product tourism”

Production setup of exemplary gas turbine package

- 6 sites involved in production
- Different sites for manufacturing, packaging and testing
- Fragmented logistics

Add risk, cost and lead time
How we will reshape our footprint

Simpler footprint and logistics with lower complexity and fewer sites

Factory network optimization to eliminate overcapacities

Completion of Dresser-Rand integration on product side

Expansion in best-cost countries

Better connectivity via digitalization

Lower …

… cost for personnel, real estate, logistics and inventory levels
## Portfolio streamlining
Leaner, simpler product line-up

<table>
<thead>
<tr>
<th>Generation</th>
<th>Industrial Applications</th>
<th>Transmission</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Large rotating equipment: Review options to exit coal</td>
<td>• Aeroderivative Gas Turbine: Streamlining offering¹</td>
<td>• Focus on leading line-up of SF₆-free and grid-stability products paying off</td>
</tr>
<tr>
<td>• Focus on high-margin, high-volume variants (turbines and generators)</td>
<td>• Compressors: Consolidate platforms, selective rationalization</td>
<td>• Global design rules pushing standardization, modularization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Global design platforms to reduce portfolio variants</td>
</tr>
</tbody>
</table>

**Standardization, digitalization** (additive manufacturing)

Fewer product families and variants across GP – **Measures identified in all divisions**

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¹ We no longer actively market our larger sized Aeroderivative Gas Turbines
Rigorous focus on project excellence

Be selective: No more “must wins”

- Enforce **selective bidding** – better risk/return ratio
- **Systematic pre-bid confidence checks** – cost, technology, T&Cs
- Stringent profitability **thresholds**
- Increase share of **consortia projects** – risk sharing
- **Phasing out** products with negative (lifecycle) margins

Better execution

- Clear customer focus – stringent **requirements management**
- Systematic **risk management** with early **warning system**
- Increased **standardization, modularization and prefabrication**
- **Preventative management** of NCCs
- **Leverage of partner ecosystem**

**Share of high-margin projects**

- **FY19**
- **FY23**

**At least 30% reduction of NCCs by FY23**

**Note:** T&Cs = Terms and Conditions; NCC = Non-Conformance Costs

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Better portfolio analytics and systematic risk management

New unified project management and selection system

**Project database**
- Big data
- >2,700 running projects currently\(^1\)

**Complexity matrix**
- Technical, customer, commercial

**Empirical performance**
- Delays, NCCs, margins

**Risk of loss**
- Cost of capital, NPV at risk

- Better project selection: empirical-based decision making
- Better monitoring of active projects: monthly KPI tracking, early warning

**Successfully applied in Mobility**

**Siemens Mobility NCCs**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>(55)%</td>
</tr>
<tr>
<td>2019</td>
<td></td>
</tr>
</tbody>
</table>

**Siemens Mobility average project margin**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>+350bps</td>
</tr>
</tbody>
</table>

1 Above €2.5 m order intake, as of April 2020
Supply chain excellence
Buying from the best

Today
- **Decentralized** procurement (former GP organization)
- **Global value sourcing** below industry standard
- Limited cross-functional collaboration

Our aspiration
- Best-in-class procurement
- Significant **material cost** savings
- Partner ecosystem
- Innovation front runner

GP purchasing volume\(^1\) (FY19):
€10.5 bn

Our measures

1. Buying from the best – Reduce number of suppliers for direct material by 30%\(^2\)
2. Fully exploit sourcing levers – Increase share of global value sourcing by 30%\(^3\)
3. Cost value engineering initiative – Design-to-cost
4. Maintain procurement alliance with Siemens and closer collaboration with SGRE
5. Simpler procurement organization – Fewer guidelines and regulations
6. Digitalize procurement triple the spend awarded through “eAuctions”

\(^{1}\) Including €0.4 bn related to non-carve-out countries | \(^{2}\) In some commodities | \(^{3}\) In some businesses

2020-09-01
Sustainable inventory reduction
From prevention to an effective solution

- Complexity reduction – Professional variants management (optimize variant trees, modularization)
- Sales excellence – Better management of customer demand, more platform business, end-to-end order processing
- Supplier/order management – Negotiate consignment stock, on-time delivery, optimize safety stock levels
- Slow-mover liquidation – 3rd party inventory management, digitalization
- Production optimization – Lead-time reduction, more outsourcing, additive manufacturing

€5.3 bn inventory in FY19
125 days of inventory

1 Based on COGS, FY19
2020-09-01
Getting closer to our customers
Winning better business

Key measures

- Intensified key account management
- Differentiated offering (digitalization, decarbonization, decentralization)
- More global business – Expand Asian footprint (currently 18%)
- Publicly funded projects with customer co-development (currently <5%)
- Customized project financing
- Service – Intensified outage coordination
- Clear accountability – End-to-end product responsibility

Improved bid hit rate to win …

… more business

… better business
Innovation example: Additive Manufacturing

60+ printers globally with factory space for up to 100 printers

>10 years additive manufacturing user experience

Leading development and industry partnerships

Serving internal and external markets

Sweden

UK

Werner-von-Siemens Centre for Industry and Science

Göteborg Energi

IDEA

equinor

SIEMENS Energy + Materials Solutions

User

Service provider

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Additive Manufacturing contributes to our…

Better performance
- Up to +1 pp efficiency\(^1\)
- +50% longer lifetime\(^2\)
- >30% reduction of GHG emissions\(^3\)
- Higher power plant profitability

Faster development
- 75% reduction of development time (fast development and validation)
- More frequent M&U to improve power plant performance and profitability

Lower cost
- Economical production of small volumes
- Minimizing inventory costs
- Up to 50% faster repairs\(^4\)

Lower inventory
- Inventory reduction
- Up to 50% lead time reduction\(^4\)
- Digital inventory

Source: Siemens Energy internal assessment
\(^1\) Contribution of additive manufacturing components (heatshields, vanes, blades) to overall gas turbine efficiency (SGT-800)
\(^2\) Heatshield lifetime (SGT-800) of additive manufacturing-based vs. conventional components
\(^3\) Repair process of gas turbine burners using additive manufacturing vs. conventional manufacturing
\(^4\) Baseline manufacturing time of laser metal deposition vs. conventional welding repair

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Operational Excellence

Step change to more and better business

Defined measures …

- Reshaping our footprint
- Portfolio streamlining
- Project excellence
- Supply chain excellence
- Sustainable inventory reduction
- Getting closer to our customers

… and a reinvigorated team

- End-to-end product responsibilities
- New leadership teams
- New incentives and targets
- Fresh views

Our FY23 targets

6-8%

Adj. EBITA margin before Special Items (GP)

1-revenue growth

Cash conversion\(^1\) (SE)

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1 Rolling over 3 years, FCF/Adj. EBITA

2020-09-01

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