Profit and Growth

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The Healthcare Equipment Market in China is the Fastest Growing in the World

**Market environment**
Med in China
Facts and figures
Business opportunities

**Facts and figures**

**CAGR 19%**

**1990**
Imports (in billions of RMB)

**1995**
Imports (in billions of RMB)

**2000**
Imports (in billions of RMB)

**2005E**
Imports (in billions of RMB)

**2010E**
Imports (in billions of RMB)

Imports as % of total Demand:
- 1990: 59%
- 1995: 58%
- 2000: 57%
- 2005E: 55%
- 2010E: 53%

Source: ESPICOM 2002; Goldman Sachs, May 2004
Growth Drivers of the Chinese Market

Market environment

Med in China

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Consistently strong growth in the overall economy...

Source: Worldbank

... which is expected to narrow the current per capita healthcare expenditure

Source: OECD, WHO

Source: UBS, April 2004

... has increased the personal wealth of the Chinese population...
Medical Devices Market Overview

- **Approx. 3000 domestic medical device manufacturers**
  - mostly focused on low end and medical supplies
  - few companies have begun to produce high-end equipment

- **Over 400 foreign JV’s and foreign investment enterprises**

- **Many domestic hospitals and clinics are in serious need for equipment replacement or upgrade**

- **Hospitals are actively seeking new income sources; more and more hospitals therefore start to compete on technology**

- **WTO entrance results in reduced tariffs, eliminated quotas, erased tender requirements for non-government purchases**

- **Increased disposable income has created an opportunity for private healthcare coverage**

Source: UBS, April 2004
Medical Solutions
China is a very important market

- Rapid market growth for Medical Solutions
- Opportunities for high quality, low cost operations to serve China and the world
- Continuous growth in healthcare expenditures
- Increasing private investments
Medical Solutions: China market has highest growth

**World market 2003**
EUR bn. 36.6

- **Americas**: 59%
- **Europe**: 20%
- **Asia/Pacific**: 18%
- **Africa/NME**: 3%

**Asia / Pacific market 2003**
EUR bn. 6.6

- **Japan**: 60%
- **China**: 20%
- **others**: 6%
- **South Korea**: 5%
- **Australia**: 5%
- **India**: 4%
- **others**: 6%

**Projected market growth (CAGR 2003 – 2006)**

- **Asia/Pacific**: +4%
- **China**: +11%
Building on established strengths

Excellent basis for growth

Attractive to excellent talents

Strong **SIEMENS** brand recognition in China

**SIEMENS** perceived as innovative technology provider

long term **SIEMENS** history of investment in China

**SIEMENS** in China

**Med in China**

Market environment

Facts and figures

Business opportunities
Med in China

We have been doing business with China for many decades. In 1984 we established our first own sales activities / offices. In addition to sales activities, Medical Solutions currently has 5 major operating companies:

1989  JV: Siemens Technology Development Co. Ltd. of Beijing (STDC)
1992  JV: Shanghai Siemens Medical Equipment Ltd., Shanghai (SSME)
1995  Rexton (Suzhou) Hearing Systems Co. Ltd. (RSHS)
2002  JV: Siemens Mindit Magnetic Resonance Ltd., Shenzen (SMMR)
2003  Siemens X-Ray Vacuum Technology Ltd., Wuxi (SXVT)

Currently we have more than 1.400 Employees in China
Shanghai Siemens Medical Equipment Ltd.

- Initial formation of Joint Venture: 1992
- Opening ceremony for new facility: January 22, 2003
- R&D and Manufacturing base, primarily for CT and X-Ray systems and components; sourcing base from Chinese suppliers for all divisions
- 8,000 square meters engineering & production space. 80 researchers & engineers; 20 SW engineers.
- Global products (for Chinese and International markets)
CT: Setting trends in ...

... technology and applications

SOMATOM Sensation 64 Slice CT
- Market’s first 64 slice CT
- Industry’s fastest gantry rotation (0.33s) and highest volumetric resolution (< 0.4 mm) for best image quality
- Enabling new applications in high-growth cardiac market

- 350+ orders, 200+ installations
- In use at Top 5 medical centers in USA
- “Every day we find a new function that comes in perfectly useful ... We love it.”
  (Mayo Clinic, USA; Siemens win in 2004)

... China

The largest CT markets 2005e (units)
market share gain 2000 – 2004 in China

- Winning share in all segments in China
  - High end: 10 orders, 7 installations for 64 slice
  - “Emerging segment”: doubled share in 4 yrs.; now market leader
Siemens Mindit Magnetic Resonance Ltd., Shenzen

- Ground breaking ceremony for new facility: July 14, 2004; total investment of 30 million RMB
- Opening of new facility: March 17, 2005
- R&D and Manufacturing base for MRI systems and components: total 200 people; thereof 50 engineers
- MR Center of Excellence for Asia
- Global products
Siemens X-Ray Vacuum Technology Ltd., Wuxi

- Opening ceremony: October 28, 2004
- R&D and manufacturing base for x-ray tube housing assemblies
- Currently planned production capacity (p.a.): 4,000 to 5,000 units
- Global products (for Chinese and International markets)
Rexton (Suzhou)
Hearing Systems Co. Ltd.

- High performance manufacturing company for the world hearing aid market with more than 500 employees
- All applicable quality certifications since 1996: CE, ISO, TÜV
- No. 1 position in the Chinese hearing aid market
- More than 60% of all employees hold at least a high school diploma
Made by Siemens –
A global quality label

Internationally Linked
Processes and Quality Standards

Germany

China

Siemens
Quality Products

All operations abroad are controlled by the HQ.
Medical Solutions in China
Continuing Investments

- **AX / CO**: AXIOM Artis U, AXIOM Iconos MD, mechanical components for CT, AX; new facility
- **CT**: SOMATOM Spirit, SOMATOM Huan Yue, SOMATOM Emotion 6, SOMATOM Smile+, SOMATOM Sensation 16
- **MR**: MAGNETOM C!, MAGNETOM NOVUS 1.5T; permanent magnets; know how transfer for supercon magnets
- **US**: Sonoline G 50 / G 40
- **RV**: X-ray tubes and housing assembly for AX / CT
- **A**: Main production site for world products
- **NM**: Components planned
- **OCS**: Components planned
- **HS**: Localization of HIS planned
Medical Solutions in China
Expanding our presence

HQ in Beijing
25 Sales Offices
3 R&D centers
4 Manufacturing centers
Medical Solutions in China
Business Development

Orders first 4 months FY 2005: + 50 %

(in billions of RMB)

- Sales Imported Products
- Orders Total
- Sales Local Products / Services

Market environment

Med in China

Facts and figures

Business opportunities

+ 39 % p.a.

+ 34 % p.a.
Medical Solutions in China
Primary Targets

Profitable Growth

Growth
- Innovative product portfolio
- Continuous expansion of dealer network
- Siemens One
- M&A

Profit
- Expanded share of value added in China and other LCC
- Increased sourcing and exports from China

Market environment
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Facts and figures
Business opportunities
Medical Solutions Strategy

Quality of healthcare delivery through
- Innovation
- Workflow optimization

Costs thereof:
- China ~ 30%
- ~ 3.330
- ~ 2.000
- ~ 1.570

Increase of Value added in LCC

IT is the backbone for integrated and efficient clinical and administrative processes

Workflow optimization throughout healthcare continuum

Facts and figures
Medical Solutions in China
Expanding our market coverage

- approx. 830 Large hospitals (> 500 beds)
  Key Account Managers in each region. Siemens One.

- approx. 1.220 Medium-size hospitals (300 – 500 beds)
  Integration of leadership for direct sales and dealers.

- approx. 15.790 Small-size hospitals (< 300 beds)
  Expected hospital consolidation provides special opportunities for Siemens.

- More offices and locally based sales people;
  expansion of remote service

- High retention rate with customer-care “Life” program

- SFS Leasing / Financing programs for investors and dealers
Medical Solutions in China
Localization is key in HIS market

Key issues:

- Understand local workflow (CRM)
- Support local languages

Business opportunities

HIS market in China by market share

- highly fragmented
- no foreign company
- no localized total HIS/RIS/PACS solution in place

Excellent chances for MedSuite

Med in China

Facts and figures

Market environment
Medical Solutions in China
One Siemens

Market environment

Med in China

Facts and figures

Business opportunities

Medical
Systems for diagnosis and therapy, including electronic archival and transmission of patient data

Financial Services
Complete financing, from project planning through to final hand-over

Power
Reliable power supply, including emergency backup systems

Lighting
Standard and specialty lights for operating rooms, wards etc.

Automation and Control
Control and monitoring of equipment and installations, room climate, elevators, parking garages etc.

Transportation
Access via public transport, e.g. streetcar or metro

Information and Communications
Integrated PC and phone networks for medical personnel, patients and administrative staff
Extensive business infrastructure established by long term presence in China

- Local value added and sourcing
- Sales & dealer networks
- Service network

Well positioned for existing markets and growth markets in China

- Innovative and localized products
- Healthcare IT as key for integrated healthcare solutions

Competitive advantage for continuous profitable growth
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.