Siemens Communications China

Peter Weiss, SLC Com CEO

Siemens Analyst Day
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Siemens’ activities in China dates back to the pointer telegraph era.

- **1872**: Siemens delivers the 1st pointer telegraph in China
- **1899**: Siemens constructs first tramline in China (20 km/h)
- **Today**: Digital telephony, multi-media messaging
- **Today**: Siemens builds Maglev (~ 450 km/h)
China has the number one fixed and mobile operator by subscriber in the world

<table>
<thead>
<tr>
<th>Global Carrier ranking</th>
<th>Mobile</th>
<th>Local Fixed</th>
<th>Long Distance</th>
<th>VoIP</th>
</tr>
</thead>
<tbody>
<tr>
<td># of subscribers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. 1 mobile</td>
<td>223 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. 1 fixed</td>
<td>197 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. 3 mobile</td>
<td>112 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. 4 fixed</td>
<td>116 million</td>
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</tbody>
</table>

- **No license**
- **Have license**

Source: MII, Operators, Dec 2004
China’s telecom carriers revenues are expected to grow at a double-digit rate.

- In CY04 telecom revenue reached a total of 519 billion RMB, with an increase of 12.5% yoy.
- A double-digit growth rate has been maintained since CY02, though growth is slowing down.

Source: MII and Operators estimates.
The carrier CAPEX will be increasing with 3G expected in the second half of CY05

- It is generally believed that Chinese operators will start investing in 3G in the second half CY05, therefore total telecoms CAPEX should increase in CY05 and CY06.

- In CY04 the operators have increased investment in new services development and internal management and supporting systems.

Source: MII, Operators
We are one of the leading foreign telecommunication suppliers in China

Siemens Com China

Market

Com China Facts & Figures

Com China Profit and Growth Strategy
- Mobile Devices
- Fixed Networks
- Mobile Networks

Devices

Carrier

Enterprise

Sales FY04
14.1 billion RMB

Employees FY04
5122

R&D Staff FY04
1117
Siemens Com China - regional setup and operating companies

Com Head Offices and OCs
- Com: 9 registered offices
- SCNB: 20 registered offices
- SBCS: 15 regional offices
- SSMC: 9 registered offices

Com Manufacturing Centers

Market

Com China Facts & Figures

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Com’s strategy in China: Consolidation of sales, marketing, services and R&D

**SLC Com Migration Strategy**

### 2003
- **Sales and Marketing**
  - SSMC
  - SBCS
  - STSG
  - BISC
  - SLC
- **R&D**
  - SSMC
  - SBCS
  - STSG
  - BISC
- **Manufacturing Logistics Service**
  - SSMC
  - SBCS

### Today
- **SLC Sales and Marketing Devices**
- **SLC R&D for MD and MN**
- **SSMC Manufacturing Logistics Services**
- **SLC Carrier Account Team**

### 2007
- **SLC Sales and Marketing**
  - E2E
  - Product
  - Service
- **SLC R&D**
- **PLM**
- **SSMC**
- **SCNB**
- **Other Co./JV**
Siemens twelve points for profit and growth in China

Market penetration:
1) Increase of regional offices from 28 to 60
2) "One Siemens" concept for market clusters

Growth strategies for all business areas:
3) I&C with focus on Com
4) A&C
5) Power
6) Transportation
7) Medical
8) Lighting

9) Use of China’s talent potential
   - Siemens as a preferred employer
   - 90 percent of Siemens managers in the country are Chinese nationals
   - 1,000 new engineers at SLC alone

Expansion of China’s role in the Global Network of Innovation:
10) Expansion of R&D activities
11) Further build-up of software developing capabilities
12) Use China as global sourcing base
## Siemens Communications twelve points program for profit and growth in China

### Market penetration
- Establishment of new Com Sales offices in Henan, Guangxi and Jiangsu provinces in FY05 increasing the total number of regional offices to 44
- Increase of the total Com Sales force by 30% to over 1,400 in FY05
- "Siemens One" concept for market clusters, e.g. Shanghai airport and other projects with SBCS

### Growth strategy

### Use of China’s talent potential
- Close to 99% of the Com workforce in China are Chinese nationals
- Our universities program to establish Siemens Com as a preferred employer:
  - More than 160 internship opportunities in China in FY04
  - Each year 3-4 of the participants in the “Siemens Scholarship for Studying in Germany” work for Com after the end of their scholarship
  - Joint Research “Beyond 3G” project with Chinese and German universities/institutes

### Expansion of China’s role in the Global Network of Innovation:
- Total Com China R&D headcount was more than doubled to 1,117 in FY04
- 8 global Mobile Devices products are developed in Beijing R&D
- Establishment of CTO office to identify innovation at an early stage
China’s mobile phone market keeps growing...

- China mobile handset market has increased by 17% in FY04
- GSM market is accounting for around 88% and CDMA for 12% of the Chinese market in FY04
- Camera phones account for 30%, clamshell phones account for around 60%, color screen phones account for over 80% of the total phones sold in China in FY04

Source: GfK, RMF, Feb 05
... but it is one of the most competitive markets in the world

There are 45 handset manufacturers competing with 37 GSM and 20 CDMA licenses

Multi National Companies

Local

16

29

Models in the market

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Demand (1160)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CY02</td>
<td>372</td>
</tr>
<tr>
<td>CY03</td>
<td>640</td>
</tr>
<tr>
<td>CY04</td>
<td>1160</td>
</tr>
</tbody>
</table>

Market

Com China Facts & Figures

Com China Profit and Growth Strategy

- Mobile Devices
- Fixed Networks
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Overcapacity is already >20% in millions of units

Announced capacity: 230

Demand (domestic and export): ~190

Source: GfK
"Energize MD": China Mobile Devices’ mid-term program to rebuild Siemens’ market position

- Develop China-specific products
- Speed up time to market
- Improve sales distribution and point of sales effectiveness
- Global competitiveness initiative
New products developed in China will be launched globally

### Imaging: CF75
- Stylish design in clamshell format
- VGA camera
- Two colour displays (65k and 4k)

### Outdoor: M75
- Splash water-, shock- & dust resistance
- Media player (audio & video)
- 1.3-megapixel camera

![Image of M75](image)

### Basic Communication: A75
- Pocket-sized, ergonomic design
- 4k colour display
- Accessory: Car Kit Easy

![Image of A75](image)

### Business/Enterprise: AX75
- 65k color display
- Easy-to-use organizer functions
- IrDA and Java

![Image of AX75](image)
Fixed subscriber growth is slowing down, but broadband is rising rapidly from a very low level.

New subscribers in CY04:
- Fixed: 49 million, reaching a total of 312 million
- PHS: 28 million, reaching 65 million
- Broadband: 13 million, reaching 24 million

Source: MII, SCNB
Siemens Com China Fixed Networks portfolio

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  - Mobile Devices
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Switching Systems

NGN

Broadband Access

Carrier Ethernet

Optical Networks

Data

Application and Solution

Carrier Services
Siemens Com China Fixed Networks proof points

**Market**

**Com China Facts & Figures**

**Com China Profit and Growth Strategy**
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**63 million ports** of EWSD contract volume, **No. 2 market position in switching market**

**Successful NGN trials** with CTC, CNC and CUC

**First NGN contract** signed with Chongqing CNC & Hangzhou CTC

Substantial increase of SCNB’s **production capacity** with three new manufacturing lines

**Close Customer presence** through regionalization (20 registered offices)

More than 99% of SCNB employees are Chinese nationals
Our Fixed Networks growth strategy

**Strengths performance in growing market segments**

- Position Siemens’ NGN Technology
- Grow in Access market with DASAN products
- Strengthen position in the ON with improved portfolio
- Introduce Home Entertainment solutions
- Localize CPE and Broadband Access products

**Implementation of strategy project:**

- Improvement of R&D process and increase of R&D headcount to over 320 in FY05
- Establish SCNB as global manufacturing base for FN
China’s mobile subscriber is expected to reach 440 million by 2006

Total mobile subscribers in CY04: 335 million

- GSM subscribers: 4.7 million
- CDMA subscribers: 0.7 million

Source: MII, SLC Com estimates
Siemens Com China Mobile Networks portfolio

Market
- Com China Facts & Figures
- Com China Profit and Growth Strategy
  - Mobile Devices
  - Fixed Networks
  - Mobile Networks

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2G/GPRS/EDGE

3G/HSDPA

WiMAX

Flash OFDM

IMS

Apps & Solutions

Carrier Services
**Com Mobile Networks China - strengthening our leading positions**

### Market

#### Com China Facts & Figures

**Com China Profit and Growth Strategy**
- Mobile Devices
- Fixed Networks
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### Mobile Networks is a leading player...

<table>
<thead>
<tr>
<th>2G</th>
<th>3G</th>
</tr>
</thead>
<tbody>
<tr>
<td>GSM Core: Leading position with ~20% market share in China</td>
<td>TD-SCDMA: Global headquarter in China</td>
</tr>
<tr>
<td>GSM Radio: ~10% market share in China</td>
<td>W-CDMA: Best performance in MII 3G Test Phase-I; earliest trial network launch in Phase-II</td>
</tr>
<tr>
<td>IN prepaid: Largest supplier for China Unicom</td>
<td>Several 3G field-trials</td>
</tr>
<tr>
<td>Video streaming: Sole supplier for China Unicom</td>
<td>250 customer-workshops conducted</td>
</tr>
<tr>
<td>WAP Gateway: Major partner for China Mobile</td>
<td></td>
</tr>
</tbody>
</table>
Com Mobile Networks China - strengthening our leading positions

... and aims to be even stronger

<table>
<thead>
<tr>
<th>... in 2G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further increase GSM position, i.e. through GSM-R</td>
</tr>
<tr>
<td>Enter new territory with AS solutions (i.e. video-streaming, PoC, location-based services, etc.)</td>
</tr>
<tr>
<td>Support our overall profitability through unbundled services/professional services</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>... in 3G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positioning MN as a top W-CDMA supplier with our E2E solutions</td>
</tr>
<tr>
<td>Leveraging our relationship with existing customers (i.e. CMCC and CUC) and relevant Governmental bodies</td>
</tr>
<tr>
<td>Focusing our 3G sales activities on 1st tier operators/provinces, esp. on CTC and CNC as mobile greenfielders</td>
</tr>
<tr>
<td>Utilize our excellent service and manufacturing capabilities in SSMC</td>
</tr>
</tbody>
</table>
Capturing 3G leadership project has been implemented to prepare for the upcoming 3G business

**Our strategic target in 3G**

**Become one of top 2 players in 3G**

**Capturing 3G Leadership**

**Sales framework**
- Strong local best-in-class sales force and sales processes
- Implement sales strategies to capture 3G leadership
- Clear sales targets, responsibilities, and incentive systems

**Sales enabling**
- Improve the qualification of sales organization through:
  - Consistent 3G messages and info
  - Personal skill / competence development in 3G
  - Account-specific workshops

**3G marketing/Go to market**
- Ensure that Siemens is perceived as a leading 3G supplier in the Chinese market -> executive workshops, media events, articles, 3G update
- Operator business workshops -> structured dialogue with operators’ 3G decision makers to demonstrate our competence

**Lobbying**
- Manifest awareness of the Siemens 3G capabilities at non-operator organizations, i.e. government, ministries, etc.
- Concentrated approach of lobbying activities

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**SIEMENS**

Analyst Day
Beijing, March 14th, 2005
China is the global TD-SCDMA headquarter

**Company:** TD-Tech  
**Location:** Beijing  
**Investment:** 102 million USD  
**Share split:** 51% Siemens 49% Huawei

Siemens Com is bringing in extensive know-how from other successful joint ventures.

Air interface has been successfully proven; End-to-end field trial is currently under progress.

Siemens Com expects TD-SCDMA to be commercially launched first in China before other markets might follow.
Conclusion:

We are operating in a growing market.

We have the right portfolio and the strategy to grow above the market.

We are aligning our structure to fit the local requirements.

We expand our local R&D and Supply Chain to address China and Global market.

Com China is growing and profitable.

Market
- Com China Facts & Figures
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    - Mobile Devices
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Com China Profit and Growth Strategy
- Mobile Devices
- Fixed Networks
- Mobile Networks
Thank you
Reconciliations and definitions


“ROE” (Return on equity) margin for SFS was calculated as SFS’ income before income taxes divided by the allocated equity for SFS. Allocated equity for SFS as of September 30, 2004 was €1.015 billion. See also Siemens’ Form 20-F at our Investor Relations website under www.siemens.com

The allocated equity for SFS is determined and influenced by the respective credit ratings of the rating agencies and by the expected size and quality of its portfolio of leasing and factoring assets and equity investments and is determined annually. This allocation is designed to cover the risks of the underlying business and is in line with common credit risk management standards in banking. The actual risk profile of the SFS portfolio is monitored and controlled monthly and is evaluated against the allocated equity.

Siemens ties a portion of its executive incentive compensation to achieving economic value added (EVA) targets. EVA measures the profitability of a business (using Group profit for the Operating Groups and income before income taxes for the Financing and Real estate businesses as a base) against the additional cost of capital used to run a business, (using Net capital employed for the Operating Groups and risk-adjusted equity for the Financing and Real estate businesses as a base). A positive EVA means that a business has earned more than its cost of capital, and is therefore defined as value-creating. A negative EVA means that a business is earning less than its cost of capital and is therefore defined as value-destroying. Other organizations that use EVA may define and calculate EVA differently.

A reconciliation of EVA may be found on our Investor Relations website under www.siemens.com
**Siemens Investor Relations Team**

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marcus Desimoni</td>
<td>+49-89-636-32445</td>
</tr>
<tr>
<td>Dr. Constantin Birnstiel</td>
<td>+49-89-636-36165</td>
</tr>
<tr>
<td>Irina Pchelova</td>
<td>+49-89-636-33693</td>
</tr>
<tr>
<td>Christina Schmöe</td>
<td>+49-89-636-32677</td>
</tr>
</tbody>
</table>

**Webpage:** [http://www.siemens.com](http://www.siemens.com) → Investor Relations

**e-mail:** investorrelations@siemens.com

**Fax:** +49-89-636-32830