



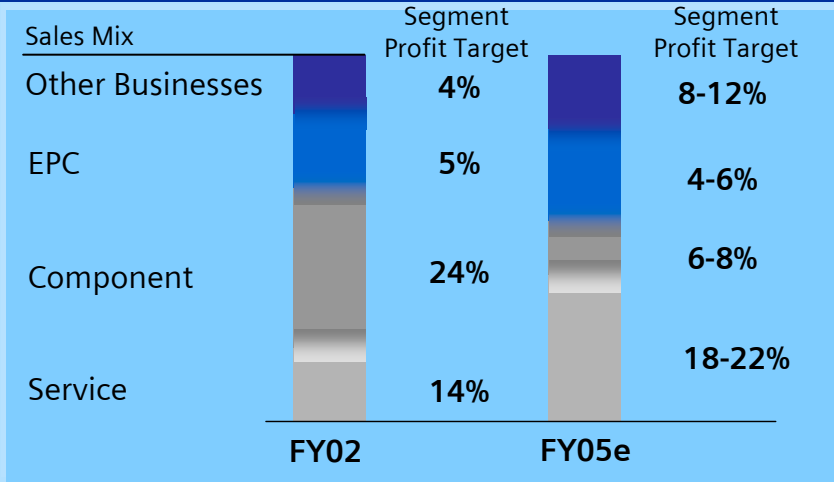
# Sustaining profitability in changing markets

Klaus Voges, Group President  
**Siemens Power Generation**

Financial Market Days, May 12, 2003

# Continued execution of our strategy leads to Group profit performance in the 10-13% range

Slide taken out from analyst presentation 2002!



### 3 Key Levers

1. Service Growth
2. Business Mix Discipline
3. Optimize Business Structure



### Follow-Through

- Maximize LTPs
- Invest in new products and concepts
- Selective acquisitions
  
- Product problems behind us
- Strict management controls (LOA process) in place
  
- Restructure Factory Network (1<sup>st</sup> steps taken)
- Re-size overhead in-line with future outlook
- Product cost reduction initiative

## What I will cover today

- ▶ Strong results
- ▶ New unit market development
- ▶ Leading market positions in all segments
- ▶ Strategies for sustainable profitability

# Power Generation – Product & service scope

## Group Executive Management

Klaus Voges, Andreas Kley, Norbert König, Randy Zwirn



### Fossil Power Generation (F)

- Gas turbines and Econopacs
- Gas turbine power plants and combined-cycle plants
- Steam turbines and power plants
- Electrical generators
- Service



### Industrial Applications (I)

- Small turbines and power plants
- Turbocompressors and drives
- Service

+ Alstom Industrial Turbines\*)



### Instrumentation & Controls Power Generation (L)

- Instrumentation and control systems
- IT solutions for power plant management
- Service

### Stationary Fuel Cells (SFC)

JV (Siemens stake 34%)  
**Framatome Advanced Nuclear Power**

JV (Siemens stake 35%)  
**Voith Siemens Hydro**

Regional offices worldwide

*Integrated global network for Power Generation*

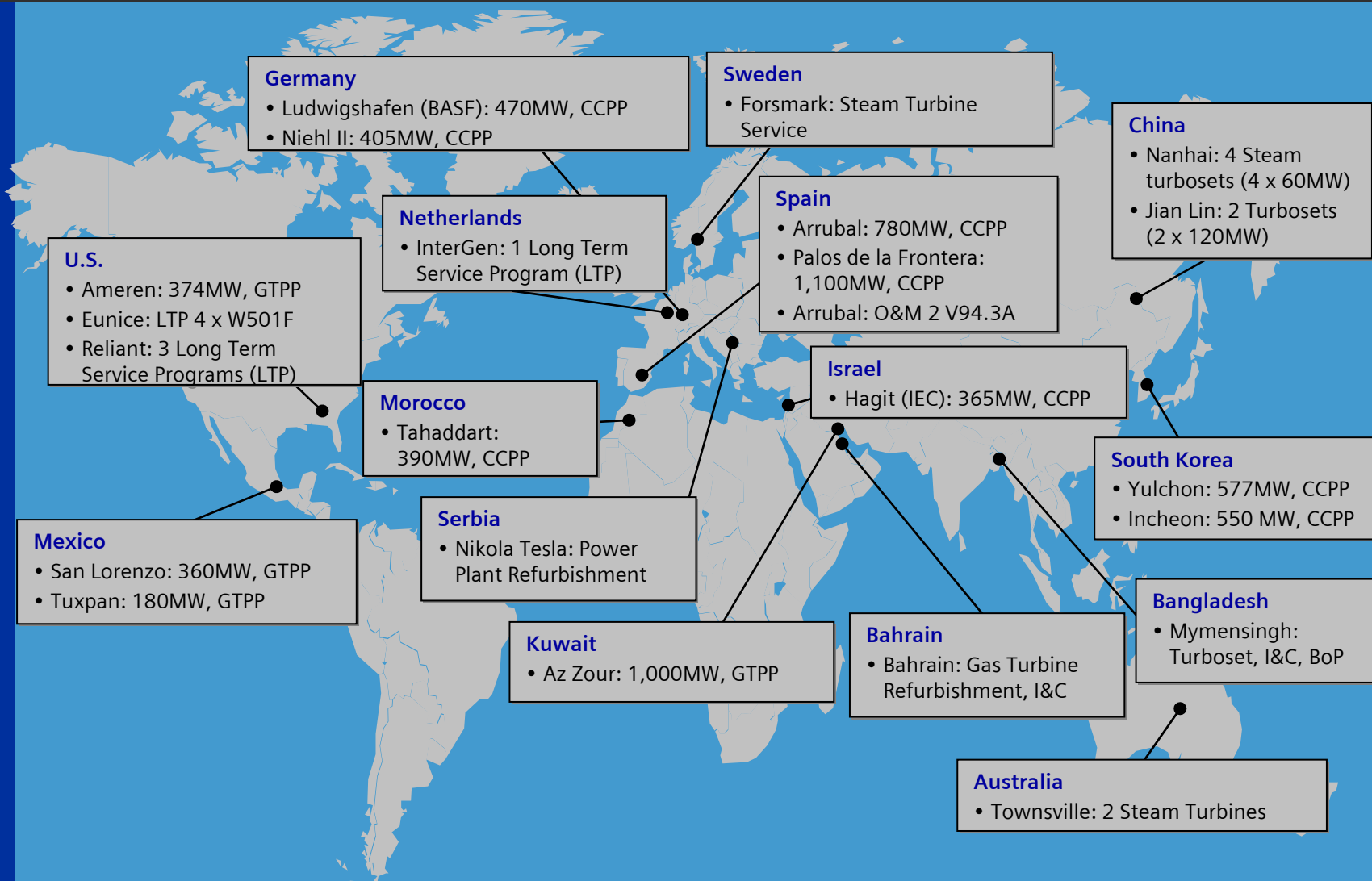
\*) Closing of the acquisition is subject to approval by the relevant antitrust authorities.

## PG business results

Figures in million of euros	H1 FY03	H1 FY02	FY02	FY01
<b>Orders</b>	<b>4,483</b>	<b>7,498</b>	<b>10,586</b>	<b>12,219</b>
thereof international %	91%	96%	93%	95%
<b>Sales</b>	<b>3,476</b>	<b>4,748</b>	<b>9,446</b>	<b>8,563</b>
thereof international %	94%	97%	96%	94%
<b>Group profit</b>	<b>671</b>	<b>752</b>	<b>1,582</b>	<b>634</b>
% of sales	19.3	15.8	16.7	7.4
<b>Net cash from operating and investing activities</b>	<b>71</b>	<b>883</b>	<b>662</b>	<b>2,045</b>
<b>Net capital employed</b>	<b>430</b>	<b>(1,247)</b>	<b>(144)</b>	<b>(1,020)</b>
<b>Capital spending<sup>*)</sup></b>	<b>85</b>	<b>91</b>	<b>300</b>	<b>351</b>
% of sales	2.4	1.9	3.2	4.1
<b>Employees (in 1,000)</b>	<b>25.2</b>	<b>26.8</b>	<b>25.9</b>	<b>26.5</b>
thereof international	13.0	13.7	13.8	13.5

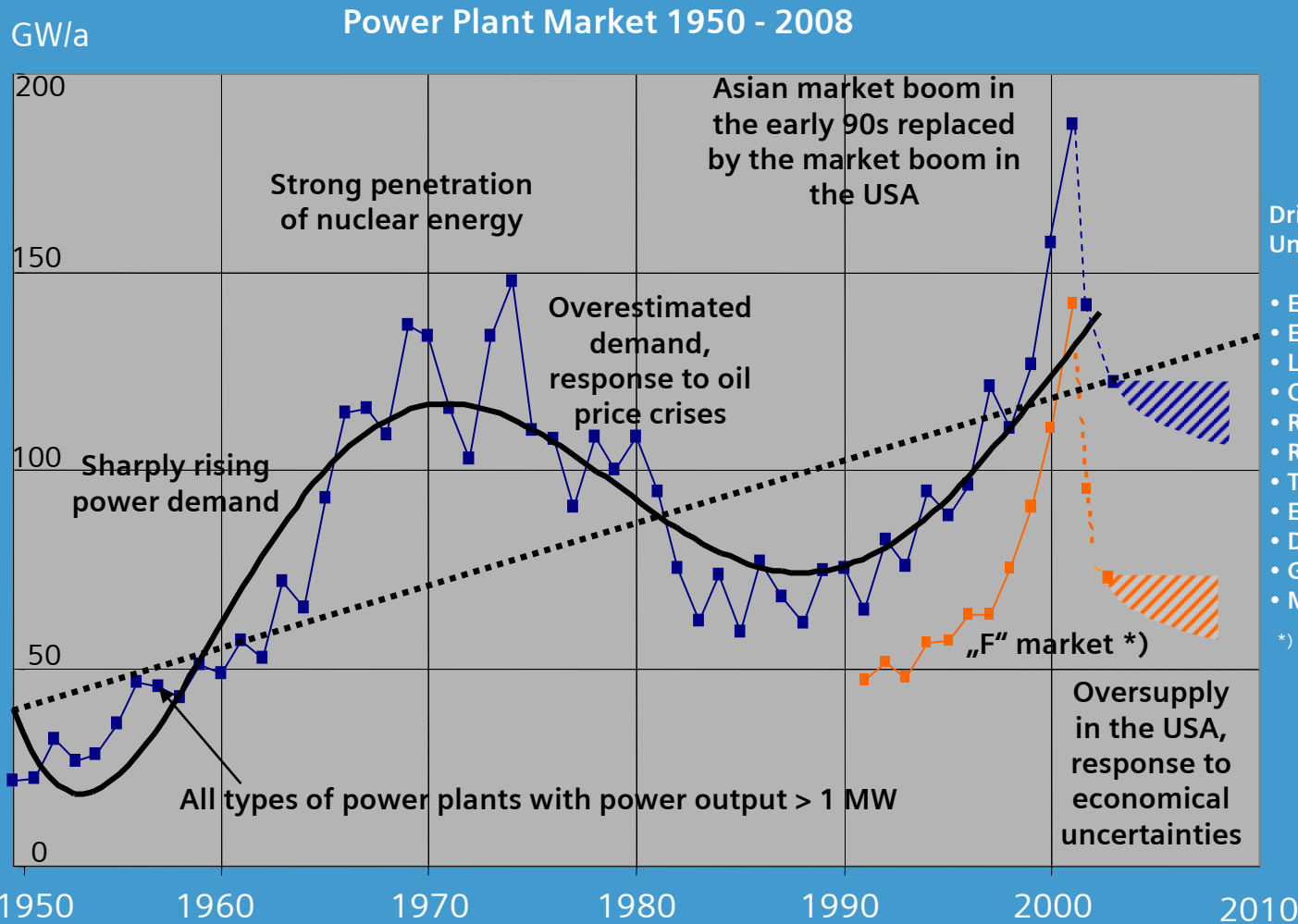
\*) Intangible assets, property, plant and equipment, investments, excluding retirements

Sample of recent orders ...



...demonstrates our global diversity

# Long term market development is positive ...



Driving factors  
Uncertainties

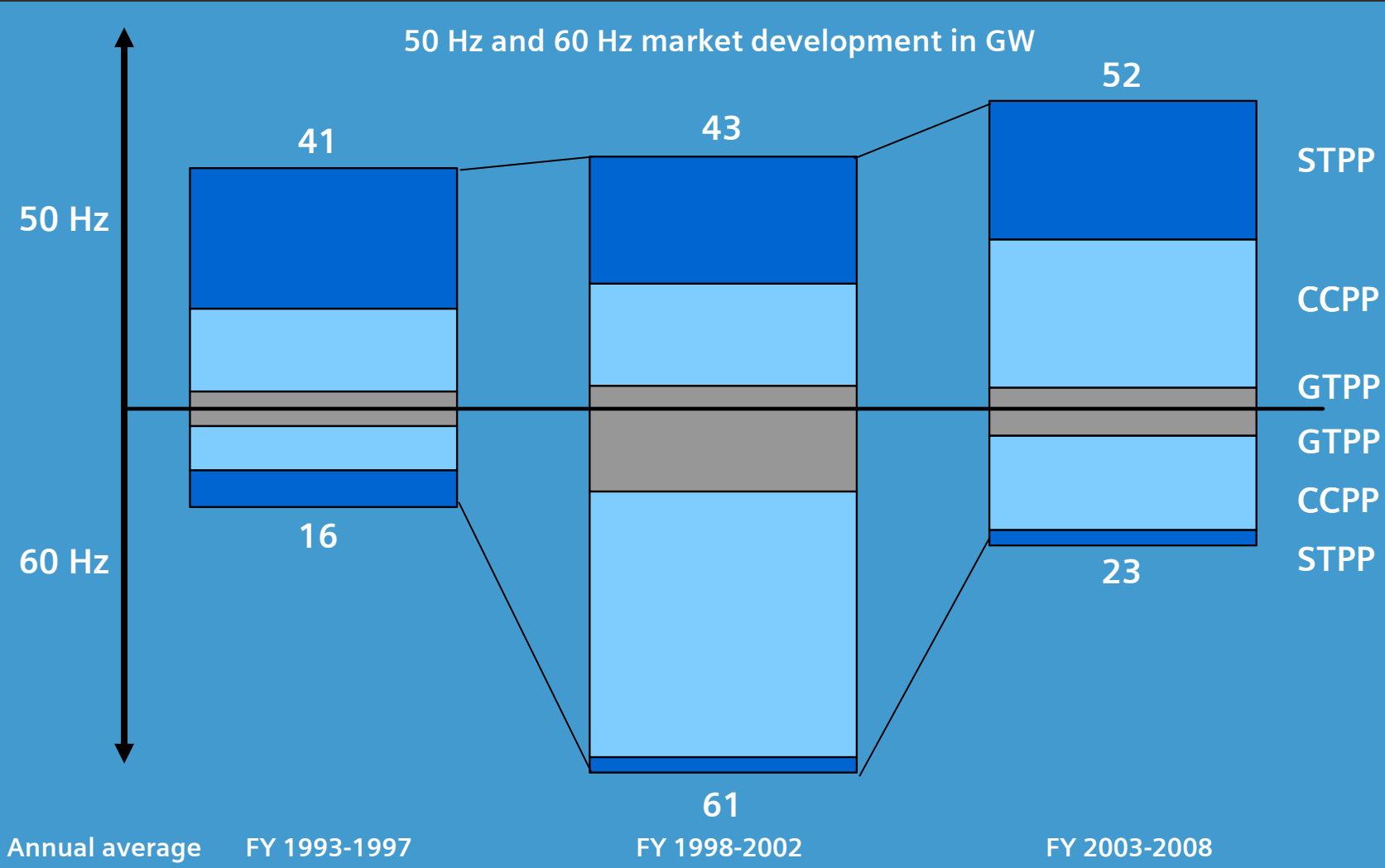
- Economy
- Energy prices
- Liberalization
- Customer behavior
- Retirements
- Regional markets
- Types of plants
- Environment
- Distributed generation
- Grid extension
- Manufacturing capacity

\*) F-market: GT>70 MW, ST> 100 MW

... but cyclical

# Leverage proven technology position within 50 Hz market

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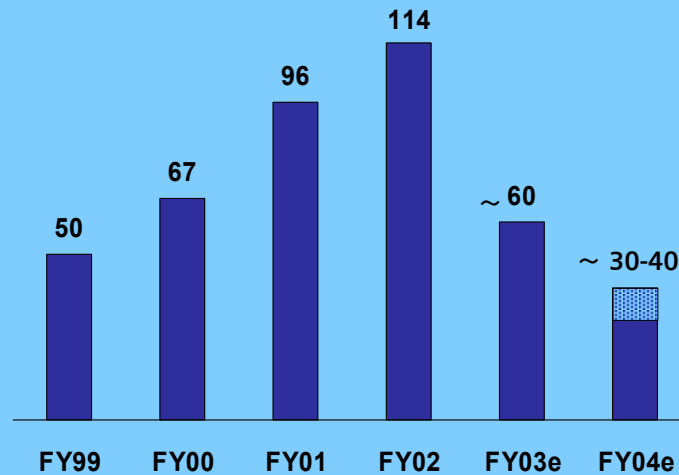




# Market implications for GT and ST shipments

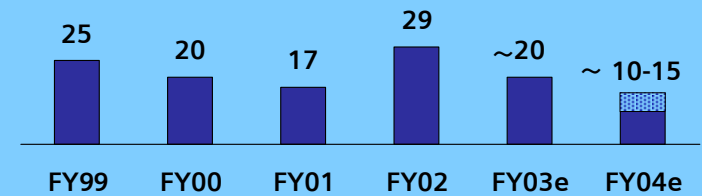
## Gas Turbines (GT)

(# of units)



## Steam Turbines (ST)

(# of units)












### ► New charter for Hamilton (60Hz GT manufacturing site):

- Focus on regional service
- Capability to manufacture components used in new engines and service
- Resize turbine assembly capabilities to market needs

### ► New unit market development requires ongoing capacity adjustments

Leading market positions in key segments ...

Position \ Segment	1	2	3	4
<b>Fossil Power Generation</b> (Large Gas & Steam Turbines)		SIEMENS	ALSTOM	 MHI
<b>Industrial Applications<sup>*)</sup></b> (Small Gas & Steam Turbines)		ALSTOM	 Solar Turbines <small>A Caterpillar Company</small>	SIEMENS
<b>Industrial Applications</b> (Compressors)		SIEMENS	 MAN TURBO	DRESSER-RAND
<b>Instrumentation &amp; Controls</b>		SIEMENS	 EMERSON™	 Invensys

\*) Market positions as shown are before acquisition of Alstom Industrial Turbine

*... serve as basis for future profitability*

# Solid strategies will further strengthen our position ...

SIEMENS

Innovation  
leadership

▶ Innovation leadership

Service  
growth

▶ Service growth

Business  
excellence

▶ Business excellence

Portfolio  
optimization

▶ Portfolio optimization

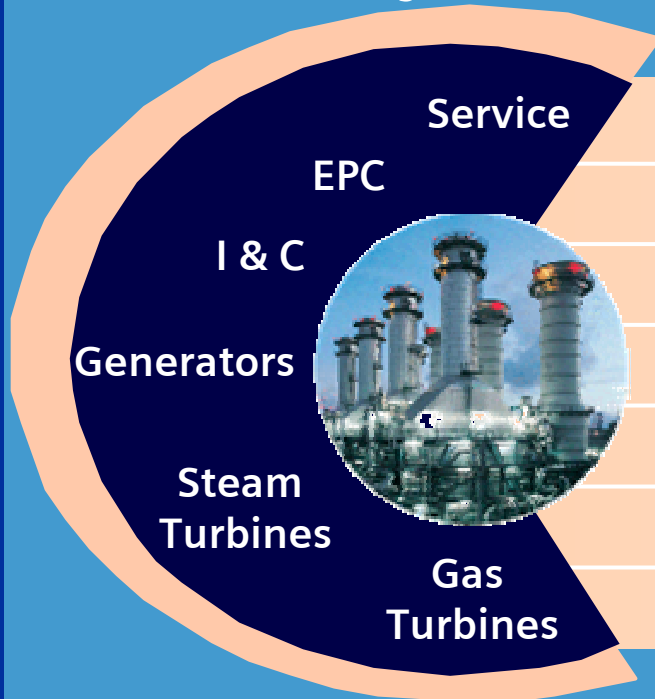
*... and secure sustainable profitability*

# Understanding the core value drivers for our customers' success



## Life-cycle cost

Most important drivers for customer net present value



- High efficiency
- Short construction time
- Advanced operating flexibility
- High reliability
- Increased availability
- High net output
- Environmental friendliness

## optimization

*... driving customer competitiveness with the best available technologies*

- Innovation leadership
- Service growth
- Business excellence
- Portfolio optimization

"Best available technology and solutions" ...

Siemens breaking the records

Innovation leadership  
Service growth  
Business excellence  
Portfolio optimization

STPP



48.5%<sup>\*)</sup>  
efficiency

The 907 MW Boxberg lignite-fired power plant achieved a world record in steam turbine-generator efficiency, reaching 48.5%.

Source: BKW Bd. 53  
\*) Gross steam turbine efficiency, measured in May 2001

CCPP



> 58%<sup>\*\*)</sup>  
efficiency

Combined-cycle Mainz Wiesbaden/Germany: 398 MW, efficiency > 58 %

\*\*\*) ISO-conditions/certified, measured in June 2001

Gas Turbine



253MW  
GT power output

The W501G (253MW) is the world's most efficient and largest 60Hz gas turbine in commercial operation, at Lakeland.

...creating competitiveness and profitability

# Advanced reference power plants ...

Because standardization pays off

Construction time reductions in the last decade:  
 CCPP ➡ from 34 to 22 month  
 STPP ➡ from 48 to 36 month

Each month reduced construction time equals an NPV for our customer of € 5 million  
 For CCPP 2.94.3A



Reference Power Plants  
 provide

PGG

Shorter project development time

- Reduced construction time
- Reduced construction costs
- Maximized operating flexibility
- Increased reliability
- Lower life-cycle costs

*...creating additional customer value added*

Innovation leadership

Service growth

Business excellence

Portfolio optimization



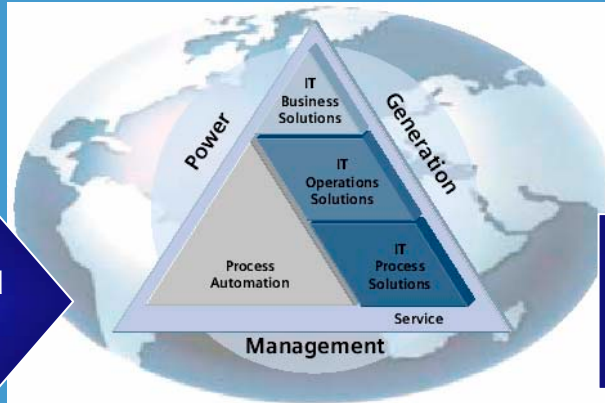
# Be on top of the global market with integrated I&C solutions

SIEMENS

## Leading power plant control systems

for new plants and modernization projects

e.g. consolidation of distributed control rooms in one centralized control room: Customer benefit EUR 1 million / year



## Leading comprehensive IT solutions

for power generation management

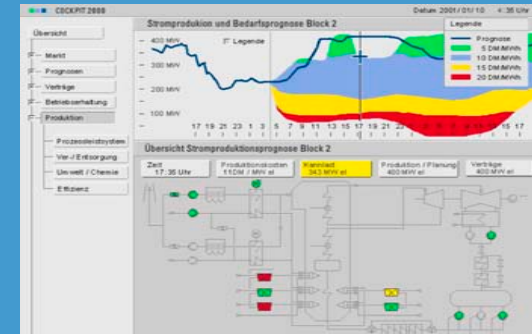
e.g. optimized offering of free generation capacities at spot market: Customer benefit EUR 0.5 million / GW / year



More than 1,400 references all around the world

## Power Generation Management

Optimization & transparency based on vast experience in complete power plant technology



PROFIT Cockpit – the powerful management tool

... generating profit for all power generation companies

Innovation leadership

Service growth

Business excellence

Portfolio optimization

# Extensive level of service and support with LTP/O&M technologies...

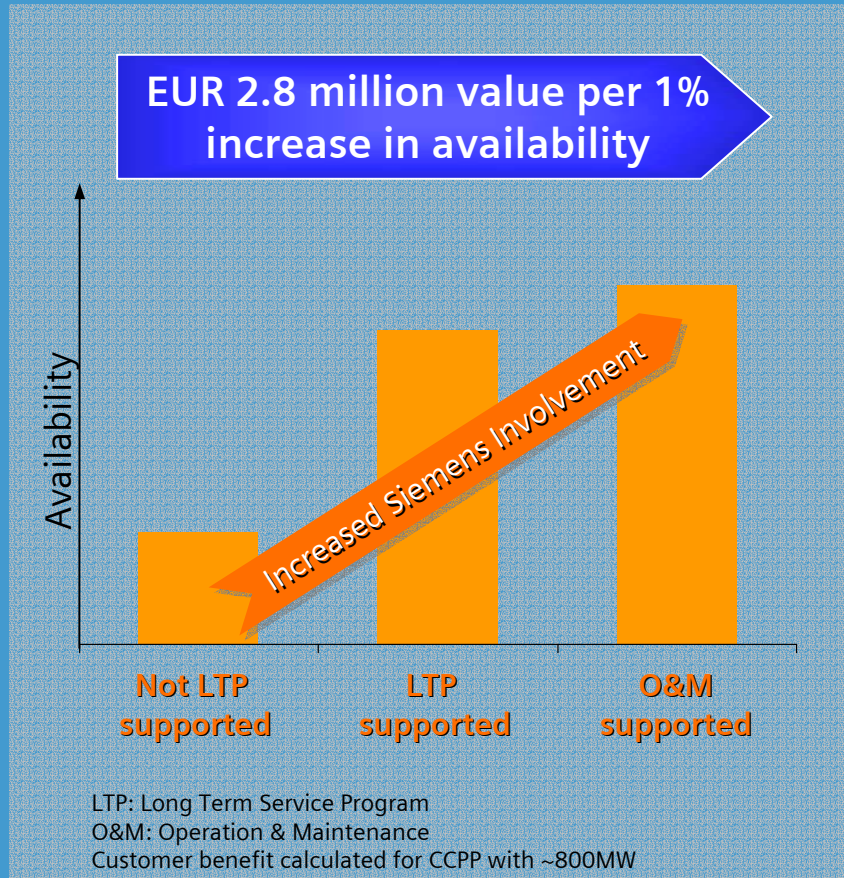
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Innovation leadership

Service growth

Business excellence

Portfolio optimization



- Programs maximizing customer revenue stream
- Outage cycle time reductions, with innovative technologies
  - Hot temperature inspections
  - In-situ shaft machining
  - Advanced design elements
- “Just-in-time” delivery of critical components from OEM optimized parts inventory
- “Power Diagnostics” designed to extend parts lives, improve gas turbine operations and provide predictable maintenance
- Advanced sensor technologies providing real-time monitoring
  - Flame sodium monitor
  - Optical flame monitoring
  - Inlet gas temperature

*... geared to optimum operating economy and availability*



# Diagnostics monitoring provides real time feedback and artificial intelligence...

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65 Gas Turbines currently connected and monitored daily

501F 29 GT's

501G 2 GT

701DA 8 GT's

V84.3x 10 GT's

V94.2 1 GT

V94.3x 15 GT's

LTP 57 GT's

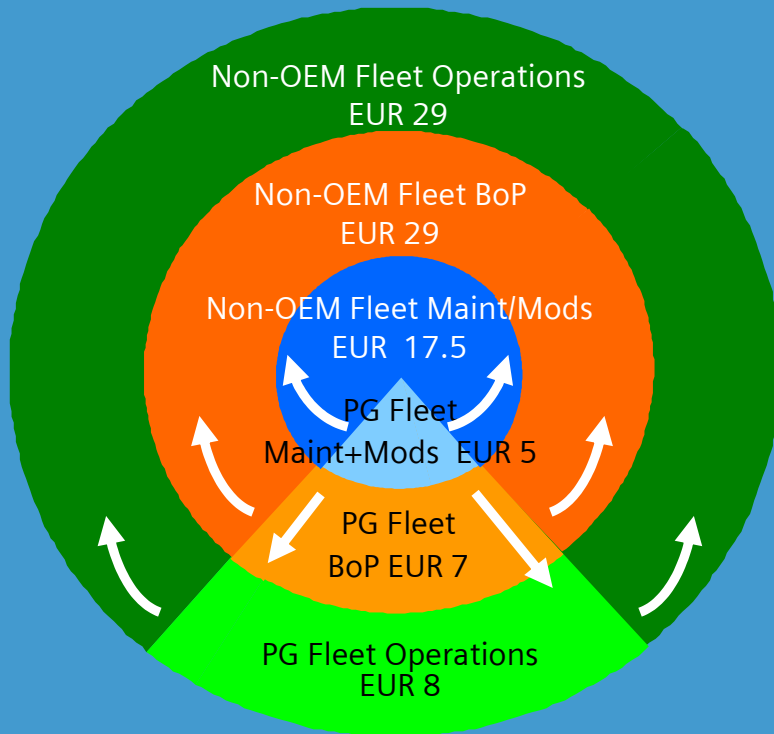
O & M's 8 GT's



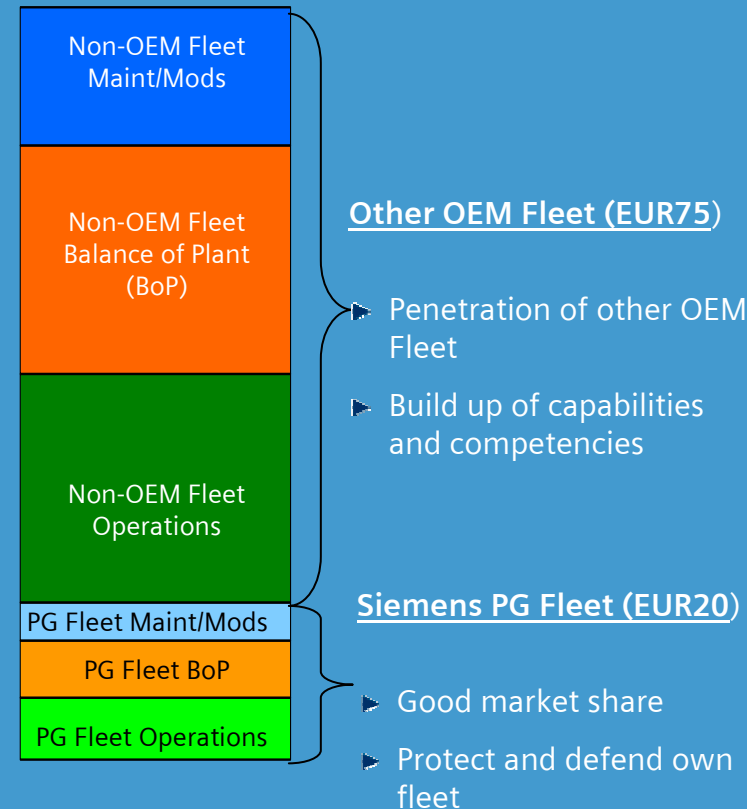
*...to anticipate operational problems before they occur*

# Total fossil service market is EUR 95 billion and growing ...

Figures in billions of euros



~ EUR 95

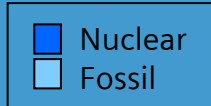


... a broader view of the market generates new growth opportunities

Innovation leadership  
Service growth  
Business excellence  
Portfolio optimization

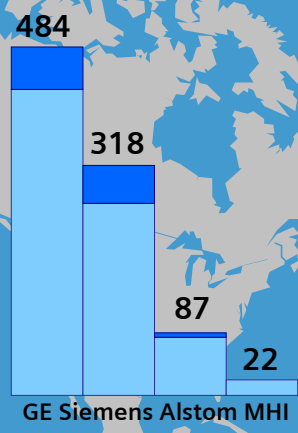
# Our installed fleet provides strong basis for future profitable growth (installed fleet in GW as of 2002)

**SIEMENS**

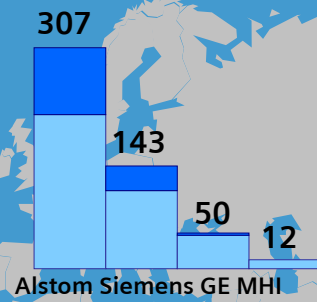


Innovation leadership  
Service growth  
Business excellence  
Portfolio optimization

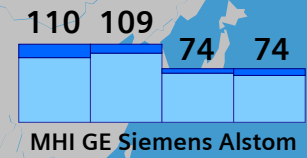
## Americas



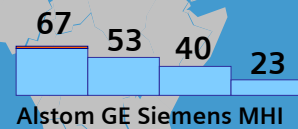
## Europe



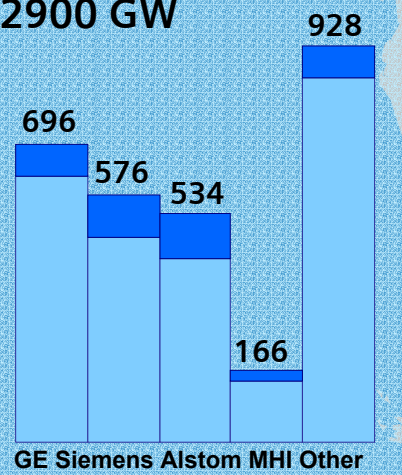
## Asia Pacific



## Africa & Middle East



## Total World: 2900 GW



*Siemens PG is strong in all regions*

Examples of service successes...

**Seabank  
Units 11 and 12**



- United Kingdom
- V94.3A Combined Cycle Power Plant
- 755 MW Turnkey
- 6-Year Long-Term Program

**PPL Susquehanna  
Units 1 and 2**



- Luzerne County, Pennsylvania, USA
- GE Nuclear Power Plant
- New Rotors and Inner Cylinders
- Turnkey
- Both units to be updated by 80MW each

**Constellation  
High Desert**



- Victorville, California, USA
- Combined Cycle Power Plant
- Integrating Services and Instrumentation & Controls capabilities
- 7-year integrated solution
- BoP maintenance, I&C LTSP

Improving the base

Service on other  
OEM turbines

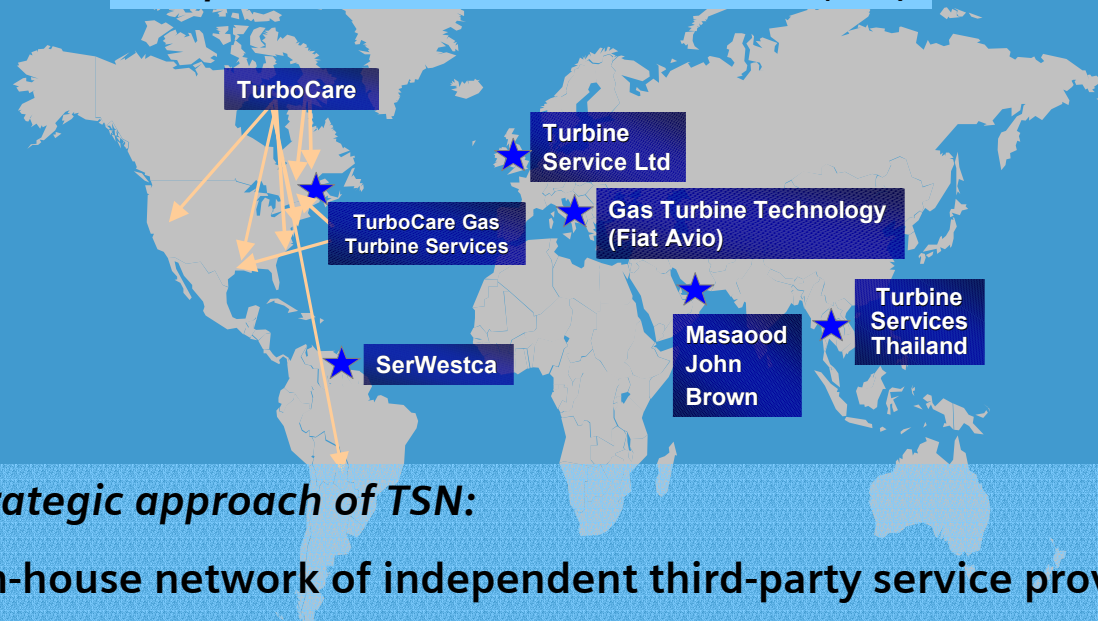
Expand service  
beyond the turboset

Innovation leadership  
Service growth  
Business excellence  
Portfolio optimization

# Our strategic concept will enlarge our historical market coverage

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## Companies in the Turbo Services Network (TSN)



### *The strategic approach of TSN:*

- ▶ An in-house network of independent third-party service providers
- ▶ Competitive cost structure, fast response and flexibility
- ▶ Target mature fleet of the other OEMs
- ▶ Recapture our own mature fleet penetrated by competitors
- ▶ Provide services for fossil and industrial segments

*TSN ... A key element for the service segment growth*

Innovation leadership

Service growth

Business excellence

Portfolio optimization

## Business excellence programs

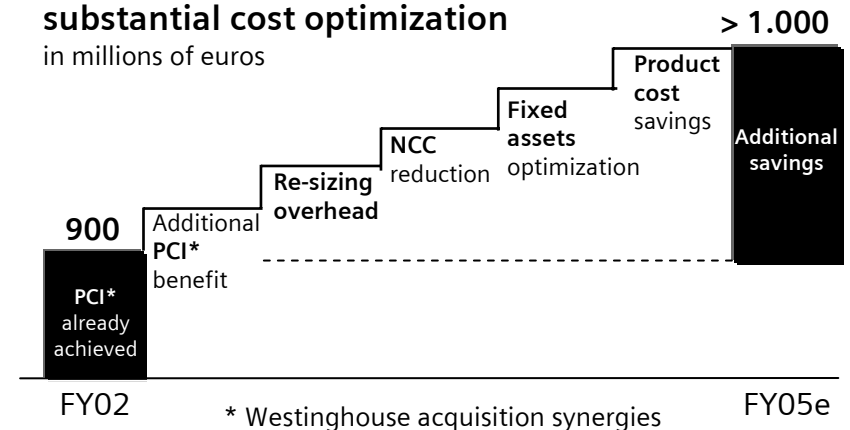
- ▶ Value generation program
- ▶ *top+* Quality with Six Sigma
- ▶ Benchmark projects
- ▶ Central functions optimization program
- ▶ Manufacturing network optimization

## Examples for value generation initiatives

- ▶ Non-conformance costs reduction
- ▶ Achieve product cost benchmark targets
- ▶ Optimize product life cycle costs
- ▶ Aggressively grow the service business
- ▶ Re-size to match the changing marketplace
- ▶ Utilize IT to streamline and optimised processes
- ▶ Standardize our product offerings

## Established initiatives drive substantial cost optimization

in millions of euros



*. . . and leading to a performance driven culture*

Innovation leadership

Service growth

Business excellence

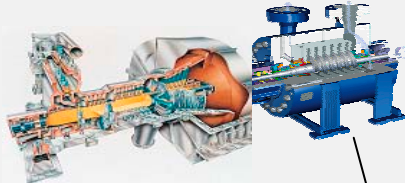
Portfolio optimization



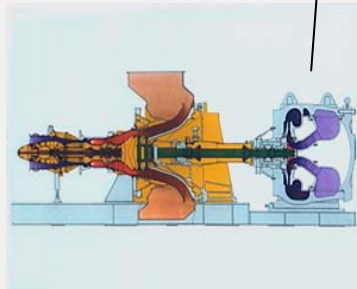
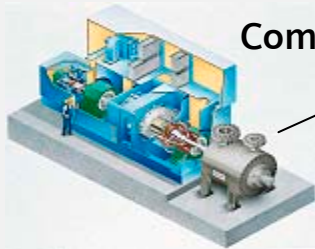
# The acquisition of Alstom's Industrial Turbine business ...

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## Compressor train

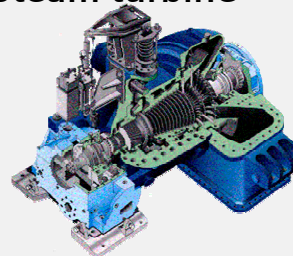


Compressor



## Turbines / drives

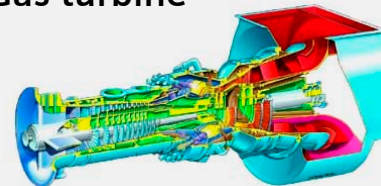
### Steam turbine



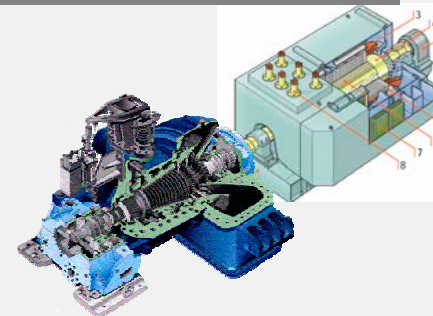
### Electric drive



### Gas turbine



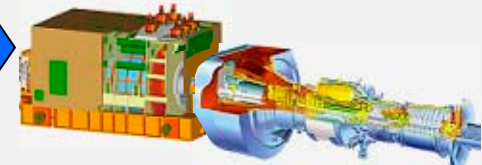
## Industrial power plants



### Steam turbine

### Combined heat and power

### Gas turbine



*... will enable us to satisfy our customer needs from one source*

Innovation leadership

Service growth

Business excellence

Portfolio optimization

## Strategic benefits of Alstom Industrial Turbine acquisition:

- ▶ PG taps attractive Oil & Gas market with full portfolio of products, attracting new customers and opportunities for PG
- ▶ Installed fleet of 3,500 gas turbines and 4,100 steam turbines allow continuous expansion into attractive service business
- ▶ Combination of Alstom and Siemens Industrial Steam Turbines establishes leading position in markets and technology
- ▶ Siemens sales channels into Oil & Gas industry and into Power Generation industry and its international presence create excellent opportunities for product selling
- ▶ Excellent track record for smooth and successful integration through Westinghouse and Demag Delaval acquisitions

*... will lead to profitable growth*

Innovation leadership

Service growth

Business excellence

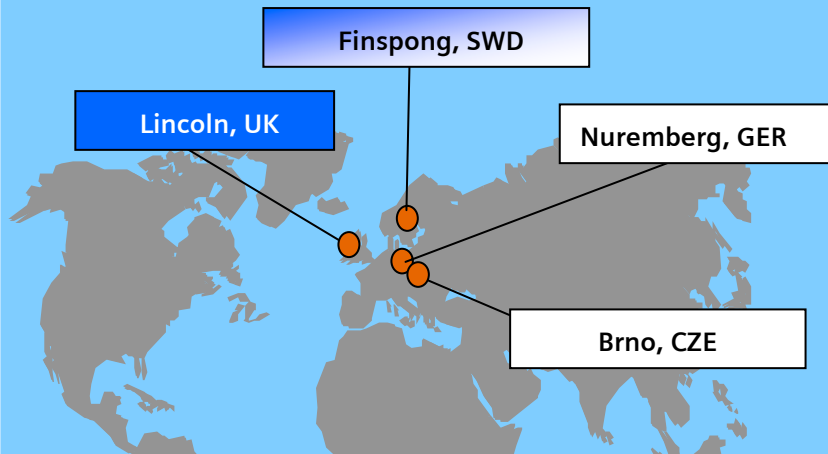
Portfolio optimization



# Scope of Alstom's Industrial business is complementary to current PG product line

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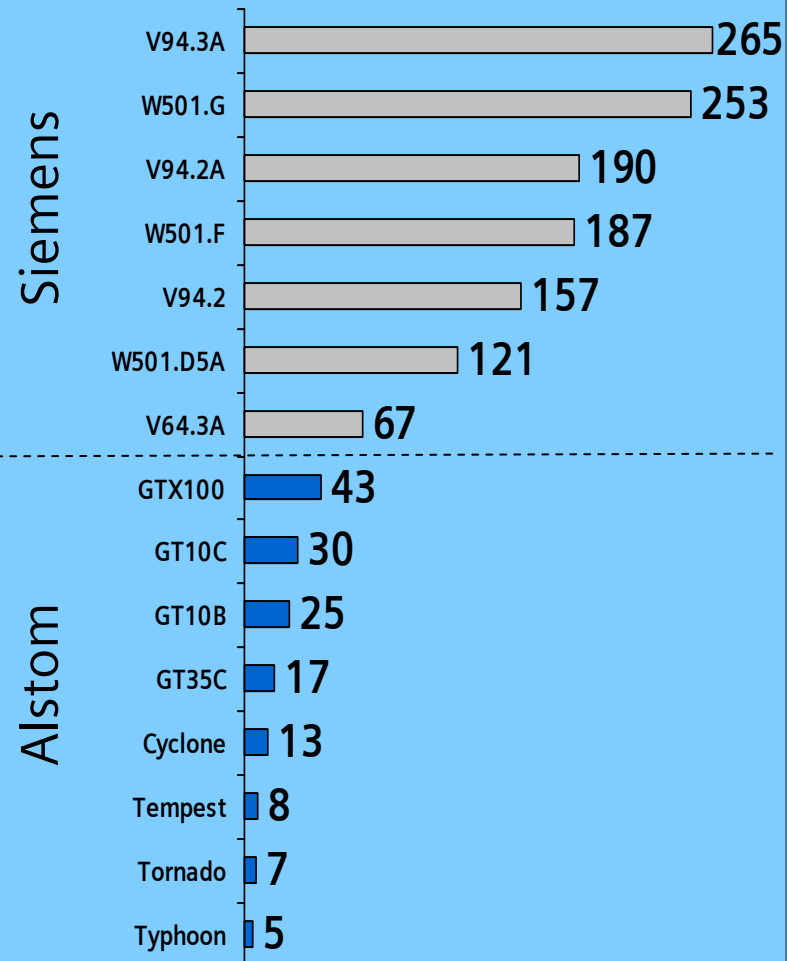
## Alstom's major manufacturing sites



### Three segments:

- ▶ GT < 15 MW („small gas turbines“) in Lincoln (UK)
- ▶ GT 15 – 50 MW („medium gas turbines“) in Finspong (SWD)
- ▶ ST < 100 MW in Finspong (SWD), Brno (CZE) and Nuremberg (GER)

## Combined GT Market Coverage (MW)



Innovation leadership

Service growth

Business excellence

Portfolio optimization

Our strategies are in place and will secure sustainable profitability...

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- ▶ Leading market position
- ▶ Innovation leadership
- ▶ Service growth
- ▶ Business excellence
- ▶ Portfolio optimization

## Strategic focus

Value  
Proposition

*The most responsive source of solutions to improve customer operating plant competitiveness and profitability*

## Vision

- *Global* in vision, capabilities, and performance ...
- Locally focused by remaining *field based* and through *customer intimacy* ...
- Committed to operating plant *service* ...
- A supplier of innovative and environmentally responsible *technology-based solutions* to enable our customers to improve profitability
- A company which enhances group *financial performance* to maintain long-term industry leadership and market success

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### **Group profit definition:**

Group profit is defined as earnings before financing interest, certain pensions costs, income taxes and certain one-time items, which do not relate to the business performance of the Groups. See "Financial Reports/Fiscal 2003, Quarter 2/Financial Statements" at our Investor Relations website under [www.siemens.com](http://www.siemens.com)

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