

**Alstom battle to upstage Siemens chief's grand strategy launch**  
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When Joe Kaeser took the reins of German engineering giant Siemens last summer after a boardroom coup, he made clear his priority was closing a yawning profitability gap with rivals such as General Electric.

On Wednesday the 56-year-old Bavarian presents his grand strategy, but it is likely to be overshadowed by something that investors and even some Siemens executives fear could undermine his profit drive: a politically-charged battle with the American group for France's Alstom.

Kaeser is expected to unveil a major streamlining of the Munich-based company's structure involving thousands of job cuts plus a series of smaller acquisitions and disposals.

Siemens announced last week that it would make a formal offer for Alstom – most likely in the form of a swap of power and rail assets – after being encouraged by the French and German governments to step in. Hours later, Alstom's board chose to accept a US\$16.9 billion GE bid for the French firm's energy unit.

How Kaeser reacts – and the signals he sends about his true interest in Alstom – will be as closely watched as the strategic overhaul that he is to present at the firm's historic Siemensstadt complex in Berlin.

Siemens already tried to snap up the energy assets of Alstom – chiefly the manufacture of turbines for power stations and electricity transmission equipment – when the French firm required a state bailout a decade ago.

But Kaeser has yet to attempt a big deal since he replaced Peter Loescher as chief executive following a string of profit warnings. "It is his first major act, his first big acquisition," said Christoph Niesel, a fund manager at Union Investment. "If it goes wrong, he won't be able to blame his predecessor anymore. He will be responsible."

Siemens shares have risen nearly 17% since Kaeser's arrival. Earlier this year, they poked above 100 euros for the first time in six years, a sign of

confidence in the no-nonsense pragmatist and 34-year veteran of Siemens who had previously been finance chief.

### **Leaner, flatter**

Hoping to keep the momentum going, Kaeser is expected to unveil a leaner, flatter structure that will put an end to the firm's four big divisions – industry, energy, healthcare and infrastructure/cities.

In their place, according to German media, will come roughly 10 smaller divisions, including new ones focused on industrial software and digital production processes. The change could result in an additional 5,000 to 10,000 job cuts.

Kaeser, who changed his first name from Josef during a stint in the United States, may also confirm the purchase of Rolls-Royce's energy business for just under 1 billion euros, and the sale of a majority stake in Austrian unit VAI Metals Technologies to Japan's Mitsubishi Heavy Industries.

For its fiscal second quarter, Siemens is expected to post a 27% increase in pre-tax profit to 1.7 billion euros on Wednesday, with revenues flat at just over 18 billion.

But the focus will be on Alstom, a deal that would come with big risks for Siemens. Kaeser first approached Alstom CEO Patrick Kron about a deal in February when rumours surfaced that GE was interested in the French firm, but got the brush-off.

Less than a year after Kron became CEO in 2003, Siemens tried to thwart the state bailout of Alstom in the hope of snapping up some of its best assets. Some executives worry how the two bitter rivals could ever work harmoniously together.

There are also competition concerns, notably around the proposed transfer of Siemens' rail assets to Alstom in exchange for its energy business.

The French government has said this swap would create two European champions, one supplying the energy industry and the other making rail equipment including high-speed trains. But authorities in Brussels could thwart the creation of a rail group which commands two thirds of the European market.

Because of problems like these, some analysts suspect Kaeser may have thrown his hat into the ring merely to bid up the price for GE, and to avoid antagonising the French and German governments, both big clients.

Kaeser has already infuriated some in the Berlin government by meeting President Vladimir Putin at his residence near Moscow in the midst of the Ukraine crisis.

### **Major distraction**

German weekly Der Spiegel reported at the weekend that even members of the Siemens board had deep doubts about a deal with Alstom and were secretly hoping GE would emerge the winner.

"The world won't end for us if we don't get it," one board member was quoted as saying. "The future of Siemens does not depend on this."

On the contrary, some investors fear an Alstom deal would turn into a major distraction. They say Siemens concentrate on catching up with more profitable rivals such as GE and Philips, paring back its vast, complex portfolio and getting a grip on the costly delays that have plagued off-shore wind and high-speed train projects.

Tim Albrecht, a fund manager at DWS Investment, said he would prefer a low-risk strategy in which the company emphasises organic growth over big acquisitions such as Alstom.

"We had hoped the company would focus on its profitable businesses, sell off those with poor margins and use the proceeds to give something back to shareholders, either through a share buyback or dividend payout," he said. – Reuters, May 4, 2014

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