



World-market prices for raw materials and energy are continuously increasing, forcing the manufacturers of high-voltage products and transformers to significant price increases. Thanks to optimized processes and internal cost reduction measures, however, the price adjustment for Siemens products is extremely moderate.

Due to the rapidly increased demand coinciding with low supply and decreasing stocks worldwide, energy and raw-material prices have drastically increased in the last three years. The diagram below shows the proportions of the price increase: the price for grain-oriented electrical steel, copper, hot-rolled steel and oil has more than doubled over the past three years. Within the same period of time, the prices for aluminum and porcelain have increased by 70 percent, resin as well has become about 40 percent more expensive since August 2005. Analysts state that further price increases for metal of about 7 percent are to be expected. Then, the prices for metal should stabilize at this high level, in the worst case they may rise further, since the cost increase at the steel companies is not completely included.

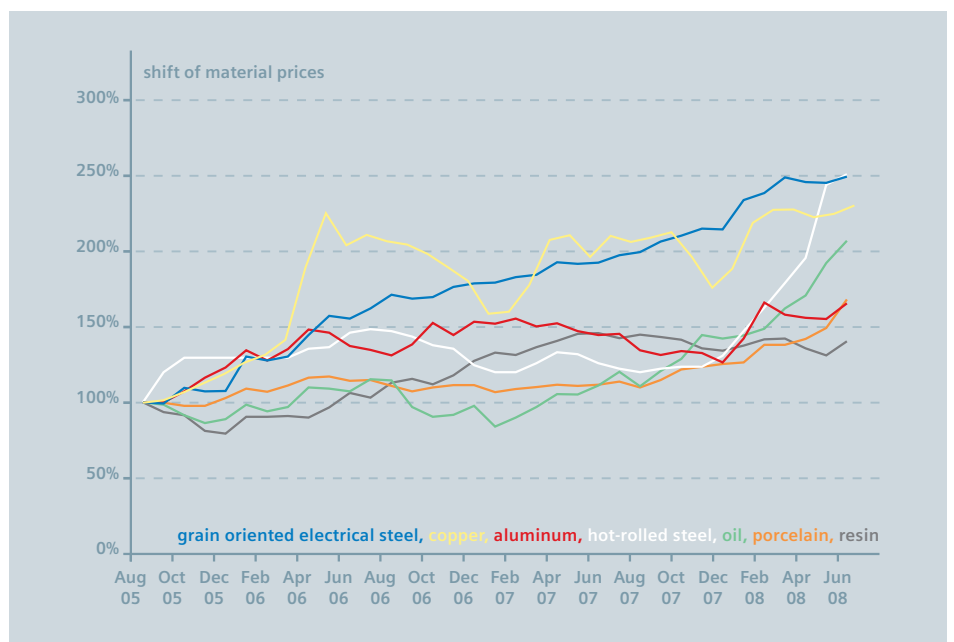


Figure 1: Development of important raw-material prices, August 2005 – July 2008.

Source: Internal research based on figures of ZVEI (www.zvei.de) for grain oriented electrical steel, London Metal Exchange (www.lme.com) for aluminum and copper CRUMonitor (<http://cruonline.crugroup.com>) for hot-rolled steel, EIA (www.eia.doe.gov) for oil, Own research for porcelain and resin, Development based on US\$.

Price development on the market

Current situation for high-voltage products and transformers

Answers for energy.

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Transport costs increase the product prices additionally

Due to the considerably increased energy prices, the transportation costs on all routes have increased a lot – which is reflected both on incoming and outgoing freight. An average price increase of 4 to 5 percent p.a. has been observed since 2005. As shown in the chart below, prices for sea and air freight have increased above average due to the high fuel costs.

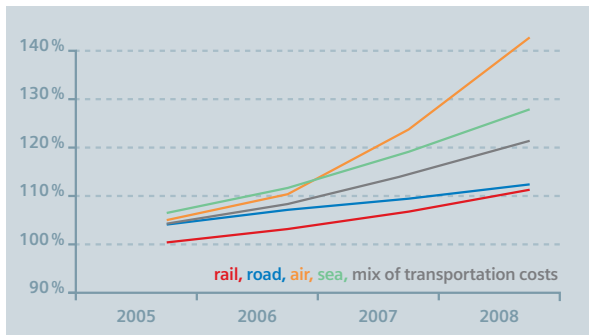


Figure 2: Development of transport costs (2004 = 100%).
Source: Internal research based on figures of Federal Statistical Office, Germany, and Eurostat.

Energy prices

The chart below describes the development of energy prices over the last three years. This continuous increase in prices due to the rising demand on energy has a negative impact on costs, especially on production costs.

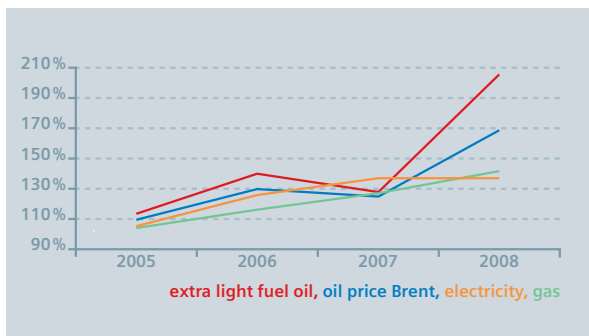


Figure 3: Development of energy prices (2004 = 100%).
Source: Internal research based on figures of Federal Statistical Office, Germany, and Eurostat.

Supplier prices are increasing as well

Due to increasing energy, transport, labor, and especially material costs, suppliers have increased their prices by up to 15 percent. This has a direct impact on the prices of high-voltage products and transformers.

Increasing wages and salaries are a cost factor

Finally, the worldwide development of wages and salaries is deeply noticeable as well: Since 2005, the global labor costs of the electric sector have increased by an average of approx. 5 percent p.a.

Efficiency increase and cost reduction measures pay off

Siemens always aims at minimizing the effects of cost increases for its customers. We are always acting in the interest of our customers, passing rising costs on restrictedly, as we can compensate them by efficiency increase and the associated cost reduction measures in most cases. However, the latest developments have assumed such proportions that the cost increases must partly be passed on to the market in most regions. Furthermore, the expiration of some forward transactions on the capital market – which we used to secure better raw-material prices in the last year – unfortunately makes it inevitable to increase our offer prices by 8 to 12 percent in view of the described situation.

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