

# **Siemens VDO – a success story in a consolidating industry**

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- I Siemens VDO Automotive at a glance
- II Winds of change in the supplier industry – and our answers
- III Growing profitably
- IV Summary

# I We deliver, what we promise:

## Highlights from 5 years as a merged company



- Merged in 2001 Siemens Automotive and VDO, Siemens VDO became one of the leading suppliers of electronics and mechatronics
  - Our turnover reaches more than 9.6 billion Euros due to strong customer focus and organic and exogenous growth
  - With 1,000 new patents in FY 05, we provide customer-oriented innovations for all vehicles worldwide
- We strengthened our customer base by anticipating market needs and by extending our portfolio with acquisitions
  - Major acquisitions in the US, including Huntsville Electronics as a model case for successful integration
  - Since 2004, we increased our market share in the U.S. by 47 %
- We are constantly improving our cost base and performance, by increasing quality, productivity and flawless execution
- We are the third-largest of 12 operative business units in Siemens Group (turnover of 75 billion Euros, R+D 5.2 billion Euros in FY 05)

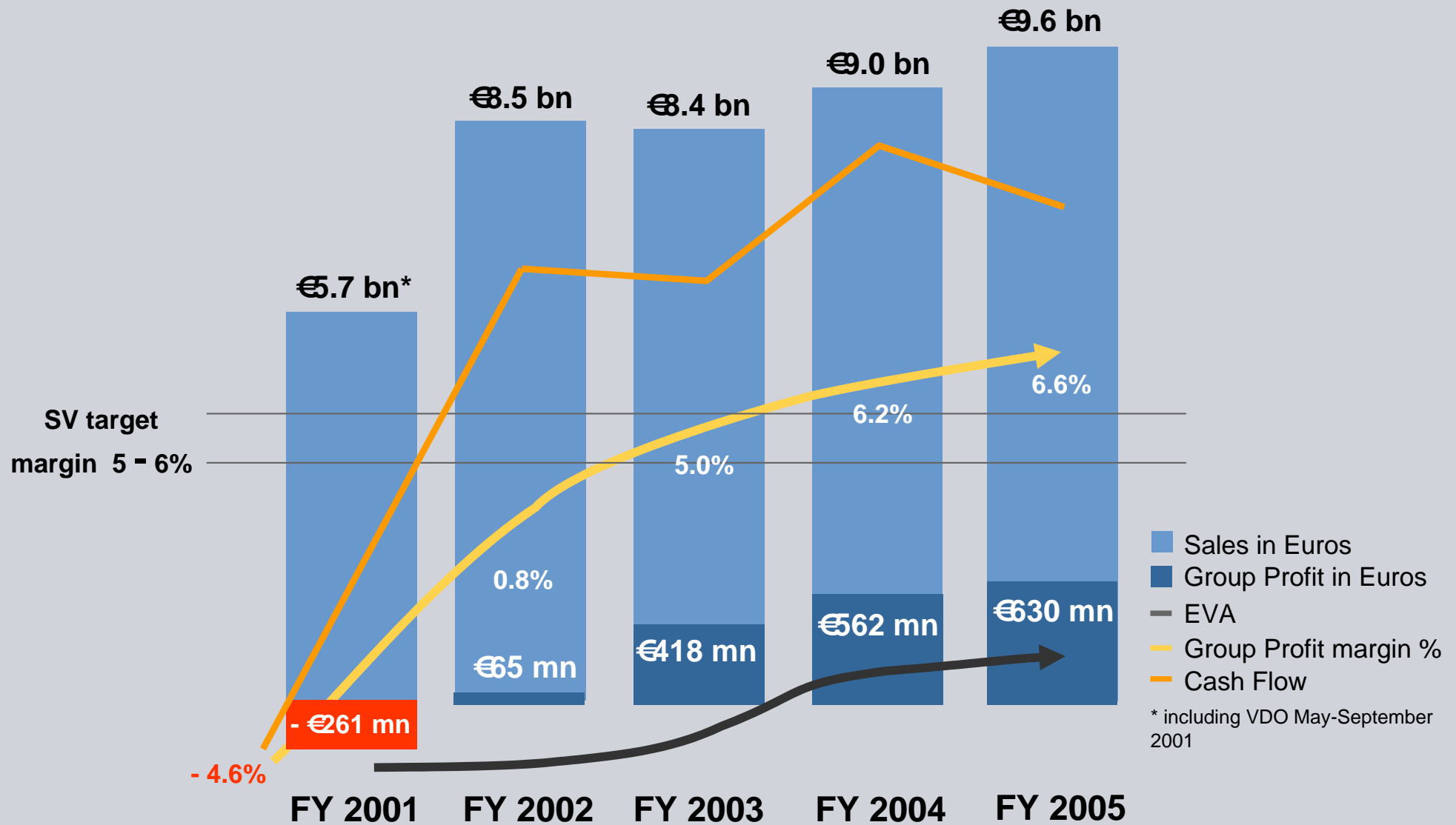
# I Siemens VDO in figures

	2004*	2005*	Q1-Q3 2006
<b>Sales (€bn)</b>	9.0	9.6	7.7
<b>Group Profit (€mill)</b>	562	630	498
<b>R&amp;D (€mill)</b>	753	913	not disclosed
<b>Employees</b>	48,100	50,800	not disclosed
<b>Capital cost (€mill)**</b>	515	623	370

\* Fiscal year ends 09/30

\*\* Intangible assets, property, plant & equipment, acquisitions, and investments

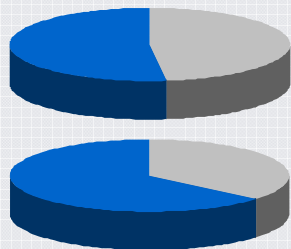
# I Since the merger, we made solid progress in a challenging environment



# I A strong product portfolio: more performance, safety, comfort, efficiency for all vehicles

**SIEMENS VDO**

Powertrain	Chassis & Carbody	Interior & Infotainment	Service & Special Solutions
Gasoline Systems Diesel Systems Engine Actuators, Air & Emissions Management Fuel Supply Systems Sensors Electronics & Drivetrain	Restraint Systems, Safety Electronics  Body & Chassis Electronics  Electric Motor Drives	Information Systems Passenger Cars Commercial Vehicles Cockpit Modules & Systems  Infotainment Solutions	Special OEM & Infotainment  Service & Parts Transportation & Fleet Telematics
			



**56 % of our products on Position 1 in their segment**

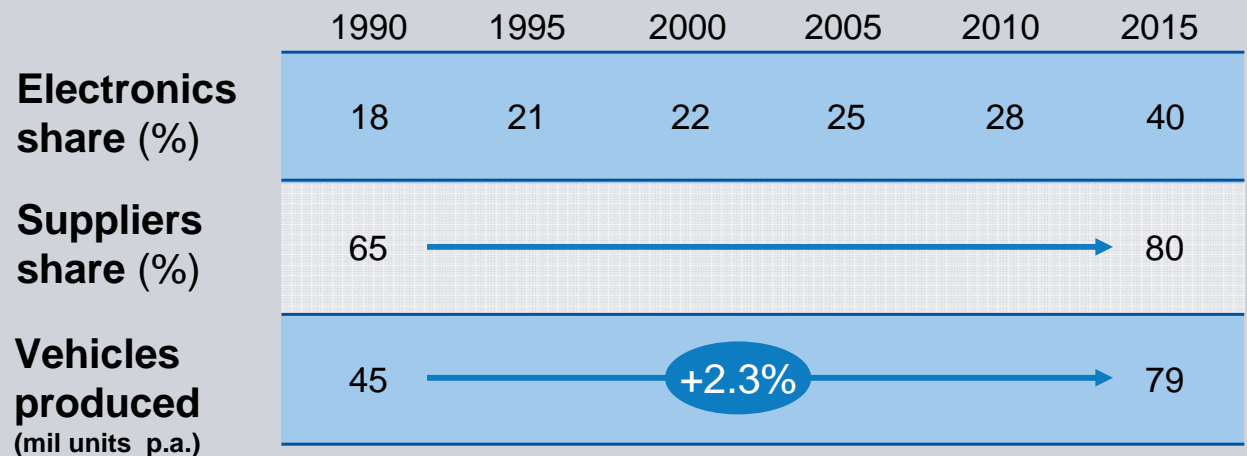
**39 % of our products on Position 2 in their segment**

# I We are well positioned in automotive electronics as one of the most promising markets

**SIEMENS VDO**

	Bosch	Delphi	Denso	Siemens VDO	Visteon
<b>Sales FY 2005 (bn €)</b>	<b>26.3</b>	<b>23.5</b>	<b>21.6</b>	<b>9.6</b>	<b>13.4</b>
<b>Electronic share (% of sales)</b>	<b>30%</b>	<b>25%</b>	<b>33%</b>	<b>68%</b>	<b>23%</b>

## Electronics are getting more important for the automotive industry





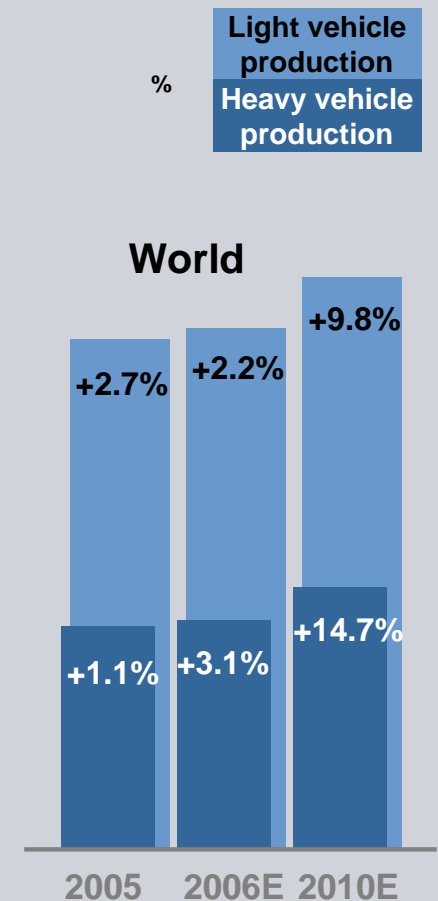
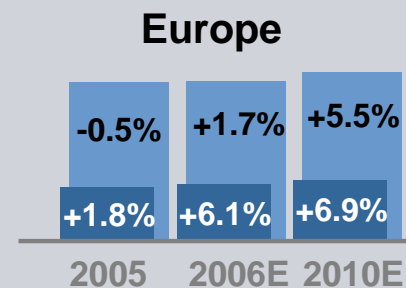
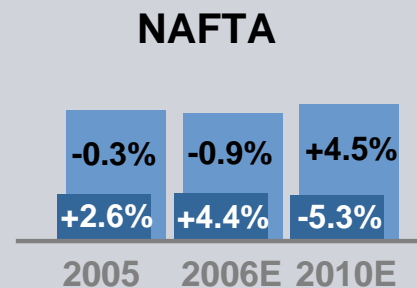
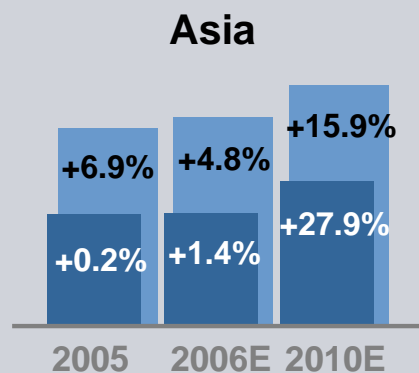
# I We are growing faster than the market

## World vehicle production 2005: Moderate growth on high level

	Siemens VDO*	Market**
Asia	+ 11%	+ 6.9%
NAFTA	+ 26%	- 0.3%
Europe	- 0.5%	- 0.5%
World	+ 6.7%	+ 2.7%

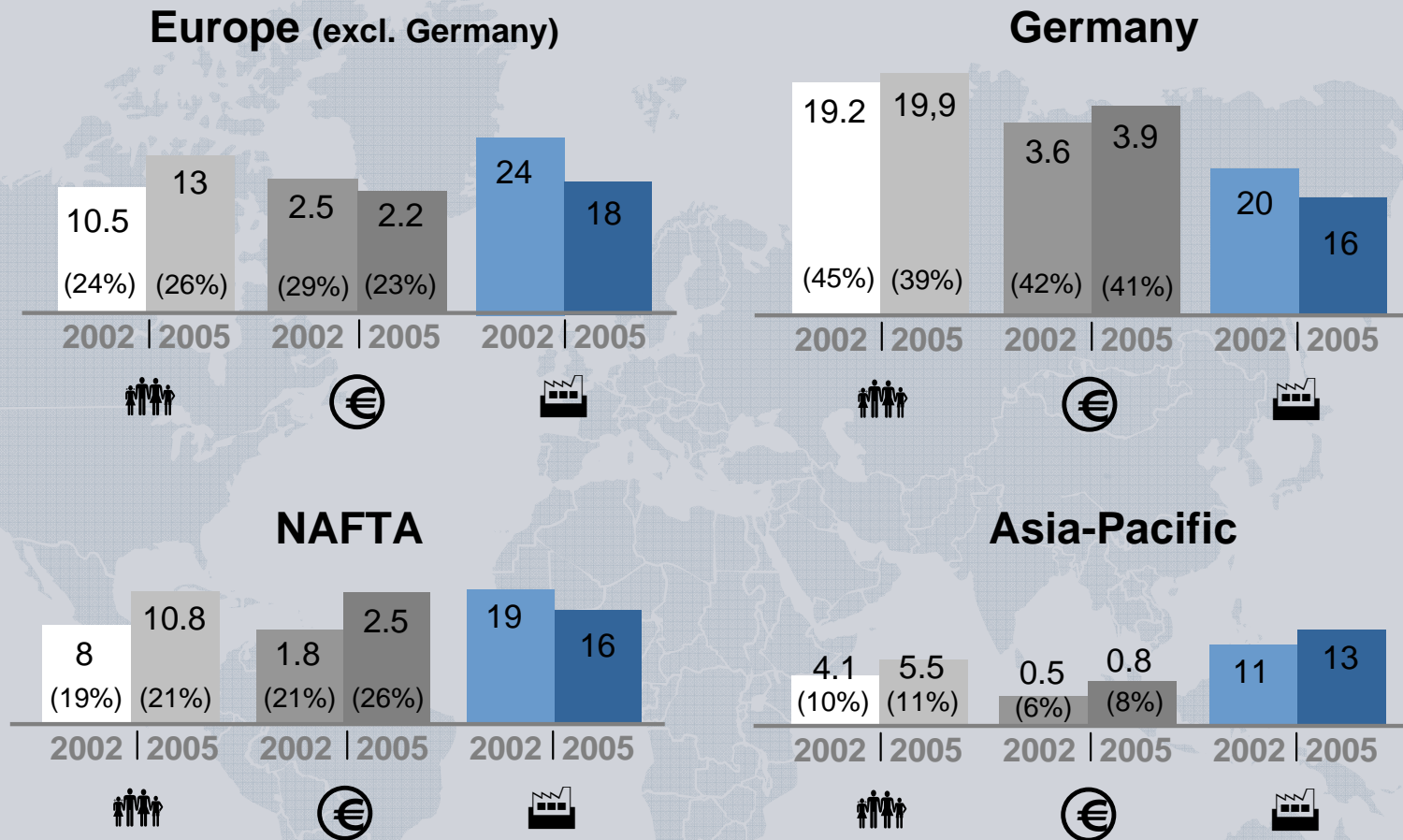
\* Sales FY 2005 vs. FY 2004

\*\* Light vehicle production



Source: Global Insight (March 2006)

# I Our regional portfolio: Worldwide presence for our customers



Employees in thousand  
 Sales in billion EUR  
 Locations

**We are located where our customers need us:  
At approx. 130 locations for R&D, manufacturing and sales.**

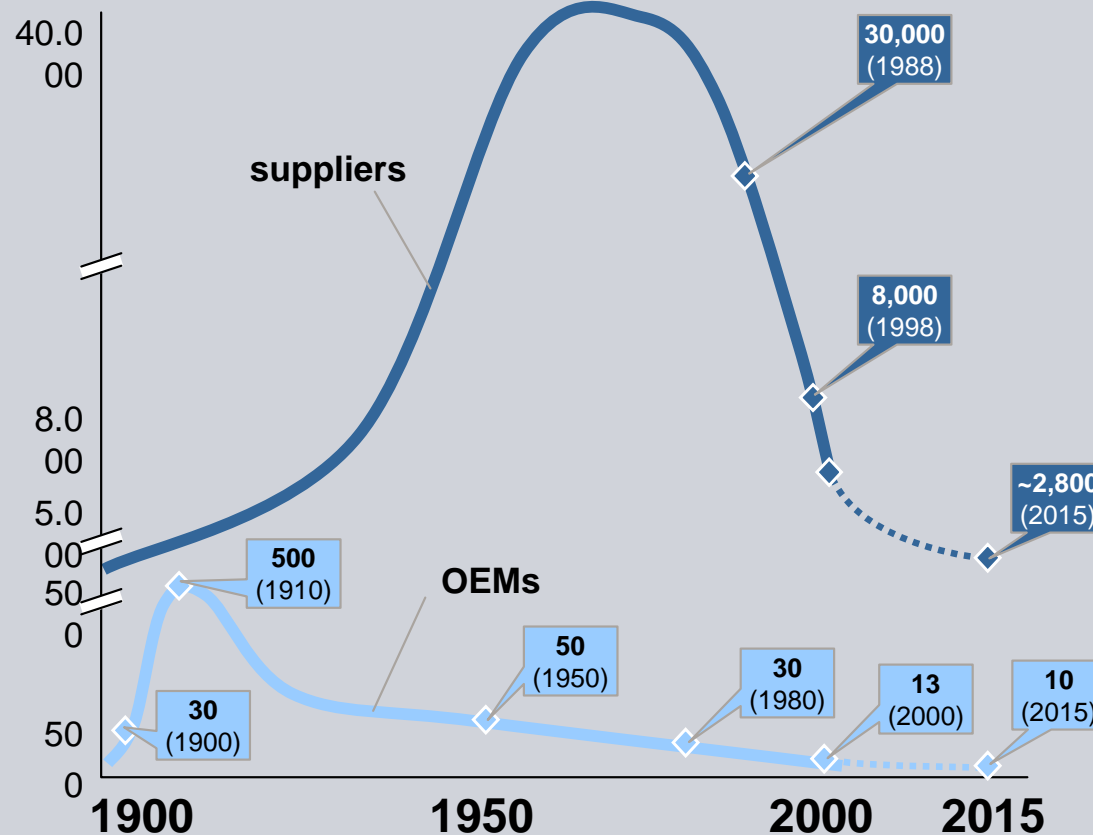
## **II Winds of change in the supplier industry - and our answers**



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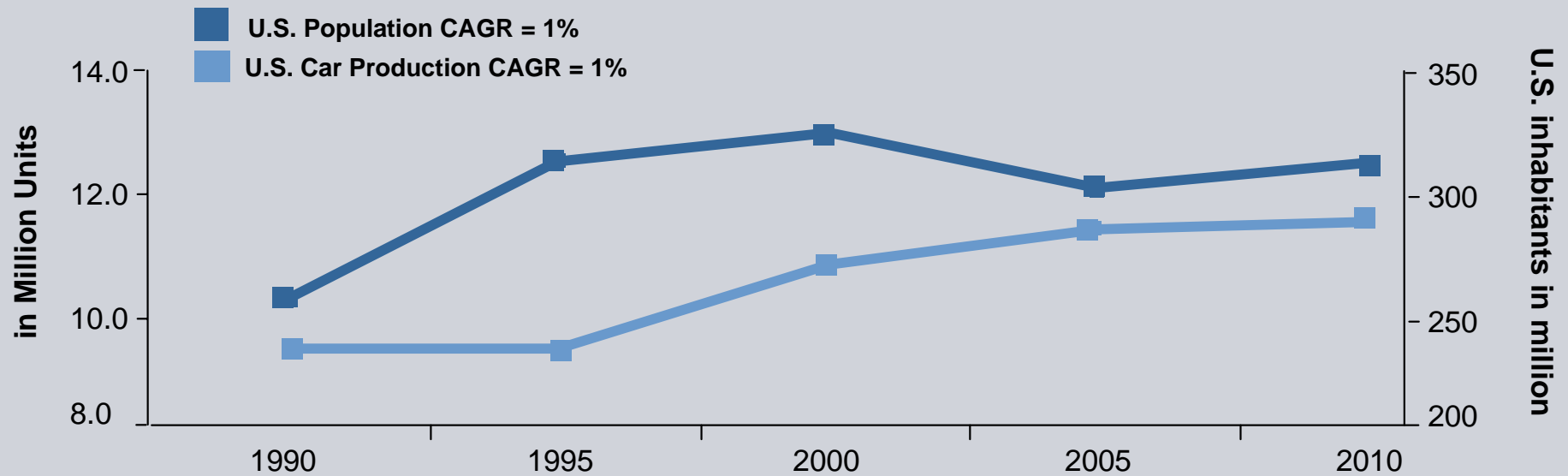
## II Ongoing consolidation in automotive industry defines new requirements for suppliers

### Companies in automotive industry



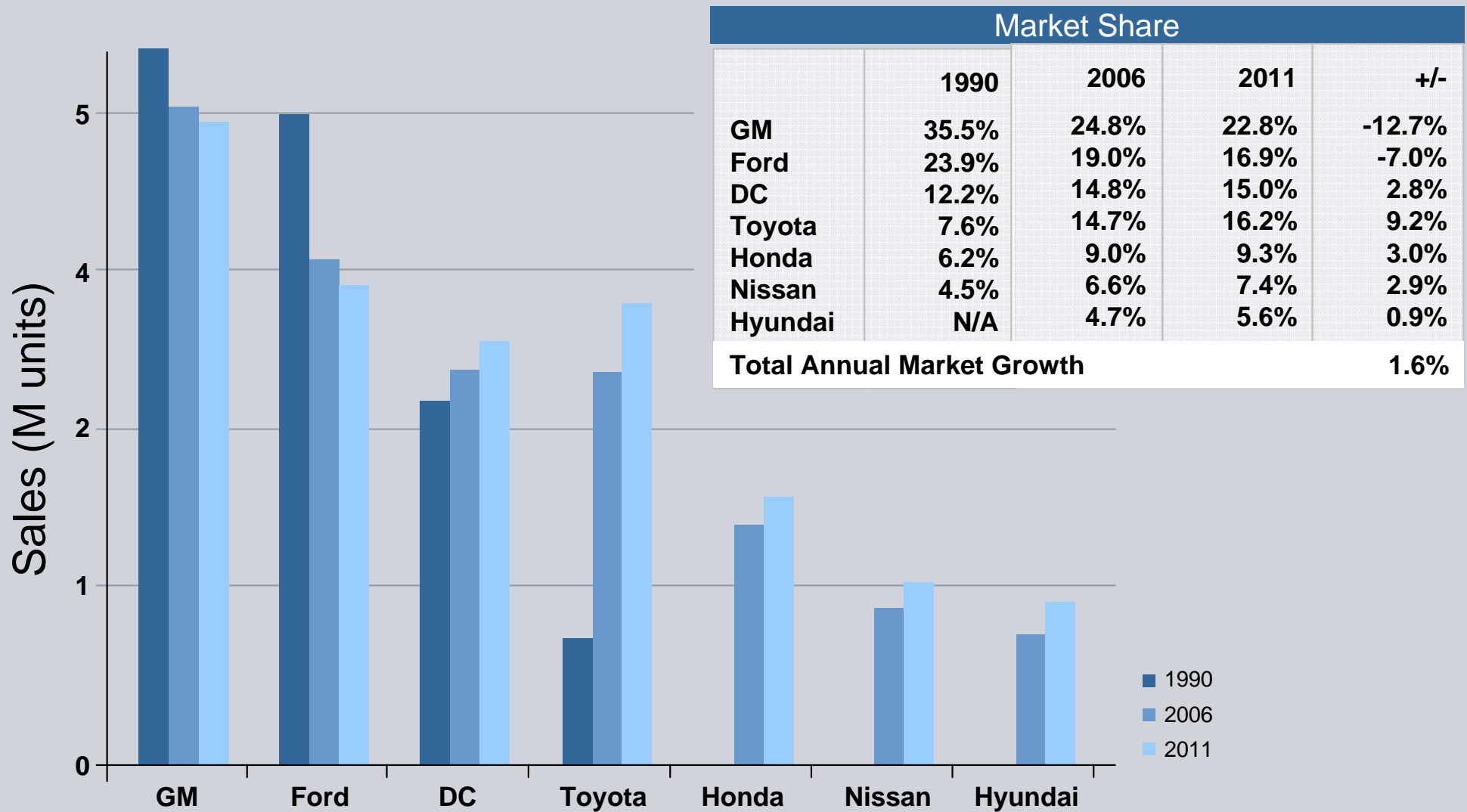
- Number of independent car manufacturers will decrease
- Car manufacturers will reduce the number of suppliers

## II Winds of change in the US car industry: Slow increase in production



Source: Global Insight; Bureau of Transportation

## II OEM market shares are shifting



Source: Global Insight; Frost & Sullivan

## II Suppliers relying heavily on US-OEM's are facing hard times

Supplier	Credit Rating <sup>1</sup>
Siemens AG	AA- (Investment Grade)
JCI	A- (Investment Grade)
Borg Warner	A- (Investment Grade)
Eaton	A (Investment Grade)
Denso Corp.	AA+ (Investment Grade)
Robert Bosch GmbH	AA- (Investment Grade)

TRW	BB (High Yield)
Navistar	BB-(High Yield)
ArvinMeritor	BB (High Yield)
American Axle	BB (High Yield)
Lear	B (High Yield)
Dura	B- (High Yield)
Visteon	CCC (High Yield)

Federal-Mogul	Bankrupt
Delphi	Bankrupt
Dana	Bankrupt
Tower Automotive	Bankrupt
Collins & Aikman	Bankrupt

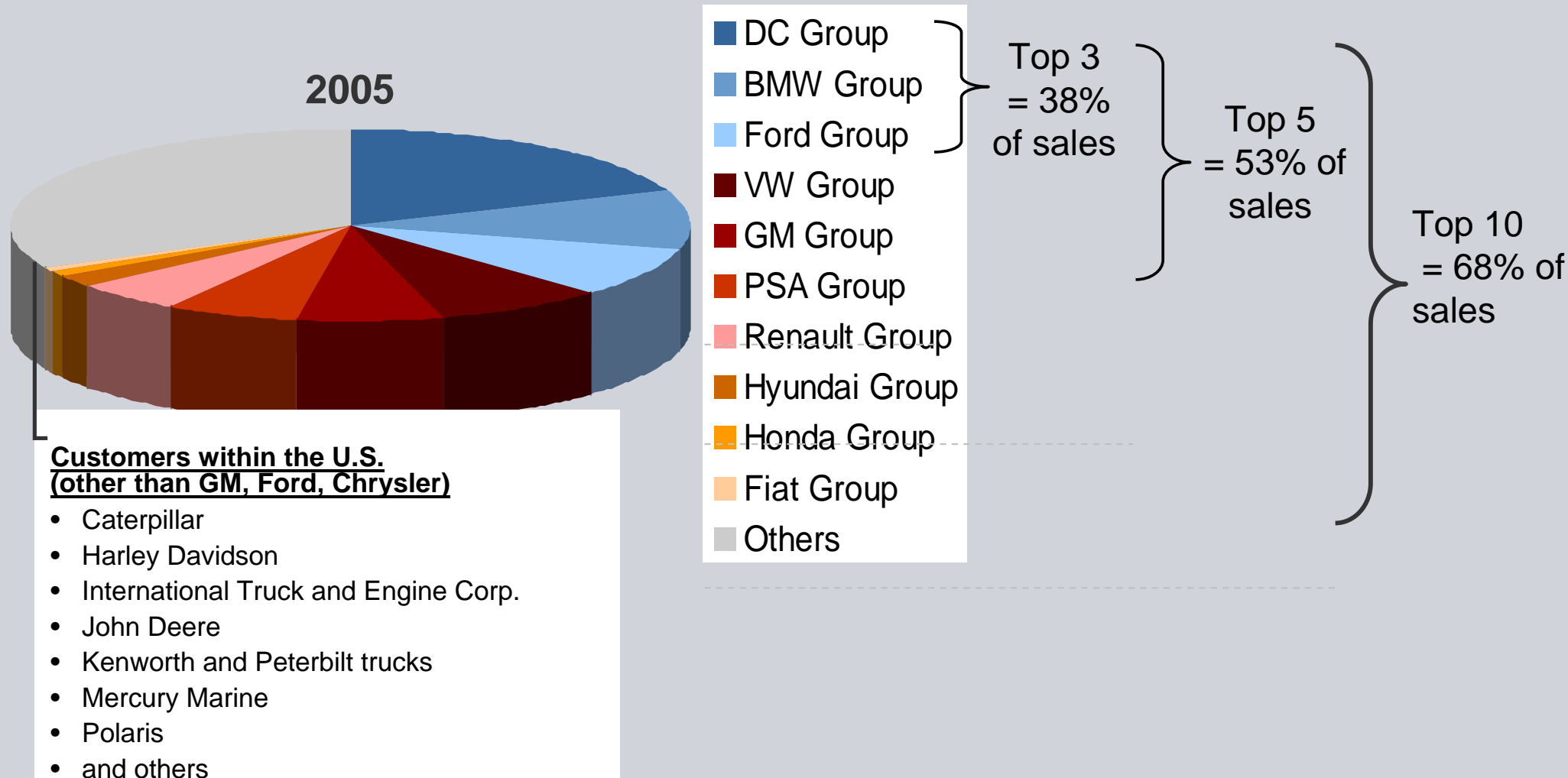
'Junk' Rated

Ch. 11

<sup>1</sup> Sources: Fitch Ratings / Standard & Poor's Ratings

## II Siemens VDO succeeds by diversifying its customer portfolio

SIEMENS VDO



**With a diversified customer portfolio SV reduces the risk of dependency on single customers:**

Top 3-Customers: FY 2002 45%

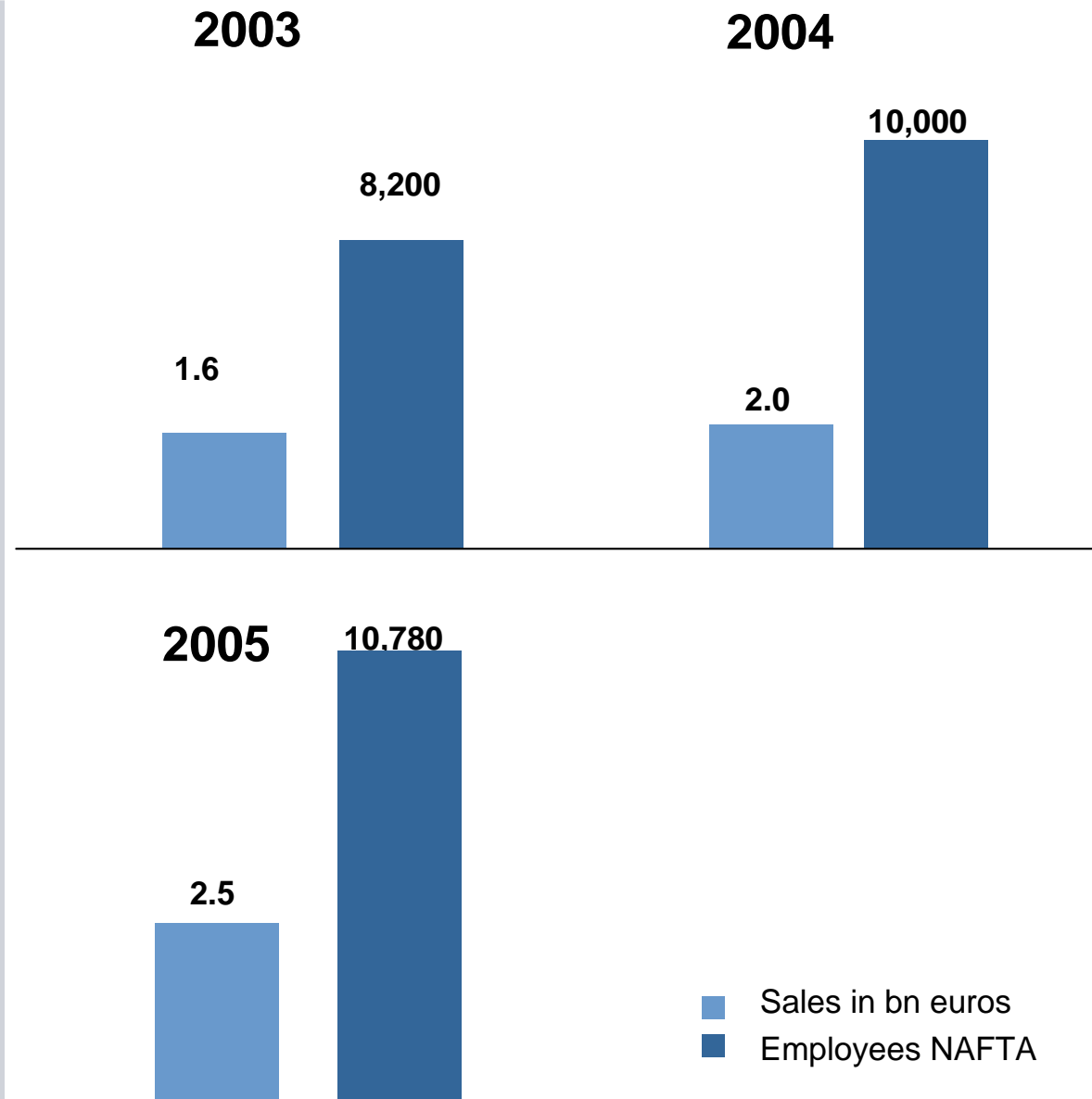
Top 5-Customers: FY 2002 62%

Top 10-Customers: FY 2002 80%

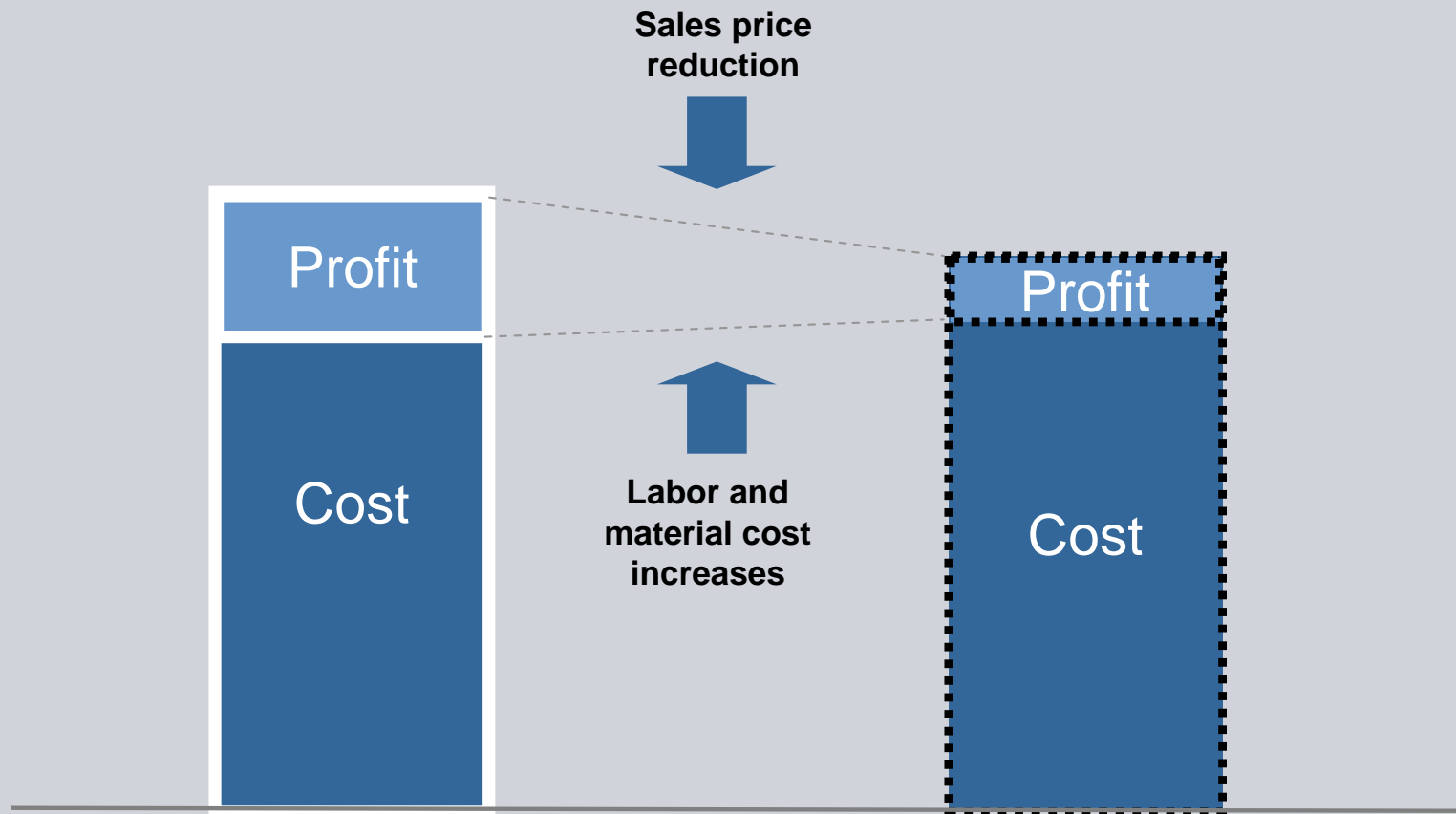


## II Siemens VDO is on growth track in NAFTA

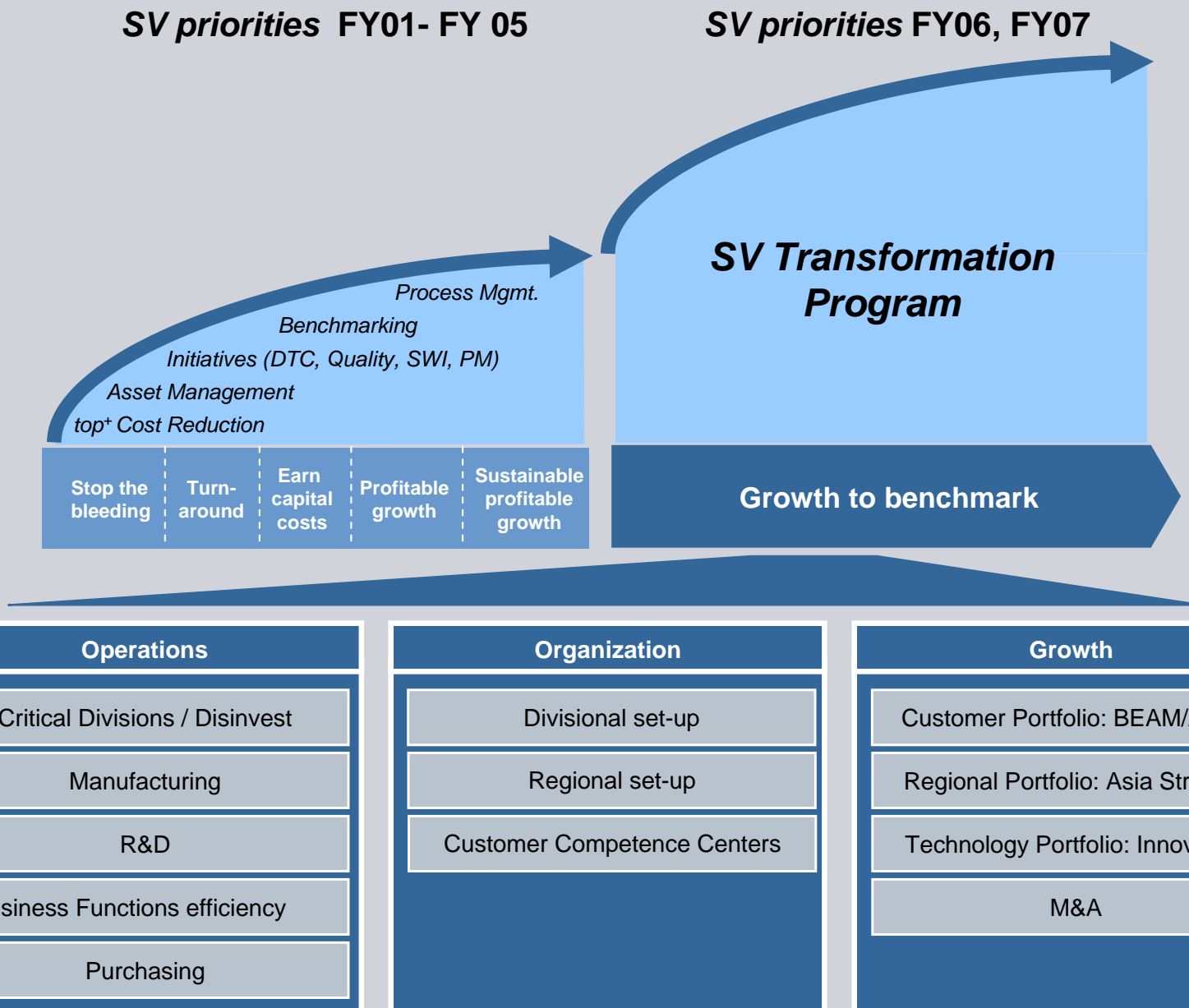
**SIEMENS VDO**



## II Yet there is a constant threat to our success: pressure on sales price and increasing costs endanger our profit

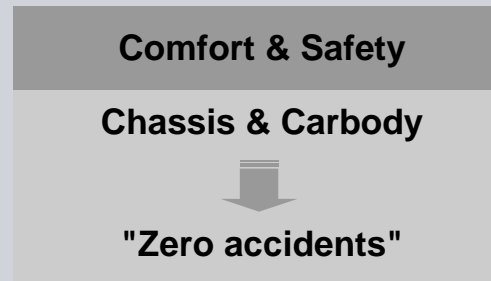
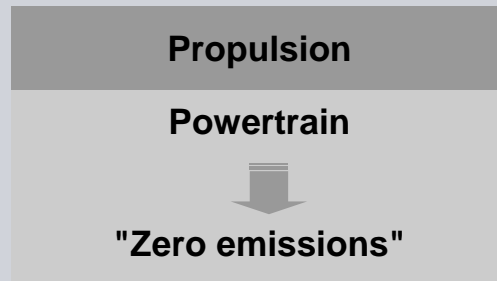
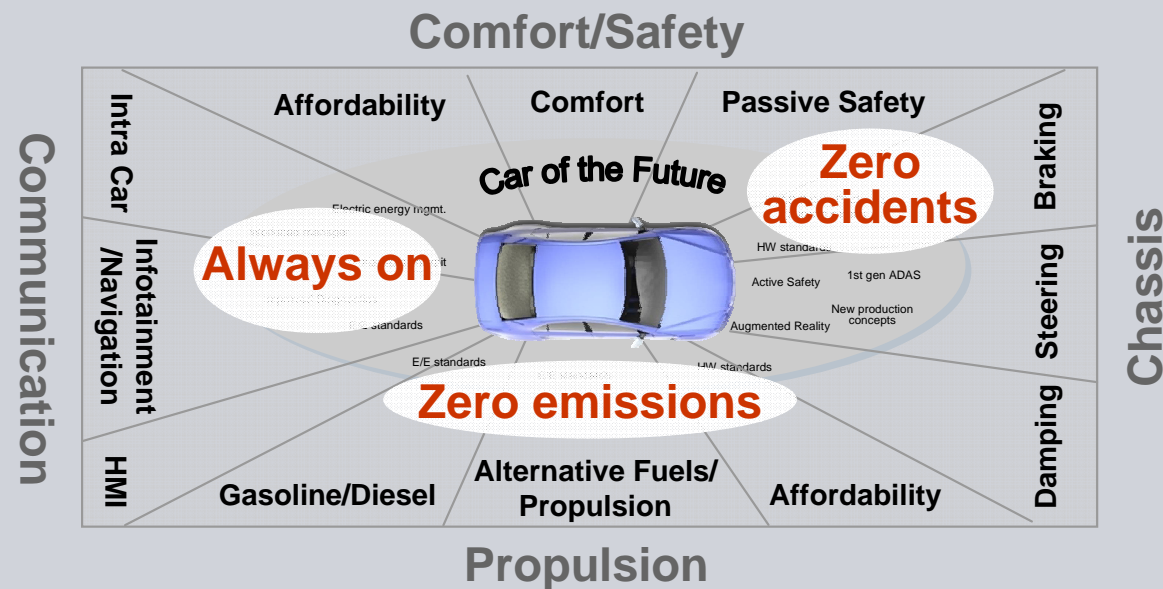


## II Based on our targets, internal and external studies, SV decided to start a Transformation program



## II The decisive factor for sustainable success: Innovations in line with global trends and market needs

Trends				
Shift of economic gravity amongst regions	Increasing mobility	Growing demand for safety & security	Growing need for environmental care	Shortening of natural resources



## II With customer orientated innovative products and technologies we are gaining competitive edge

### Trends

#### ▪ **"Zero accident"**

### Drivers

- Customer demand for safer vehicles
- Regulations to enforce driver and pedestrian protection

### Typical applications

- pro.pilot
  - a network of driver assistance systems



#### ▪ **"Zero emission"**

- Increasing fuel costs and fleet consumption regulations
- Regulations to reduce vehicle emission (e.g. EURO V)

- Advanced Propulsion Systems
  - e.g. Piezo injection
  - e.g. Hybrids



#### ▪ **"Always on"**

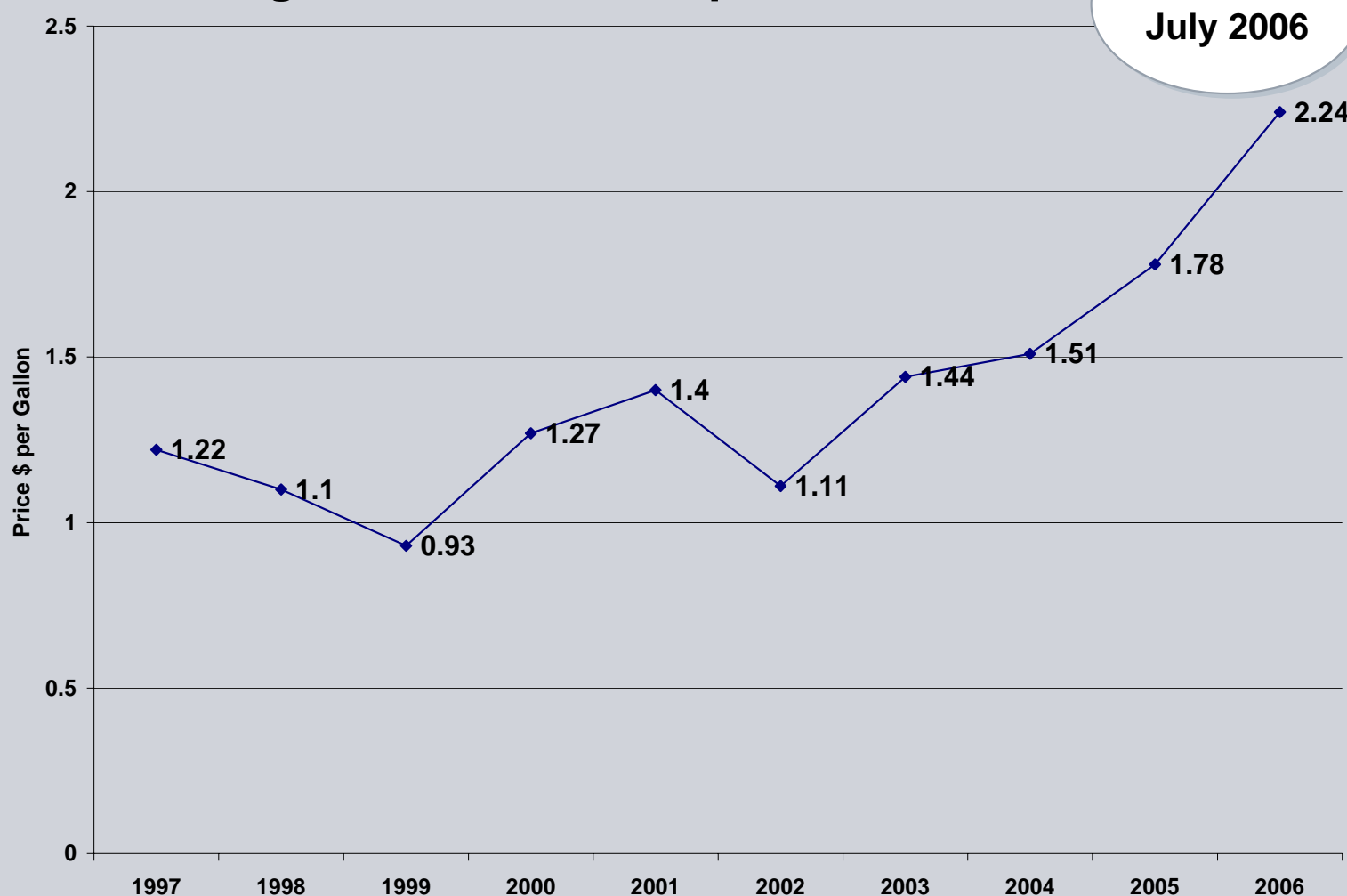
- Customer demand for better guidance and permanent connectivity
- Demand for integration of consumer electronic devices

- CESAR
  - the cockpit for the car of the future



## II Coping with the trends - the US example: Rising gasoline prices demand alternatives

### Rise of gasoline consumer prices in the US



### Consequences:

- Rising interest in hybrid and diesel technology
- 205,749 hybrids sold in U.S. in 2005
- Diesel market share 3.65%

\*Prices are as of Jan 1

source: Hybridcars.com; Green car congress; eaidoe.gov

## II ... and we are delivering the solutions: Latest Diesel technology for the US

**SIEMENS VDO**

### **March 1999:**

Joint Venture with International, Columbia, South Carolina.

➡ Siemens VDO as first European supplier in U.S. with Amplified Common Rail Diesel Systems



### **October 2000:**

Siemens Diesel Systems Technology, LLC (SDST), Joint Venture of Siemens Automotive and NLP Inc., opening of the new 200,500 square foot facility in Blythewood, S.C.

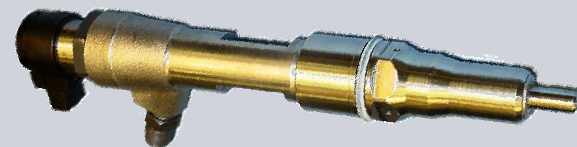


### **2005:**

German President Horst Koehler honors Siemens VDO with German Future Prize for Diesel Piezo-Direct-Injection-Technology

### **2006:**

Start of U.S. Production of Piezo-Common-Rail-Technology in Blythewood, SC





## II Scenario-based car concepts determine our product roadmaps

### Our scenario for the US

#### Retail Case

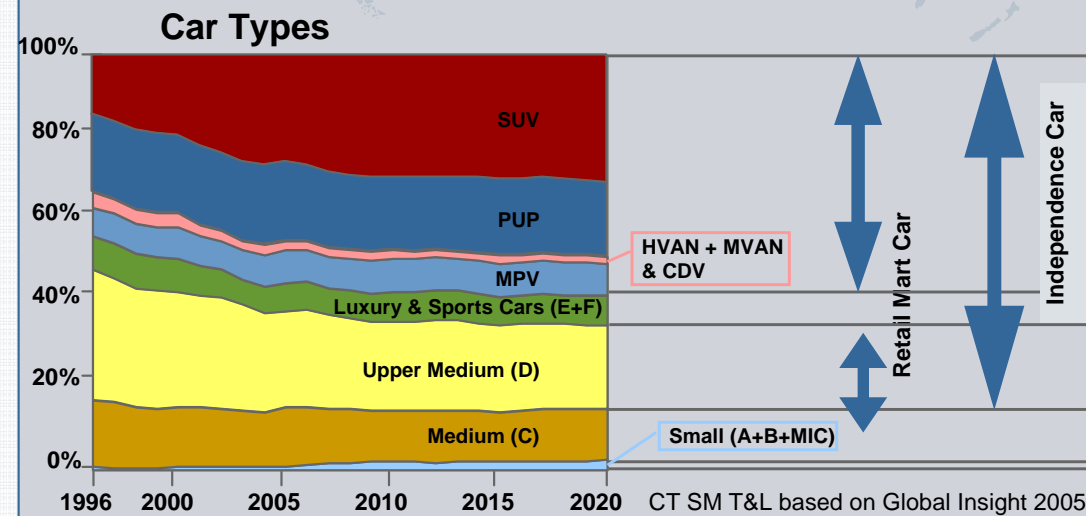
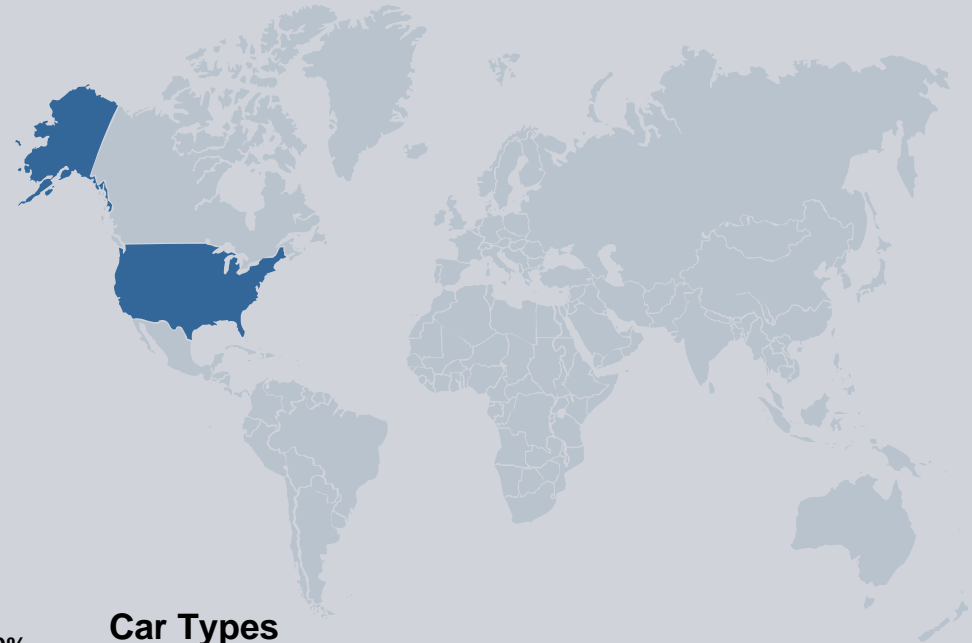
##### Retail Mart Car

- Base vehicle priced under \$10,000
- No prestigious car (no branding)
- Powerful, bigger car
- State-of-the art quality, reliability, safety and lifetime warranties
- Highly flexible hybrid powertrain
- Customized interior and exterior
- Remote diagnosis and repairs

#### \$7 per Gallon Case

##### Independence Car

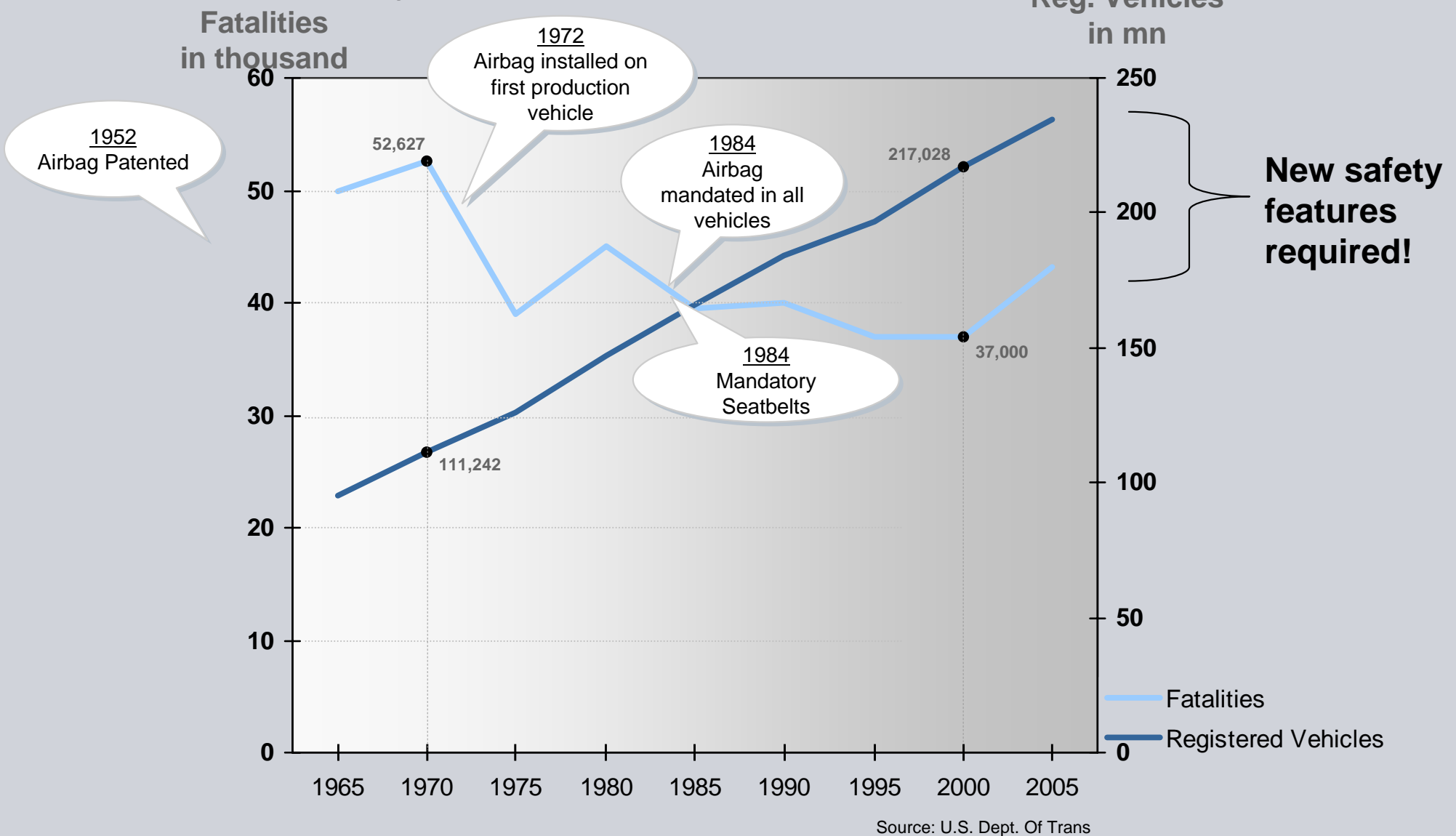
- Driving dynamics (acceleration), freedom and individualism remain very important
- Americans accept alternative fuels and powertrains
- Buying trend toward lighter and safer cars
- Shrinking vehicle size at constant interior space
- World crisis pushing fuel price up to \$7/gallon, stays for long period
- Demand for innovations to reduce the related running costs



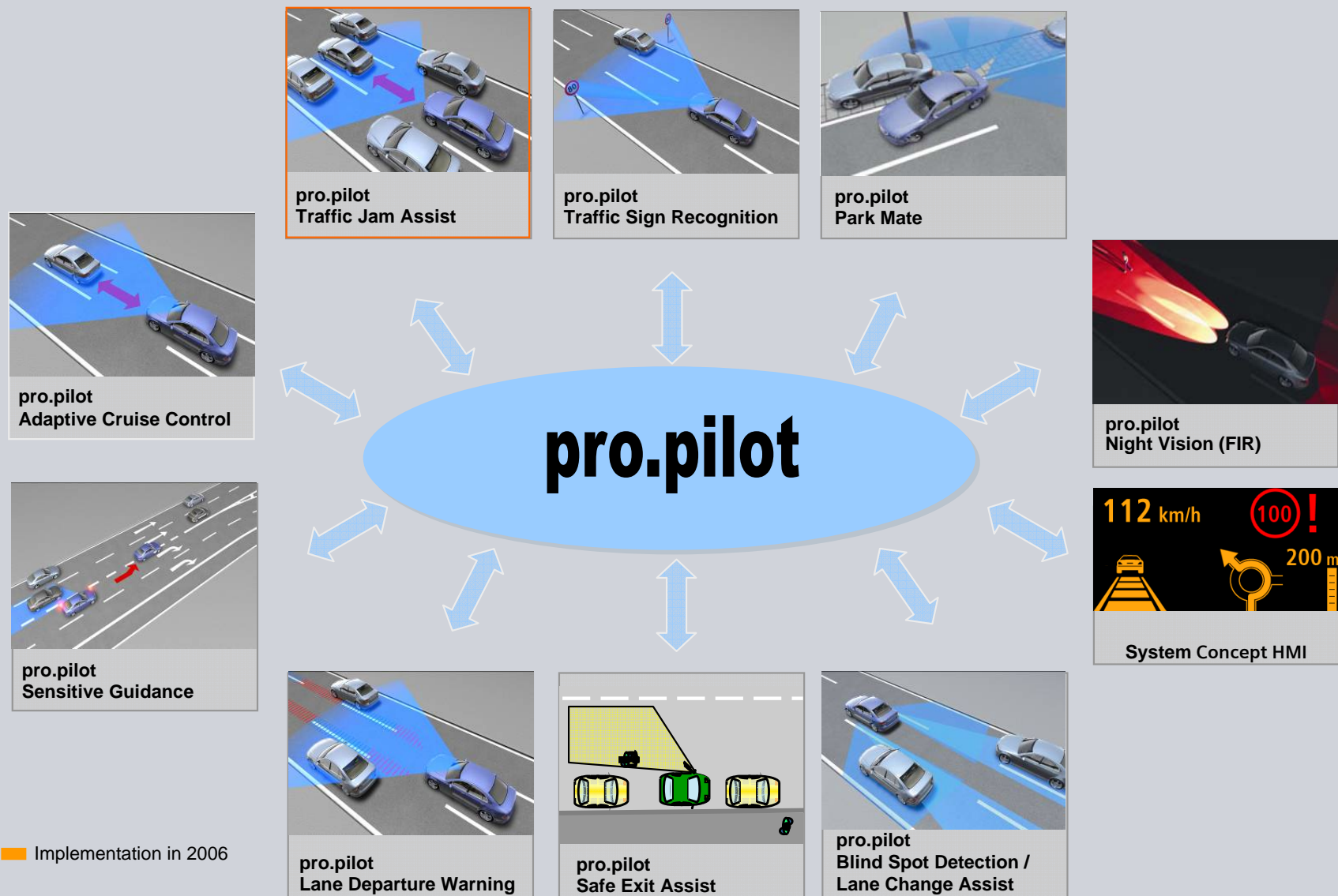


## II US legislation is leading in requiring safer vehicles

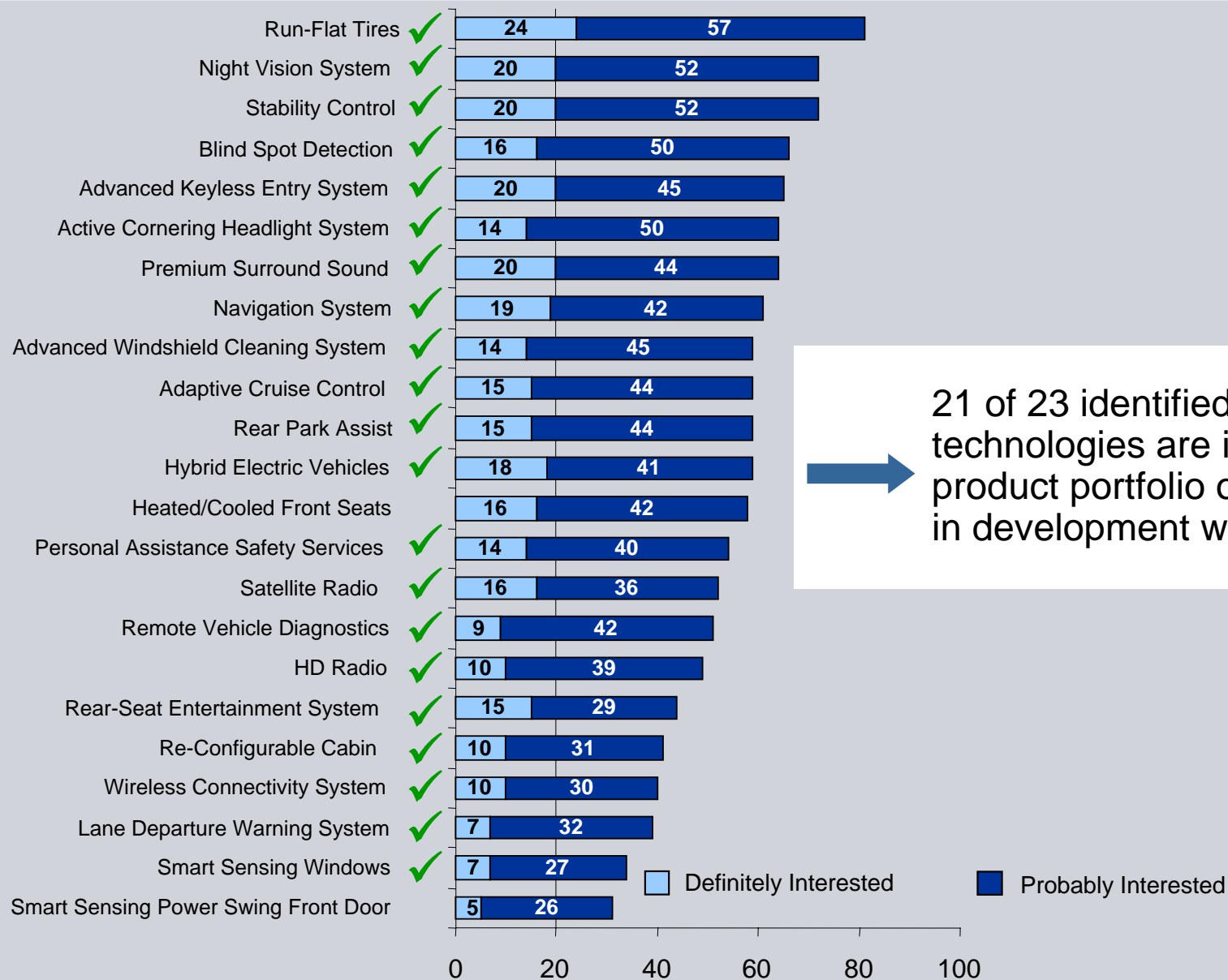
### Increase of safety regulations in US



## II Our answers to safety challenges: Advanced Driver Assistance Systems



## II Siemens VDO heavily invests in emerging technologies

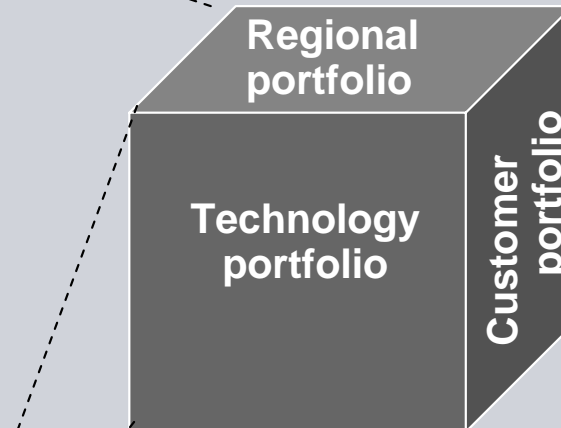


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### III Our clear strategic direction ensures long term profitable growth

#### **Regions:**

- Optimize global R&D and manufacturing footprint
- Strategic focus on Asia



#### **Customers:**

- Maintain / increase market share in Europe and Americas
- Become a "Global Keiretsu" supplier to Asian OEMs

#### **Technology:**

- Strengthen leadership in upcoming growth applications
- Focus on safety / comfort, advanced propulsion and communication

Source: Siemens VDO

### III We follow a consistent M&A approach to enhance our portfolio

Mergers & Acquisitions	Technology / Product Portfolio	Regional Portfolio	Customer Portfolio
2001	Mannesmann VDO		
2004		Huntsville Electronics	
2004	IDM		
2004		ELCAR	
2005	e-stop		
2005	Bontec / Autonet		
2005	American Electronic Components (AEC)		
2006			VW Mechatronic

### III Divestments enable us to expand our core business

Disinvestments	Technology / Product Portfolio	Regional Portfolio	Customer Portfolio
2001	Exit of wiring harness production		
2001	Sales of air outlet manufacturing to Reum		
2002	Sales of Hydraulikring to Hilite		
2003	Disposal of Bowden Cables business to Capro Inc.		
2003	Exit of assembly for complete tank systems		
2003	Exit of cockpit assembly		
2006	Sale of the interest in Volkswagen Bordnetze GmbH (wiring harnesses)		

### III The Huntsville example: an acquisition that paid off

**Acquisition completed April 1, 2004**



**Huntsville operation has a highly skilled workforce, combined with extensive expertise in our core product areas.**

#### **Production of:**

- Instrument clusters
- Engine and powertrain controllers
- Carbody electronics
- Vehicle audio products

#### **Basic data:**

- Opened in 1988
- Situated on a 144-acre site
- Generates approximately \$1 billion in annual sales
- 2,205 employees



**From a "one-customer-plant" to a diversified customer portfolio:  
Three new customers since acquisition of Huntsville Electronics**



### III Strategic advantages and value proposition of Huntsville Electronics

**SIEMENS VDO**

**Innovation center for NAFTA-engineering,  
manufacturing & logistics performance track record**

**Lean manufacturing principles**

- Strong link between design engineering, manufacturing, and the divisions.
- Test engineering know-how enables "systems-level" solutions to our customers.
- Automated, low-WIP provides high-quality standards and low non-conformance costs
- High-level of equipment and process standardization
- High inventory turn rate (26 turns – SV Benchmark)
- Centrally located near many "new domestic" plants
- Lower outbound logistics costs



**Automatic Guided Vehicle  
Distribution**



**Automated Assembly Robots**

### III With Huntsville, we significantly increased our market shares and position

#### Regional Market Share Impact of Huntsville Electronics Acquisition

Huntsville continues to offer the benefits of completing the market leadership position quest for leading SV world positions.

	Combined Market Share		Combined Market Position
<b>Audio Systems</b>	<b>25%NAFTA</b>	28% Delphi      26% Visteon <b>25% HEC</b> 20% Rest	<b>#3</b> NAFTA
	<b>19%World</b>	15% Delphi      15% Visteon      10% Bosch <b>10% SV</b> <b>9% HEC</b> 40% Rest	<b>#1</b> World
<b>Carbody Controller</b>	<b>17%NAFTA</b>	12% Lear <b>9% HEC</b> <b>8% SV</b> 71% Rest	<b>#1</b> NAFTA
	<b>23%World</b>	<b>19% SV</b> <b>4% HEC</b> 8% Kotal      8% Lear      6% Hella      55% Rest	<b>#1</b> World
<b>Clusters</b>	<b>20%NAFTA</b>	31% Visteon      26% Delphi <b>15% HEC</b> <b>5% SV</b> 24% Rest	<b>#3</b> NAFTA
	<b>21%World</b>	<b>15% SV</b> <b>6% HEC</b> 15% Visteon      11% Delphi      7% Densc      46% Rest	<b>#1</b> World
<b>Powertrain Controller</b>	<b>18%NAFTA</b>	31% Delphi <b>16% HEC</b> <b>2% SV</b> 6% Visteon      45% Rest	<b>#2</b> NAFTA
	<b>15%World</b>	16% Delphi      10% Bosch <b>8% SV</b> <b>7% HEC</b> 59% Rest	<b>#2</b> World

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## IV Summary

### Strategy of solid Growth

#### To stay on top, we ...

- focus on automotive electronics as most promising segment in automotive industry (annual growth rates of 6-7%)
- improve our regional balance to enhance competitiveness
- optimize our worldwide manufacturing and R&D footprint
- execute Asia strategy to expand business in China, Korea, Japan and India and further increase business in NAFTA region
- constantly improve our cost base, performance, quality and speed of innovation
- develop innovations focused on requirements of markets and consumers, e.g. advanced driver assistance systems, audio and navigation systems and advanced propulsion

### Success in NAFTA region

- In difficult environment we achieve constant growth in NAFTA region: since 2002 we have increased our sales by 59%.
- We successfully extend our customer portfolio: Since acquisition of Huntsville Electronics we have won three new customers.
- We support our OEM customers in the US with latest technologies to cope with market challenges.