Stefanie Silvia Weber, March 18th, 2015

Supply Chain Finance Program for capital efficiency optimization at Siemens
Siemens’ Global presence
Close to customers all over the world

10.9
115,000
69

Revenue (in billions of €)²
15% of total worldwide
Employees³
33% of total worldwide
Key production facilities⁴
24% of total worldwide

18.8
70,000
76

Revenue (in billions of €)²
26% of total worldwide
Employees³
20% of total worldwide
Key production facilities⁴
26% of total worldwide

38.7
211,000
139

Revenue (in billions of €)²
54% of total worldwide
Employees³
62% of total worldwide
Key production facilities⁴
48% of total worldwide

3.8
62,000
74

Revenue (in billions of €)²
20% of total worldwide
Employees³
18% of total worldwide
Key production facilities⁴
26% of total worldwide

All figures refer to continuing operations.
1 Commonwealth of Independent States.
2 By customer location.
3 As of September 30, 2014.
4 Fifteen employees or more.
Building Technologies
World leader in building technologies headquartered in Zug

The division Building Technologies is the world’s leading provider of safe, secure, energy-efficient and eco-friendly buildings and infrastructures. As a technology partner, consultant, service provider, systems integrator and product vendor, we have offerings for fire safety, security, building automation, heating, ventilation, air conditioning and energy management.

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders in millions of €</td>
<td>5,587</td>
<td>5,769</td>
</tr>
<tr>
<td>Revenue in millions of €</td>
<td>5,569</td>
<td>5,754</td>
</tr>
<tr>
<td>Employees (as of September 30) in thousands</td>
<td>27</td>
<td>28</td>
</tr>
</tbody>
</table>

WWW.SIEMENS.COM/AR/BUILDING-TECHNOLOGIES
Exemplary collaboration in the supply chain
### Siemens DPO in a competitors’ Benchmark

#### Working Capital Benchmark: Study Results

<table>
<thead>
<tr>
<th></th>
<th>DSO Comparison</th>
<th>DPO Comparison</th>
<th>DIO Comparison</th>
<th>Cash Conversion Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benchmark</strong></td>
<td>4th 3rd 2nd 1st</td>
<td>4th 3rd 2nd 1st</td>
<td>4th 3rd 2nd 1st</td>
<td>4th 3rd 2nd 1st</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Siemens</td>
<td>68</td>
<td>45</td>
<td>46</td>
<td>70</td>
</tr>
<tr>
<td>General Electric</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ABB</td>
<td>101</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philips</td>
<td></td>
<td>58</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Schneider</td>
<td></td>
<td>71</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>Emerson</td>
<td></td>
<td>63</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>Honeywell</td>
<td>70</td>
<td>43</td>
<td>43</td>
<td></td>
</tr>
</tbody>
</table>

Source: The Hackett Group 2010 REL working capital

Medians are based on industry segment

DSO = days sales outstanding
DPO = days payables outstanding
DIO = days inventory outstanding
Cash Conversion Cycle = DSO + DIO - DPO

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Motivation to establish a SCF-Programme

Customer

„Longer pay terms without change in prices“

SIEMENS

„Ok! We get the Cash flow from our Suppliers“

„That's not possible“

Supplier

„Only if we discuss prices“

„That's not possible“

„Ok! We accept the longer terms“

Profitability
Supply Chain Finance@Siemens

Siemens SCF Program makes use of a technology platform that links Siemens and its Suppliers of goods or services with a 3rd party financier. This solution allows the suppliers to benefit from early payments at very low cost.

Siemens Supply Chain Finance Program (SCF) is designed to give selected Siemens’ suppliers access to cash at Siemens’ financing rates to

- Increase suppliers’ cash
- Reduce suppliers’ cost of capital
Supply Chain Finance@Siemens at work

1. Supplier delivers goods/services and invoices Siemens
Supply Chain Finance@Siemens at work

1. Supplier delivers goods/services and invoices Siemens

2. Payment instruction electronically submitted to Program

3. Future payment notification from SCF Program

4. Supplier offers receivables for sale at a discount

Bank #1

Bank #2

Bank #3

6. Payment of Interim maturity date to Program

Bank #3 acquires receivables by paying after 2 business days
### Standard Payment Term w/o Supply Chain Finance

**Example:** Supplier delivers goods or services today, worth **1,000,000 EUR** to Siemens and invoices Siemens, payable **90 days net**.

*Assumption: Cost of debt 5% p.a.*

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Today</strong></td>
<td>Delivery of goods or services 1,000,000 EUR</td>
</tr>
<tr>
<td><strong>Due Date</strong></td>
<td>Siemens pays Supplier 1,000,000 EUR</td>
</tr>
<tr>
<td></td>
<td>Supplier pays interest to Bank (5% x 90/360 x 1m€)</td>
</tr>
<tr>
<td></td>
<td>12,500 EUR</td>
</tr>
<tr>
<td></td>
<td><strong>987,500 EUR</strong></td>
</tr>
<tr>
<td><strong>P&amp;L - effect (from financing costs)</strong></td>
<td><strong>-12,500 EUR</strong></td>
</tr>
</tbody>
</table>
Standard Payment Term with Supply Chain Finance

Assumption: All-in Program costs 1.5 % (LIBOR + 1,30%) p.a.

Today
Delivery of goods or services

Day 8
Supplier offers to sell Siemens receivables to the SCF Program

Day 10
SCF Program buys and pays purchase price to Supplier with discount 3.333 EUR \( (1.5\% \times 80/360 \times 1\text{m€}) \)
Supplier pays interest to bank \( (5\% \times 10/360 \times 1\text{m€}) \)

Due Date
Siemens pays 1,000,000 EUR to SCF Program

\[
\begin{align*}
\text{Assumption: } & \\
1,000,000 \text{ EUR} & \\
996,667 \text{ EUR} & \\
-1,389 \text{ EUR} & \\
995,278 \text{ EUR} & \\
\text{Today: } & \\
\text{Delivery of goods or services} & \\
\text{Day 8: } & \\
\text{Supplier offers to sell Siemens receivables to the SCF Program} & \\
\text{Day 10: } & \\
\text{SCF Program buys and pays purchase price to Supplier} & \\
\text{Supplier pays interest to bank} & \\
\text{Due Date: } & \\
\text{Siemens pays 1,000,000 EUR to SCF Program} & \\
\text{P&L - effect (from financing costs): } & \\
-4,722 \text{ EUR} & \\
7,778 \text{ EUR} & \\
\text{Positive cash flow: } & \\
\text{plus: Supplier is reliant on Bank for only 10 days.} & \\
221,481 \text{ EUR} & \\
\end{align*}
\]
Challenges of the Supply Chain Finance program

**Accounting**
- Due Diligence to ensure that trade payables will not be reclassified to financial debt

**Procurement**
- Payment terms not equally in focus
- Abstract promise to pay = loss of rights
- General reluctance to discuss finance topics
- Multidivisional - suppliers

**IT**
- Modification of complex IT-environment
- Number of systems to be implemented
- Profit Center Accounting

**Treasury**
- Negative impact on buyer’s credit line for the benefit of the supplier
- On-balance financing preferable?!

**Legal**
- Payment to new owner of receivables rather than to supplier
Supply Chain Finance fosters a win win situation in the supply chain

<table>
<thead>
<tr>
<th>Siemens</th>
<th>Supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Improve Cash Flow</strong></td>
<td><strong>Improve Cash Flow</strong></td>
</tr>
<tr>
<td>Extend supplier pay terms (ex.</td>
<td>Get paid fast, 2 business</td>
</tr>
<tr>
<td>New standard: 60 days net)</td>
<td>days following Siemens’</td>
</tr>
<tr>
<td><strong>Reduce Supply Chain Risk</strong></td>
<td>approval of the invoice</td>
</tr>
<tr>
<td>Inject cash into supply chain</td>
<td><strong>Optimize Working Capital</strong></td>
</tr>
<tr>
<td>via low cost early payment</td>
<td>Non-recourse cash drastically</td>
</tr>
<tr>
<td></td>
<td>reduces Days Sales Outstanding (DSO)</td>
</tr>
<tr>
<td>**Strengthen Supplier</td>
<td><strong>Enhance Debt Capacity</strong></td>
</tr>
<tr>
<td>Relationship**</td>
<td>Reduced reliance on debt can</td>
</tr>
<tr>
<td></td>
<td>improve overall cost of debt</td>
</tr>
<tr>
<td><strong>Streamline Processes</strong></td>
<td>**Increased Transparency &amp;</td>
</tr>
<tr>
<td>Reduce number of payment terms</td>
<td>Reduced Costs**</td>
</tr>
<tr>
<td>and methods</td>
<td>Reduce processing and collection costs by viewing all the approved invoices</td>
</tr>
</tbody>
</table>
Where are we at Siemens with the Supply Chain Program today?

Eligible supplier countries and currencies

**S’Corp Program**
- USA
- Mexico
- Canada
- Peru
- Germany
- USD
- CAD

**S’AG Program**
- Germany
- Denmark
- Belgium
- Switzerland
- Sweden
- Czech Republic
- Germany
- DKK
- CHF
- GBP
- SEK
- CZK

Roll out status

- Over 1500 supplier participating in the program
- Continuously growing amount of transactions and volume
Thank you for your attention