

Press release

Munich, September 01, 2020

Siemens Energy lays out its post-spin-off strategy

- About one sixth of all electricity generated worldwide is based on Siemens Energy technology
- Leading portfolio from conventional to renewable energy
- Clear commitment to accelerate profitability by rigorously driving operational excellence, portfolio adjustments and gradually shifting innovation focus towards sustainability and service
- Clear target for Adjusted EBITA margin (before Special Items) of 6.5 to 8.5% for fiscal year 2023

At a virtual capital market day, Siemens Energy, a world leader in energy infrastructure, today laid out its post-spin-off strategy. Siemens Energy is aiming for accelerated profitable growth. Management aims to achieve an Adjusted EBITA margin before Special Items of 6.5% to 8.5% for fiscal 2023. The Executive Board is committed to drive operational excellence, portfolio adjustments to meet market demand and gradually shift the focus of innovation and R&D to sustainability and service.

“The separation of the energy business is a key milestone in implementing our Vision 2020+ strategic concept. We create an independent leader in the energy business with a strong brand and the most comprehensive offering in the energy sector. With this, Siemens Energy is best equipped to lead the global energy transformation in a sustainable and economically feasible way. The new Siemens AG in turn will become a transparent and significantly de-risked company. With its core businesses Digital Industries, Smart Infrastructure and Mobility, it will play a significant role in shaping the industrial digitalization, called Industry 4.0”, said Joe Kaeser, CEO of Siemens AG.

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A relevant player for securing future sustainable energy supply

Siemens Energy will become independent at a time characterized by energy systems around the world undergoing fundamental change. The balance of fossil fuels and renewable energy sources is shifting. At the same time around 850 million people are still living without access to electricity. According to studies, global demand for electricity generation will increase by more than 50 percent by 2040¹. One of the main challenges for societies, as for companies around the world, is to meet the rising demand for energy and at the same time protect the climate – and to do so in an economically sensible way.

Due to the breadth of its portfolio and its leading technology, Siemens Energy is well positioned to serve the different requirements of customers and society. With 91,000 employees in more than 90 countries, Siemens Energy is a world leader along almost the entire energy value chain. An estimated one sixth of all electricity generated is based on Siemens Energy's technology, which it believes makes the company hugely relevant for assuring future sustainable energy supplies.

Christian Bruch, President and CEO of Siemens Energy, said:

“Siemens Energy is a mirror of today's energy world. Our comprehensive and diversified products, solutions and services enable us to meet the world's increasing energy demand while at the same time supporting efforts to reduce greenhouse gases. This puts us in an ideal position to support our customers with the energy transition.”

Courage for interim solutions

The rising demand for energy needs to be met in an environmentally friendly way – sustainable, affordable and reliable. Nevertheless, the transformation of the energy market starts from a wide range of different points and proceeds at different speeds. It depends on individual countries' economic development and political agendas, as well as their access to energy sources.

¹ Source for both figures: IEA WEO 2019 (Stated Policies Scenario).

“The challenge our customers face is to convert their installations to a more sustainable setup. But we also need to face the fact that this transformation will not happen overnight. There are still over 850 million people worldwide without access to electricity. So the question is how to bridge into an affordable, reliable and sustainable power supply”, said Christian Bruch, President and CEO of Siemens Energy. “What we therefore need, is the courage to find interim solutions that make us better today, based on available technologies, such as increased efficiency or the use of clean fuels. At the same time, we must continue to use innovative technologies to ensure that we do not get stuck in intermediate solutions. Siemens Energy is the right partner to address all of these challenges.”

Industry leader in decarbonization

When it comes to decarbonization, Siemens Energy is an industry leader: more than 50% of its portfolio is already decarbonized. The broad product portfolio of Siemens Energy includes products enabling the energy transition, such as hybrid power plants and gas turbines that can be operated with hydrogen. Siemens Energy is also a key player in wind energy and invests in the hydrogen economy. Its SF6-free (Sulfur Hexafluoride) Transmission portfolio is market leading. With the help of Siemens Gamesa Renewable Energy’s (SGRE) products, customers are already saving more than 260 million metric tons of greenhouse gases per year.

Environment Social Governance (ESG) is a core aspect of Siemens Energy’s strategy. The company is committed to the U.N. SDGs and to be climate neutral in its own operations by 2030 while setting strict targets for employee health & safety. Beyond this, inclusion and diversity are key elements of Siemens Energy's sustainability strategy. In terms of gender diversity, the Executive Board is committed to increase the number of females in leadership positions on the first two organizational levels below the Executive Board to at least 25% by 2025 and to at least 30% by 2030.

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Accelerating profitability

The Executive Board globally aims to accelerate profitability by rigorously driving operational excellence, portfolio adjustments to meet market demand and gradually shift innovation towards sustainability and service.

Christian Bruch, President and CEO of Siemens Energy, said:

“Siemens Energy is a great company to tackle the global challenge of energy supply and transition, but our performance needs to get better. Our target is to increase our Adjusted EBITA margin before Special Items up to 6.5 to 8.5% for fiscal year 2023.”

In the first strategy phase, the focus for Siemens Energy's Gas and Power segment is on increasing profitability and cash flow until fiscal year 2023. Among the most important levers for operational excellence the company is evaluating a leaner cost structure, optimized logistics, centralized purchasing and the reduction of non-conformance costs. As an example, Siemens Energy recently streamlined its offering of aeroderivative gas turbines. Furthermore, Siemens Energy is currently reviewing a potential phase out of its business with CO₂-intensive coal-fired power generation.

Another lever in the Gas and Power segment will be a rigorous focus on project selection and better execution. Projects with a negative lifecycle margin will be constantly phased out, bidding processes will be more selective to improve the margin in the project business. The organization is currently evaluating operational excellence initiatives targeting more than €300 million additional annual gross global cost savings on top of the already announced €1 billion savings target until fiscal year 2023, when compared to the cost base of fiscal year 2018.

Service is a key value driver

At the core of the future value creation of Siemens Energy is its service business with high conversion rates of up to 100% (the latter in high efficiency large gas turbines). Siemens Energy's service business is highly resilient and based on its large installed fleet and long-dated service

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contracts generated revenues of €9.5 billion in fiscal year 2019. In fiscal year 2019, 51% of revenue of the Generation division is linked to service, in Industrial Applications revenue contribution was even higher at around 60%. In Transmission, service comes from a low base but is growing, similarly to SGRE. All in all, the service backlog of the Siemens Energy Group's segments was equal to €48 billion as of June 30, 2020.

Leading the energy transformation via innovation

Siemens Energy will shift its R&D spending under strict return criteria towards service and sustainability, the two key value drivers in the ongoing energy transformation. A yearly spend of €1 billion in R&D as well as the fact that the Group has a portfolio of over 24,000 patents and utility models and employs approximately 5,000 people in R&D shows the importance of R&D for Siemens Energy.

Strong financial foundation with significant upside potential

Siemens Energy has a strong financial foundation. The Group had been provided with liquidity equivalent to about €6.4 billion, resulting in a net cash position of Siemens Energy (excluding SGRE business activities) about €2.2 billion, and a substantial order backlog of €82 billion, both as of June 30, 2020. Siemens Energy demonstrated resilience in fiscal year 2019, with group wide-generated orders of €33.7 billion and a total revenue of €28.8 billion, resulting in a strong book-to-bill-ratio of 1.2. The main financial KPI of the Group's financial disclosure is Adjusted EBITA before Special Items which increased from €1.46 billion in fiscal year 2018 to €1.52 billion in fiscal year 2019, of which €0.8 billion was generated by the Gas and Power reporting segment. For fiscal year 2023, Siemens Energy aims for an Adjusted EBITA margin before Special Items of between 6.5% to 8.5%.

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This press release is available at sie.ag/2Gi8mC3

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www.siemens-energy.com

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