SIEMENS

Press

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Press Conference

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“Strong order growth highlights successful first quarter”

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Check against delivery.

[Joe Kaeser]

Ladies and gentlemen:

We're off to a strong start in the current fiscal year and confirm our outlook for the entire year. Particularly gratifying is the very strong order intake in Q1, resulting in a record-setting order backlog of €128 billion.

Above all, this means one thing: our customers trust us. And a look at the figures our competitors have released so far shows that we're gaining further market share.

This can be seen, in particular, at the Digital Factory Division. Our investments in digitalization here are beginning to pay off. We're recognized worldwide as the shaping force, thought leader and market leader in the field of industrial digitalization. That's not only how magazines and consulting companies but also, above all, how our customers see us.

But most of our other businesses have also performed well or even very well. In individual cases, when comparing versus the previous quarter, we need to keep in mind positive extraordinary items in the prior-year quarter as well as current adverse currency effects. Siemens is thus in very good, solid shape overall.

Even the Power and Gas Division turned in an outstanding performance in comparison to its competitors, despite the ongoing slump.

However, business developments are showing that our call for action, which has been outlined for a long time, is necessary and has become even more urgent.

Claims that our plants in Offenbach, Erfurt, Mülheim and Görlitz, Germany, are operating at full capacity and are even profitable are a myth or voices from the past. At any rate, they have nothing to do with today's reality.

The declining market for fossil power generation is not a temporary slump. Instead, it reveals the expected dramatic development that we'll only be able to address – and we must address – by taking strategic measures.

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[Ralf Thomas]

Siemens' economic strength was also evident in the first quarter. Overall, we've gotten off to a good start in many areas and even a very good start in some businesses.

- Orders rose nominally year-over-year by a very strong 14 percent to €22.5 billion. On a comparable basis – that is, adjusted for portfolio and currency translation effects – orders were up 7 percent.

- Revenue increased nominally by 3 percent to €19.8 billion and by 1 percent on a comparable basis.

- The book-to-bill ratio, which is the ratio between orders and revenue, was a striking 1.13.

- Net income rose by 12 percent to €2.2 billion.

- Five of the eight units in our Industrial Business were at or within their target margin ranges. Siemens Financial Services and the Digital Factory and Mobility Divisions were even above their target margin ranges. At the Power and Gas Division, we can see very clearly that ignoring the situation, staying away or waiting are not viable options. This also holds true to a somewhat lesser extent for the Process Industries and Drives Division.

In the first quarter, there was a very sharp difference between "nominal" and "comparable."

- As Joe indicated, portfolio and currency effects had a strong impact. Negative currency translation effects burdened orders by 5 percentage points and revenue by 4 percentage points: the euro's strength relative to many other currencies had corresponding effects.

- Portfolio transactions, on the other hand, added 12 percentage points to order growth and 6 percentage points to revenue growth.

- The profit margin for the Industrial Business was 11.0 percent.

- Substantial tax effects had a positive impact on income from continuing operations and net income. The tax rate was an extraordinarily low

6 percent.
The tax reform in the U.S. – the heart of which is a reduction of the corporate tax rate from 35 percent to 21 percent – had a strong impact here. On this basis, we've reevaluated the future-oriented tax positions on our balance sheet: the net positive effect in the first quarter was €437 million.

- The largely tax-free gain of €655 million on the sale of our shares in Osram Licht AG also had a positive impact.
- However, you should keep in mind that the IPO of Healthineers and also the carve-out of the Mobility Division are now impending and we expect tax burdens from these transactions.
- Taking these effects into account, we're now assuming a tax rate for fiscal 2018 at the lower end of our forecast range of 27 percent to 33 percent.
- Free cash flow rose by 22 percent to about €900 million.

Let's turn now to developments at our Divisions.

In each case, you can see the profit margin compared to the same quarter of the previous year – and also compared to the margin range.

The market environment for the Power and Gas Division remains persistently difficult. Markets are contracting. There are massive overcapacities. Competition is extremely tough. All this is evident in the key figures for the first quarter. The Division's profit declined by nearly half compared to the prior-year quarter. The profit margin was 7.6 percent.

Volume, too, reflects the structural challenges. In the first quarter, revenue fell by 15 percent on a comparable basis. Orders declined slightly on a comparable basis. During the first quarter, we booked orders from Libya for two gas-fired power plants.

Our service business is doing very well on the top line. We have an order backlog of €31 billion and expect that we'll continue to impress our customers with innovative digital services.

The rounded-off figure for the Energy Management Division was in the target margin range. The margin of 6.7 percent was at the prior-year level. This figure was adversely affected by strongly negative currency effects.

With a profit margin of 9.7 percent, the Building Technologies Division again remained well within its target margin range in the first quarter. This figure was burdened by cost overruns in the Middle East. Revenue grew by a gratifying 5 percent and was primarily driven by strong demand in China and the U.S.

Now to Mobility. The Division reported a further outstanding quarter with double-digit growth in revenue and orders. Two large orders from Israel and the U.S. were booked in the first quarter.

Solid project execution remains the mainstay of the Division's profitability. We're proud that the ICE 4 was able to begin successful passenger service as planned. This was an outstanding achievement on the part of the employees of Siemens and Deutsche Bahn.

The profit margin of 10.4 percent was above the Division's target margin range and well above the industry average.

Digital Factory, which also delivered an excellent operating performance in the first quarter, is continuing its success story. At 20.1 percent, the Division's profit margin exceeded its target margin range. More and more customers want to leverage the benefits of linking the real and virtual worlds of manufacturing. And Siemens is their preferred partner.

Overall, volume grew on a broad basis, especially in the short-cycle business, where the machine-building and automotive industries were particularly strong. During the first quarter, our "new arrival," Mentor Graphics, won a whole series of major software contracts. Our Digital Enterprise strategy is working out exactly as planned. We expect to significantly outpace the market in the future as well.

At the Process Industries and Drives Division, the picture is mixed. While weak demand for mechanical components continued to cause us problems, business with commodity-related industries showed further signs of stabilization.

Order growth of 10 percent is a first clear signal that volume is beginning to return. All regions contributed to this development – including, in particular, China and also

Germany. The Division's profit margin of 7.3 percent – achieved despite significant negative currency effects – also provides motivation to achieve even more in the future.

Siemens Healthineers got off to a good start this fiscal year, although volume was burdened by significant currency translation effects.

On a comparable basis, both revenue and orders rose by 2 percent. Revenue was driven primarily by the advanced therapies business and led, on a regional basis, by China.

The market launch of our Atellica laboratory diagnostics system is gaining steam: the first 100 systems were delivered as planned. Customer feedback has been excellent.

The Division's profitability remained at a high level, with a profit margin of 16.9 percent. Reasons for the decline included clearly negative currency translation effects as well as a less favorable business mix compared to the strong first quarter a year ago. My Managing Board colleague Michael Sen will discuss our healthcare business in greater detail in a moment.

Now to Siemens Gamesa Renewable Energy. In the first quarter, Siemens Gamesa booked major orders for an offshore wind farm in Denmark and for onshore wind farms in India, Egypt, the U.S. and Thailand. Profitability was burdened, however, by a smaller number of installation activities overall and a decline in prices in the onshore business.

On a final, gratifying note: Siemens Financial Services remains a strong pillar that supports our business worldwide with tailored financing solutions. With an excellent return on equity of 21.8 percent, SFS has again posted outstanding results in the first quarter of the new fiscal year.

[Janina Kugel]

Developments in the first quarter – especially the decline in the margin and the price erosion at Power and Gas – underscore the fact that we now really must take action at this Division.

We presented details on this situation last November. In addition to investments in innovation, our plans call, among other things, for cutting around 6,900 jobs worldwide over a period of several years.

These are painful cuts for all the colleagues affected. However, we want to soften the impact with solutions that are as socially responsible as possible. In the meantime, we've begun talks with the employee representatives.

As a result, we're now in the midst of an orderly process that gives us reason to hope that we can reach a good agreement. In concrete terms, two series of talks are currently underway:

- First, we're holding specialized exploratory talks with Siemens' Central Works Council and with the works councils of the locations affected. In these talks, we're discussing the present plans in an intensive dialogue.

- Second, we're holding so-called structural exploratory talks, in which we're speaking with the employee representatives about the structural change in general. In these talks, we want to develop concepts for shaping the transformation of this industry jointly and in a forward-looking manner.

We're pleased to say that both series of exploratory talks are currently being conducted in an objective and constructive manner.

Please understand that we don't wish to comment on individual items under discussion or on any interim results. Nor can we say, of course, what the outcome of these ongoing talks will be until they're completed.

It's in everyone's interest – and particularly in the interest of the colleagues affected – for the talks and negotiations to be conducted calmly and with the requisite care.

[Michael Sen]

I'll now very briefly present to you our thoughts on the preparations for the planned initial public offering of Siemens Healthineers and inform you about the status of these preparations.

We want to set up Siemens Healthineers as a vertical industry leader.

This means as a focused and globally successful industry specialist. We're convinced that Siemens Healthineers will play a key role in shaping the future of healthcare.

The logic behind our plans is intuitive and as follows:

First, Siemens Healthineers is active in an attractive market.

Megatrends and gigatrends are driving sustainable, long-term growth that is unaffected by business cycles.

At the same time, the healthcare market is undergoing rapid and profound change – the paradigm shift is real.

The industry is in the midst of a systemic transformation – the transformation from volume-based to outcome-based approaches.

The patient is taking center stage. We're talking about precision medicine – tailored treatments and therapies.

Technological advances such as digitalization, data analytics and the use of artificial intelligence are driving this disruption forward.

Second, Siemens Healthineers has outstanding starting and competitive positions in this market. With our products and services, we're positioned at the center of clinical decision-making.

These decisions influence the quality and efficiency of healthcare.

In view of our strengths, we're predestined to be a logical player when it comes to shaping the healthcare systems of the future.

Third, the IPO will give Siemens Healthineers the entrepreneurial flexibility that it needs to reach its full potential. Our “Healthineers Strategy 2025” clearly defines the business’s future strategic focuses.

We’re enthusiastic about this business, and Siemens will be an active and long-term shareholder in Siemens Healthineers.

Thus, the strategic approach is clear. Please allow me to also say a few words about the framework conditions:

- Regarding the ownership structure: Siemens will publicly list an appropriate minority interest in Siemens Healthineers in order to create a liquid market. Siemens Healthineers will remain fully consolidated at Siemens.

- Regarding the dividend policy: Siemens Healthineers plans a dividend payout of 50 percent to 60 percent based on net income – in keeping with its growth and profit profile.

- Regarding branding: Siemens Healthineers will continue to use the strength of the Siemens brand because it stands worldwide for integrity, a passion for innovation, and trust.

Depending on market conditions, plans call for the Siemens Healthineers listing to take place during the first half of calendar year 2018. Our preparations are on schedule.

[Joe Kaeser]

We had a good start into the new business year and the first quarter underscores our company’s strength, especially in shaping the industrial digitalization space. That’s why we’re confirming our outlook for the current fiscal year. We’re keenly aware of our opportunities and know what we have to do.

But we also see the challenges stemming from the structural change in our businesses for everyone involved. Here, we are only getting started and as social partners need to jointly learn how to deal with this in a diligent manner.

Our Vision 2020 strategy program has been largely completed or its implementation is well on its way – successfully and faster than planned.

One of the trailblazers for this new Siemens has his last day on the job today. The Annual Shareholders' Meeting begins in a little more than two hours. Today is the final day of Dr. Cromme's term of office as Chairman of the Supervisory Board.

I will explore this in more detail in my speech at the annual shareholders meeting.

However, at this moment, I would like to thank Mr. Cromme for the close, eventful and trust-based collaboration, on behalf of the entire Managing Board and also to express my very personal gratitude.

Mr. Cromme is without question one of the outstanding figures in the German business community! He has served Siemens admirably.

I'd like to extend my heartfelt best wishes to him for his time after Siemens. His new roles sound very exciting – although they certainly don't sound much like retirement yet.