

Capital Market Day 2020

Operational Excellence Section

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Notes and forward-looking statements (I)



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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.

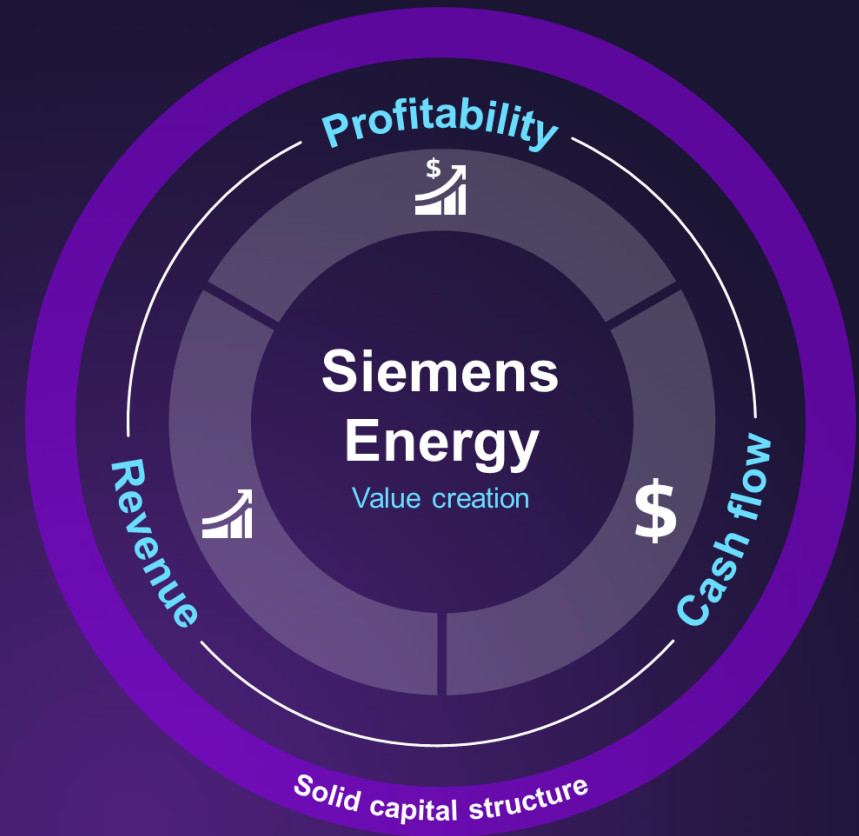
... cash flow

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



1 PG2020 and GP2020+ as presented at Siemens Capital Market Day in May 2019
2020-09-01

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**

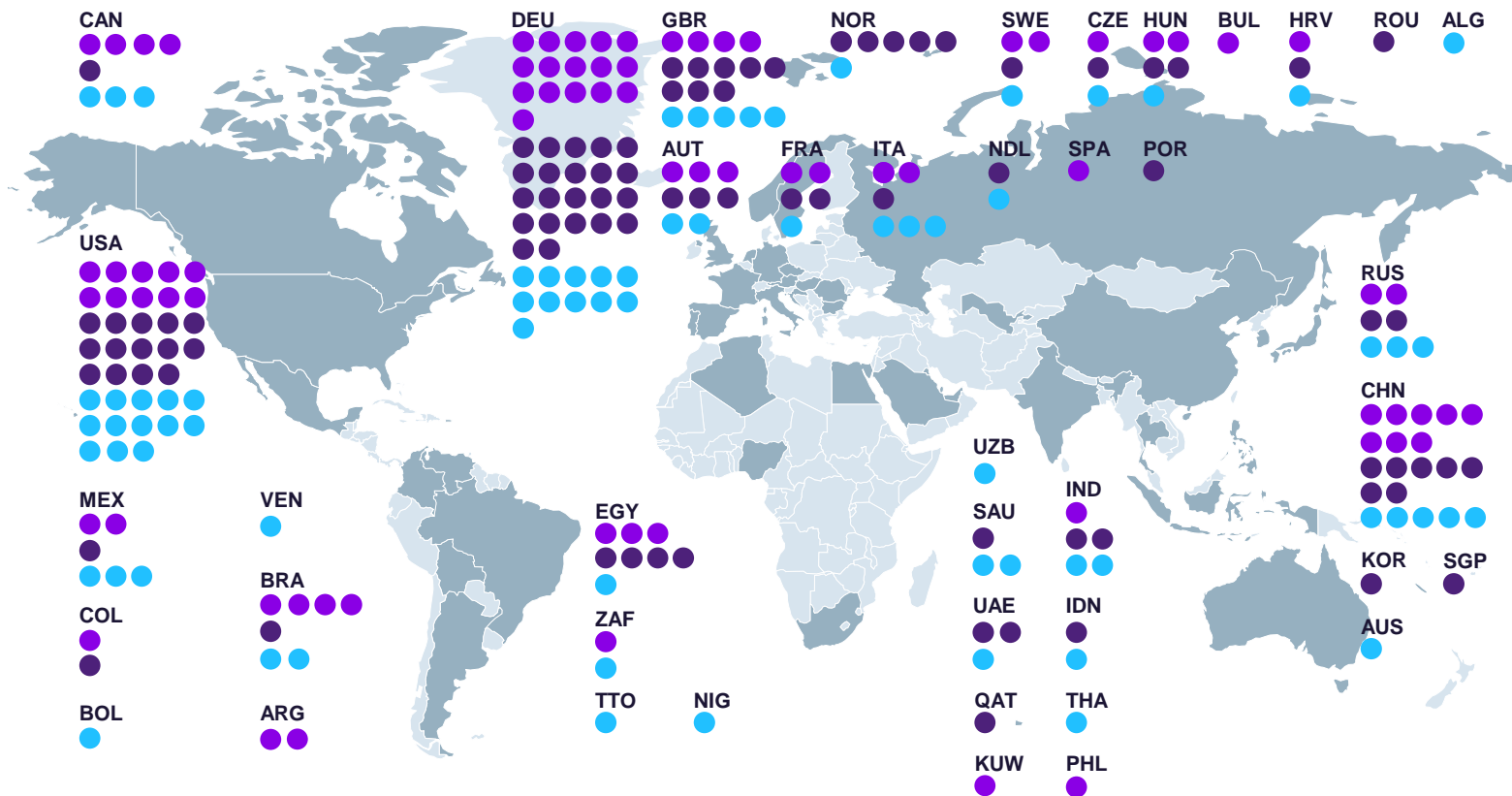
Winning better business



Our footprint is too complex

Too many sites

Global footprint



● Manufacturing ● Sales and Execution, Engineering ● Service

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

104 Sites globally¹

75 Manufacturing¹

89 Sales and Execution, Engineering²

73 Service³

15 R&D centers¹

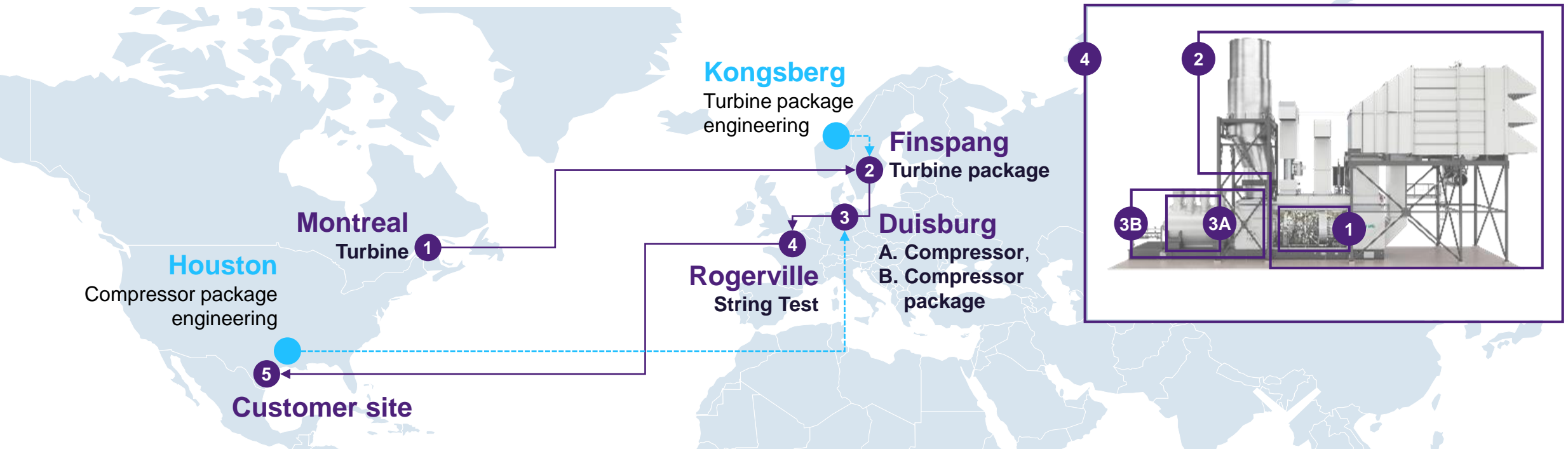
**Best-cost country
share in workforce**

<25%

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

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



Generation

- Large rotating equipment:
Review options to exit coal
- **Focus on high-margin, high-volume variants**
(turbines and generators)

Industrial Applications

- Aeroderivative Gas Turbine:
Streamlining offering¹
- Compressors:
Consolidate platforms, selective rationalization

Transmission

- Focus on **leading line-up** of SF₆-free and grid-stability products paying off
- Global design rules pushing **standardization, modularization**
- Global design platforms to **reduce portfolio variants**

Standardization, digitalization (additive manufacturing)

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

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

Share of high-margin projects



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

At least
30% reduction of NCCs
by FY23

Better portfolio analytics and systematic risk management

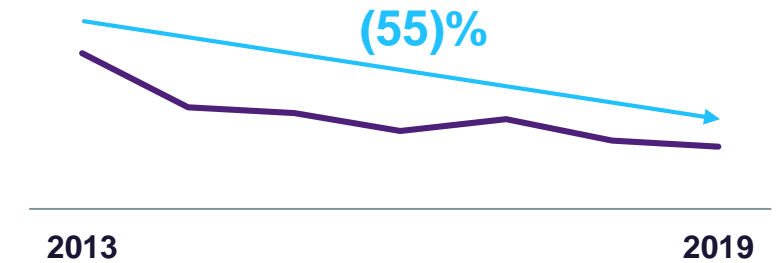


New unified project management and selection system

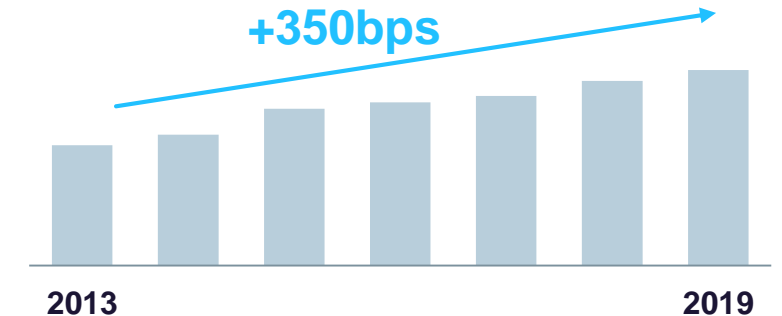


Successfully applied in Mobility

Siemens Mobility NCCs



Siemens Mobility average project margin



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**

GP purchasing volume¹ (FY19):

€10.5 bn

Our aspiration

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

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”

Sustainable inventory reduction

From prevention to an effective solution



€5.3 bn

inventory in FY19

125 days

of inventory¹

¹ Based on COGS, FY19
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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

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

Sweden

SIEMENS
energy



>10 years

additive manufacturing
user experience

UK

 **Materials
Solutions**



Leading development
and industry
partnerships



Werner-von-Siemens Centre
for Industry and Science

 **Göteborg Energi**



Serving
**internal and
external**
markets

SIEMENS
energy
User

 **Materials
Solutions**
Service provider

Additive Manufacturing contributes to our...

... topline



Better performance

- Up to +1 pp efficiency¹
- +50% longer lifetime²
- >30% reduction of GHG emissions³
- Higher power plant profitability

... 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 repairs⁴

... cash



Lower inventory

- Inventory reduction
- Up to 50% lead time reduction⁴
- 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

Our FY23 targets

6-8%

Adj. EBITA margin
before Special Items
(GP)

**1-revenue
growth**

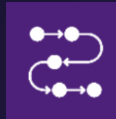
Cash
conversion¹
(SE)

¹ Rolling over 3 years, FCF/Adj. EBITA
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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 incentives and targets
- New leadership teams
- Fresh views