SIEMENS

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Member of the Siemens Board and CEO Industry Sector

on the occasion of the international press conference held on
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Siemens – Answers for Industry

- Check against delivery -

Ladies and Gentlemen,

“Siemens – Answers for Industry”: This is more to me than just a slogan in our current corporate campaign. It is our claim as leading industry supplier with a 160-year company history and relates to the exacting demands that we place on ourselves and our solutions. And it is a promise to me which we have made to our customers and a promise which we keep. We know the challenges of the global industry business; we overcome them together with our business partners and, in doing so, we set new technological trends.

I am delighted to have the opportunity of presenting the Siemens Industry Sector to you here at the Hanover Fair, the world’s largest industry fair. This is the right place for us to inform you, as the experts, and our customers how Siemens is set to tackle its international markets: namely as an integrated, fast and customer-oriented technology company. With this in mind, we have adopted a course of reorganizing the company to reduce its complexity and focus on three strong sectors: Healthcare, Energy and Industry.

With annual sales of roughly 40 billion euros and well over 100,000 customers in all branches of industry, the Industry Sector is a vital contributor to the success of the entire Siemens AG. We have set ourselves the goals of achieving profitable and sustained growth, continuing to acquire market shares from our competitors and making optimum use of the massive investments made in recent years.

Our business performance is well on target, and although the crisis in the property and financial markets has increased general uncertainty about the cyclical development of the real economy, we have not seen any material impact on the capital goods industries to date. Our order books are full at present. If the widely expected slowdown were to happen in some segments in the next few months we would still retain a competitive advantage most likely over most of our competitors thanks to our position of strength in so many industries and regions.

Our focus will be on organic growth, while also relying on recent acquisitions – e.g. USFilter, Flender and UGS – to continue winning new customers and to leverage enormous potential for our current customers. Wherever we are able to generate value added for our customers we will make selective investments, based on clear criteria, in an effort to strengthen the position of our three Sectors.

Reorganization on schedule

The three Sectors are subdivided into 15 Divisions. As an integrated company, we are set to identify the big potential that exists in and across all Sectors and Divisions and, thanks to our integrated systems and open technology platforms, we will provide greater value added than our competitors. At the same time, the Divisions will be able to focus more closely on their core competences and individual growth segments. All of this will go hand in hand with a clear business target and a definite assignment of responsibilities to CEOs as well as with a model transparency in business and finance.

With its 209,000 employees, the Industry Sector is the world's leading supplier of production, transportation and building technologies. Our targets and activities are clearly defined by the challenges of our customers: even greater flexibility in production, more efficient use of ever scarcer energy and raw material resources, and integrated solutions in transportation, logistics and building technology.

The share of the global capital goods market relevant to Siemens is expected to reach a magnitude of 500 billion euros by 2010. Our customers' requirements for further productivity gains have prompted a continuing process of innovation in the industrial base. This is where the growth opportunities for our product, service and solution business lie.

Our reorganization is well on schedule. We have conducted the transition of the former Siemens Industry Groups into the six Industry Divisions of Automation, Drive Technologies, Industry Solutions, Building Technologies, Mobility and Osram with speed and consistency. Some middle to long-term tasks are still outstanding, such as leveraging synergies in the field of hardware and software platforms and increasing cost efficiency in both headquarters and sales.

In many segments of industry, including factory automation, rail automation, water and metal processing technologies, traffic management systems, fire protection and lighting, we are among the world's leading suppliers. In other segments, such as process automation and building safety, we have acquired a sound base but still need to increase our market shares. In an effort to join the leading pack in the respective market segments we will have to compete even more intensively with our major rivals, because it is only in leading positions that sustained and profitable growth is possible.

Each of the six Divisions enjoys a leading market position, but we don't intend to stop there. We are poised to expand our market leadership considerably by leveraging additional potential, which is best done by means of optimum interaction between the Divisions. Our main focus is on permanently optimizing the entire value chain and gearing innovations to the requirements of Siemens' industry customers. Our broad-based and global positioning makes us less susceptible to economic trends than our competitors.

Our goal is to collaborate with our customers in opening up new dimensions of productivity and efficiency by integrating hardware and software technologies and incorporating our expertise in the industry concerned. Our new setup opens the door to many new opportunities: we will intensify our efforts to gear our products to standardized platforms for drives, automation and software, thus contributing to the success of our solutions business in production, transportation and building technologies. In engineering, we are the only industry supplier to boast an integrated PLM platform which provides consistent solutions covering the full range of design, development, production, service and project business.

In addition, our vertical expertise gained over so many years in all technologies and industries will be more closely linked with the development of products and systems. We are set to make more effective use of our outstanding base in supplying holistic, integrated and intelligent solutions to our customers. Our Sector will also take up the current project business challenges. When it comes to managing major projects, all Divisions will benefit from an internal knowledge transfer, applying the strengths of Industry Solutions and Building Technologies. Again, the market presence of our strong regional organization and our sales teams' proximity to our customers will remain the outstanding factors of success.

Simatic controllers are celebrating their fiftieth anniversary this year. Over the years, Simatic controllers have developed into the world's leading automation system, a system architecture which now represents a de facto standard; 'Totally Integrated Automation' (TIA) provides the basis for designing solutions in a wide range of industries, from automating stand-alone machines to entire factories. Our potential in the Industry Sector is more far-reaching still. Broader sales channels will be opened up for these and other open product platforms, e.g. for the automation of transport applications. In some areas of rail and conveyor technology, such as luggage

conveyor systems, our scalable automation solutions are already based on the Simatic S7 controller. The use of tried-and-tested standard components reduces the financial and material costs of our rail and airport customers.

There are other automation applications which can be effectively implemented in the field of residential, commercial and industrial buildings. In heat recovery systems, for instance, the Simatic S7-300 controller is used for such purposes as visualization, calculation and evaluation, as well as for networking between distributed smart devices. Our Micro Automation sets and Logo controllers are also applied across the board in industry, trade and building technology applications. Our drive systems are not only used in industry and mobility applications such as rolling mills, rail drives and conveyor systems; they are also of crucial importance in buildings, in areas such as air-conditioning, water supply, and the treatment and disposal of waste water.

Consistent advance of TIA and TIP

The main trend in automation – greater productivity through well-tuned hardware and software technologies – is largely driven by Siemens. Totally Integrated Automation is and remains the basis for Siemens' success as a technological trend setter in the product and systems business. Today, TIA and TIP (Totally Integrated Power) are competitive brands, each providing unique, open and integrated architectures which cover all our customers' requirements in the fields of production, transportation and building technologies.

Based on the convergence of hardware and software technologies in automation, Siemens will decisively shape the future of the industry. Today we are able to achieve a much higher degree of integration than twelve years ago when TIA was starting. One area that has seen enormous growth since then, because of today's vastly superior processor performance, for instance is the potential capacity of Programmable Logic Controllers and industrial communications. However, the underlying principle remains the same: we increase our customers' productivity across the board, thus enhancing their competitiveness. At the same time our open standards provide optimum protection for their investment.

We are set to consistently advance the integration of new software technologies into the automated world and the linking of production systems with product design and merchandise management systems. In industrial software, we are poised to combine

our portfolio in the field of PLM (Product Lifecycle Management) and MES (Manufacturing Execution Systems), resulting in an integrated and productive system. Our acquisition of UGS has also taken us a big step further towards our major goal of linking product development with real manufacturing. Since October 1, 2007, the company has traded under the name of ‘Siemens PLM Software’. Its business performance and integration of operations is well on track and will be completed before the middle of the year.

Growth driver’s sustained trends

The decisive trends in production that safeguard our long-term future include energy efficiency, individualized mass production, and global production networks. How do these trends relate to our current portfolio and our long-term development in automation and drives technology?

Against the backdrop of a global shortage of resources and the rising cost of raw materials, it is the efficient use of energy and other production resources that has become one of the key cost factors in the industrial world. The rising prices currently commanded by raw materials and energy are underscoring the need for more efficient technologies in power generation, water treatment, mining, manufacturing and transportation; they also point to the need to pay greater attention to CO2 emissions, which now form an integral part of the costings of all sectors, not merely the energy-intensive industries alone. In such high-energy industries as automotive and metal-working, CO2 emissions often account for up to 40 per cent of the total manufacturing costs.

The enormous potential that lies in energy-saving and climate protection in industrial production has been analyzed in a study carried out by McKinsey & Company: unless countermeasures are adopted, the annual growth in global energy demand will rise from 1.7 per cent (1986-2003) to roughly 2.2 per cent (2003-2020); if all currently available technically feasible savings were made, this percentage could be lowered to 0.7 per cent. Led by such energy-intensive industries as petrochemicals, steel and paper-making, industrial production harbours just as great a savings potential as the residential building, trade and transportation sectors combined.

To us as industry supplier, increasing the energy efficiency of our customers has become a major market which offers us excellent growth opportunities. Siemens is

the only company worldwide which is able to provide its customers from industry or infrastructure with an integrated portfolio ranging from power generation and distribution to its efficient use at factory level and in infrastructure projects. This ranges from high and medium voltage to low voltage in commercial buildings or at the field level in a factory. Our approach to leveraging energy-saving potential includes integrated electrical power distribution in the form of Totally Integrated Power, including power components, energy management systems and specific drive systems.

Since systems driven by electric motors account for almost 65 per cent of the power consumed in industry, they provide a major savings lever. In recent years we have continued to extend our technological leadership in the field of drives. The acquisitions of Flender and Robicon have added to our drive portfolio and strengthened our access to major growth sectors in the process industry. We are the only supplier in the world to cover the full range of applications from drive controls to motors and gears. In combination with our in-depth industry knowledge and expertise, this is a major advantage which helps our customers in the various industries to leverage their efficiency potentials.

Tailor-made mass production

At our booth in Hall 9, together with our partner Volkswagen we are jointly demonstrating the entire manufacturing process of a VW Tiguan utility vehicle, from steel production to painting. The automotive industry is a textbook example of the way in which consumer habits influence production technology today. In automotive engineering, the number of models available in 2015 will be double that of 1990 up to more than 1100. Car buyers are free to select the features of their personal dream car using an online configurator, and can even change their mind shortly before delivery. This trend is set to continue in other industries besides: since consumers are increasingly asking for more personalized goods and products, manufacturers must be able to cope with production on demand and real-time production planning – at ever lower cost. Modern production systems consequently need to be ever more flexible and powerful to enable manufacturers to offer faster response times and ever shorter innovation cycles.

This means that both manufacturers and their suppliers are now facing massive IT challenges. As not only the production process itself, but also the design, dimensioning, construction, commissioning and conversion of production plants are coming under increasing time and cost pressure, major manufacturers are turning to the latest digital engineering developments in an effort to boost their productivity. The enhancement of product planning and engineering processes provides the key to better quality, shorter design phases and time to market.

With integrating PLM software technology into the Siemens portfolio, we have addressed this new technological trend. Our PLM software offer covers the full range of tools used in computer-aided design, digital product data management and software for simulating manufacturing processes, generally known as ‘digital factory’.

PLM market share increased

With PLM software, we hold leading market positions in all segments of the PLM market, including the two segments experiencing the strongest growth, i.e. ‘digital factory’ and ‘digital product data management’. Our main customers are in such industries as automotive engineering, electrical engineering and consumer goods, as well as aviation, aerospace and mechanical engineering. In the course of the last year, we experienced double-digit growth in all three segments, increasing our market share even further and leaving our competitors far behind.

A fundamental innovation will be presented tomorrow for the CAD segment at a separate press conference: ‘Synchronous Technology’ is the next breakthrough in digital product development to be announced by Siemens PLM Software. This technology is set to revolutionize the design process and to radically accelerate the product design and modification stages of major manufacturers and SMEs alike.

In the long term, the integration of PLM software technology into the Siemens portfolio will lead to the convergence of product planning and production. In the future, a digital link will be created at the engineering phase between development and downstream production, i.e. mechanical design will converge with plant design. We believe that, in automotive engineering and other highly developed industries, the next 10 to 15 years will see an integrated design for mechanical engineering, automation and controllers, in which PLC codes will be automatically generated. As

a step in that direction, we will be launching our Simatic Automation Designer, which provides state-of-the-art software for efficient and flexible engineering.

Whether CAx, PDM, or ‘digital factory’ – the combination of the PLM portfolio with hardware and software at Siemens represents a crucial step in providing our customers with integrated IT to render both the design and production of their products more efficient. Siemens is the first and only industry supplier to offer integrated software and hardware across the entire life cycle of products and production plants. We are the clear trendsetters in this field and will do everything we can to extend the lead against our competitors even further.

Radical cuts in time to market

Our customers in automotive and mechanical engineering are facing the challenge of having to launch a whole range of product variations in top quality and within the shortest period of time. The resulting requirements extend far beyond powerful systems at field level. Globally interlinked material flows require flexible manufacturing plants, synchronization of merchandise management systems with production systems, and production traceability facilities.

At the same time, cost pressure is prompting industrial companies to increase productivity throughout the entire production life cycle. The success of production strategies will be increasingly governed by time and cost to market. In spite of the growing complexity involved in linking mechanical and electronic items with software, there is a continuing need to further reduce development time, in particular the testing and commissioning phase of production plants. Our software and hardware portfolio will enable us to cover our customers’ entire value chain and full range of processes, from the initial product idea to shipping of the finished product. We are reducing the number of interfaces on the basis of open standards, eliminating the previously customary stand-alone solutions and shorten the time to market by 50 per cent and more in many cases.

Synchronization through simulation

In the future, new production systems will need to take into account any product variant demanded by the consumer as early as the planning phase. Properties,

features and the performance of the product and such production parameters as output and costs can be virtually simulated and verified.

This means that software tools and services supporting a machine's entire life cycle are gaining in importance all the time. They assist in mechanical engineering and automation design, in optimizing and commissioning the machine, and during operation and service at the facility of the end-user. The latter is involved as early as the design phase, in which not only the products themselves but also the machines' or production cells' properties and functions are virtually created, making it possible to predict their behaviour under operating conditions via the use of kinematic models which simulate their motions.

Enormous development, material and cost savings can be made if mechanical engineer, end user and automation partner work closely together throughout the entire design process, from the initial product idea, through simulation to the finished machine. In some years, entire production plants can be created and simulated in the computer, using all available means of optimizing product and production alike. The engineering system automatically reviews the entire plant design. Thanks to such a highly precise planning phase, the start-up time for a plant will be only a fraction of what it is today.

Global networking

The possibilities of PLM technology extend much further, however; they also constitute a major efficiency factor for companies cooperating in global networks. The world economy has been growing since the beginning of the new millennium, with international trade expanding even faster, mainly in the capital goods sector. Besides personalization, therefore, globalization also has a dramatic effect on production. Companies are operating geographically distributed production facilities within a global network of researchers, product designers, suppliers and engineering companies. They are optimising this production facilities with a view to achieving customer proximity, cost savings and synergies. Environments are networked and interlinked across corporate borders; readily available information in a standardized format provides the basis for business success and competitiveness throughout the value chain.

In global data exchange, PLM software plays an important role at various levels in the value chain. Digital product data management helps to create and make available 3D geometry resources, product design and product data. The storage, administration and provision of product and production data allow to access any information throughout the entire product life cycle. For instance, suitable automation outfitters and machine tool builders can be researched on the basis of current data available in specific marketplaces.

Effectively networked production environments require powerful and stable software platforms capable of providing the required information at any point in time. These networks must be standardized and designed to cope with future requirements in order to be better able to organize growing data volumes arising from the convergence of both office and automation environments. Not until we have genuine software-based collaboration within global networks will we have an environment in which the information needed to guarantee efficient production processes is available to all the partners involved.

cPDM software is used to store, administer and retrieve product and production data; our product ‘Teamcenter’ is the clear market leader in this field. This data backbone provides users with access to relevant information throughout the product life cycle of the various sections and levels of a company’s value chain. The positive response we have received from customers worldwide and the recent decisions by Canon and Volkswagen to use Teamcenter as the platform for their global data management are proof of the fact that we are on the right track. It is anticipated that companies operating certified production lines, e.g. in the pharmaceutical or food and beverages industries, will increasingly invest in integrated development and production software with a view to extending their competitive edge and complying with legal requirements.

Ladies and Gentlemen,

I have very much enjoyed presenting the Siemens Industry Sector and our response to the challenges of global production here today. Our integrated, energy-efficient technologies play a crucial role in enhancing our customers’ productivity and competitiveness in the long term. As technological trendsetters in industrial manufacturing, we are opening up enormous potential for our customers based on the

convergence of product planning and production. Answers for Industry – we intend to continue to live up to this aspiration – as an integrated, fast and customer focused technology company.