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

Jochen Eickholt
Member of the Executive Board

Better performance through Operational Excellence

Christian Bruch
CEO
Passion for transformation

Maria Ferraro
CFO
Clear focus on EBITA & Cash

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

<table>
<thead>
<tr>
<th>Realized savings</th>
<th>PG2020 and GP2020+(^1)</th>
<th>Accelerating Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>~€500 m</td>
<td></td>
<td>Operational Excellence</td>
</tr>
<tr>
<td>Offset by lower business volume</td>
<td></td>
<td>&gt;€500 m</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Savings to come</th>
<th>&gt;€500 m</th>
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<tbody>
<tr>
<td>Full impact on bottom line</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Already identified</th>
<th>&gt;€300 m</th>
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<tbody>
<tr>
<td>€1 bn target as per CMD 2019</td>
<td>Focus on implementation</td>
</tr>
</tbody>
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1 PG2020 and GP2020+ as presented at Siemens Capital Market Day in May 2019
Transforming Siemens Energy
A step change in Operational Excellence

- Reshaping our footprint
  - Less complex, more agile and flexible

- Portfolio streamlining
  - Leaner, simpler product line-up

- Project excellence
  - Better execution, be selective

- Supply chain excellence
  - Efficient and better sourcing

- Sustainable inventory reduction
  - Fewer parts, less complexity, additive manufacturing

- Getting closer to our customers
  - Winning better business
Our footprint is too complex
Too many sites

Global footprint

Sites

104 Sites globally
75 Manufacturing
89 Sales and Execution, Engineering
73 Service
15 R&D centers

Best-cost country share in workforce
<25%

Note: All figures as of FY19 | 1 >50 employees | 2 >25 employees | 3 Service-relevant internal facilities
2020-09-01
Ending “product tourism”

Production setup of exemplary gas turbine package

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

Adds risk, cost and lead time

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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:</td>
<td>• Aerodervative Gas Turbine:</td>
<td>• Focus on leading line-up</td>
</tr>
<tr>
<td>Review options to exit coal</td>
<td>Streamlining offering(^1)</td>
<td>of SF(_6)-free and grid-stability products</td>
</tr>
<tr>
<td>• Focus on high-margin, high-volume</td>
<td>Compressors:</td>
<td>paying off</td>
</tr>
<tr>
<td>variants (turbines and generators)</td>
<td>Consolidate platforms,</td>
<td>• Global design rules pushing</td>
</tr>
<tr>
<td></td>
<td>selective rationalization</td>
<td>standardization, modularization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Global design platforms to reduce</td>
</tr>
<tr>
<td></td>
<td></td>
<td>portfolio variants</td>
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</tbody>
</table>

**Standardization, digitalization** (additive manufacturing)

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

\(^1\) We no longer actively market our larger sized Aerodervative 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

At least 30% reduction of NCCs by FY23

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

\[ (55\%) \]

Siemens Mobility average project margin

\[ +350\text{bps} \]

\(^1\) Above €2.5 m order intake, as of April 2020

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Supply chain excellence
Buying from the best

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

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”

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

GP purchasing volume¹ (FY19): €10.5 bn

¹ Including €0.4 bn related to non-carve-out countries  
² In some commodities  
³ In some businesses

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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

- **Asset excellence**
  - Receivables/Payables
  - Advance Payments
  - Contract Assets/Liabilities
  - Inventory

- **€5.3 bn**
  - inventory in FY19

- **125 days**
  - of inventory

1 Based on COGS, FY19

2020-09-01

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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
Additive Manufacturing contributes to our... 

... topline

Better performance
- Up to +1 pp efficiency
- +50% longer lifetime
- >30% reduction of GHG emissions
- 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

Lower inventory
- Inventory reduction
- Up to 50% lead time reduction
- Digital inventory

... profitability

... cash

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
Operational Excellence

Step change to more and better business

Defined measures …

- Reshaping our footprint
- Portfolio streamlining
- Project excellence

… 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 conversion¹ (SE)

¹ Rolling over 3 years, FCF/Adj. EBITA

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