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Business development in second quarter

Robust performance in complicated times

- Revenue stable, orders below prior-year level
- Order backlog at €9 billion, further €1 billion at Siemens Energy
- Outlook relativized due to COVID-19
- Timeline for spin-off of energy business confirmed
- Share buyback on hold due to spin-off
- Spin-off of Flender planned

Despite the clear impact of the COVID-19 pandemic, Siemens AG performed solidly in the second quarter of fiscal 2020. Revenue remained nearly unchanged, while net income declined to €697 million compared to the strong prior-year quarter. Orders were down primarily due to a lower volume from major orders at Siemens Mobility year-over-year. In view of the current situation, Siemens will no longer confirm its original guidance for fiscal 2020. Nonetheless, the company sees itself well positioned both operationally and strategically for the coming quarters. Implementation of Siemens' Vision 2020+ strategy is right on track, and the company is making faster progress than expected in achieving its cost targets.

“We delivered a robust quarter given the serious circumstances,” said Joe Kaeser, President and CEO of Siemens AG. “I am particularly impressed with my team that we are able to keep the original timeline for the spin-off of our energy business. While we expect to reach the bottom in the third quarter of fiscal 2020, we continue to keep the health and safety of our partners and employees as our first priority, while maintaining business continuity as much as responsibly possible.”

Spin-off of energy business on track – Outlook relativized

Siemens expects the pandemic to have even stronger impacts on business development in the third quarter. For the period beyond the third quarter, reliable

estimates are not yet possible. For this reason, Siemens will no longer confirm its original guidance. Instead, the company expects a moderate decline in comparable revenue in fiscal 2020, with the book-to-bill ratio remaining above 1. The decline in demand is expected to have the strongest impact on the business activities of Digital Industries and Smart Infrastructure. Siemens is adhering to its plan to spin off and publicly list Siemens Energy before the end of fiscal 2020. The company expects to record a spin-off gain, the amount of which cannot yet be reliably forecast. Siemens also assumes that there will be material impacts on net income from spin-off costs and tax expenses related to the carve-out and creation of the subgroup Siemens Energy. Therefore, Siemens is currently refraining from giving guidance for basic earnings per share (from net income) for fiscal 2020.

However, the company is financially, in particular, very well prepared for the challenges that COVID-19 will be posing in the coming months. "The company has a strong rating and a very solid liquidity position," said Ralf P. Thomas, Chief Financial Officer of Siemens AG. "If needed, we have direct access to more than €11.4 billion in net liquidity. In addition, we have a very resilient and diversified business portfolio with a growing share from service and software."

Share buyback program on hold due to spin-off

In the second quarter, Siemens continued to rigorously drive the public listing of Siemens Energy. Formation of the subgroup was successfully completed on April 1, 2020. The spin-off will be presented to shareholders for a vote at the Extraordinary Shareholders' Meeting on July 9, 2020. On September 1, 2020, the new company is then to be presented to analysts and investors at a Capital Market Day. Due to the ongoing spin-off process, the share buyback program of Siemens AG, which is planned for the period until November 2021, will be suspended for technical reasons. Plans currently call for this program, which has a volume of up to €3 billion, to be resumed once the spin-off is complete.

Ample order backlog despite coronavirus crisis

Due to the planned spin-off, Siemens will report the activities of Gas and Power, together with Siemens Gamesa Renewable Energy (SGRE), in its quarterly

reporting as discontinued operations, beginning with the second quarter of fiscal 2020. In the second quarter, Siemens was noticeably impacted by the coronavirus pandemic in the areas of volume, profit and cash. Orders declined 9% on a comparable basis to €15.1 billion. Revenue was flat at €14.2 billion. With a backlog of €69 billion, Siemens continues to have a very ample order cushion. In addition, Siemens Energy has an order backlog of €81 billion. At €1.6 billion, the adjusted EBITA for Siemens' Industrial Business was only 18% lower year-over-year despite the challenging market environment. This figure refers to the core of the future Siemens AG and includes the units Digital Industries, Smart Infrastructure, Siemens Mobility and Siemens Healthineers. However, discontinued operations posted a loss of €317 million (Q2 2019: profit of €205 million). This figure reflects, among other things, sharply lower adjusted EBITA in the energy business, including a loss at SGRE. It also includes a substantial increase in tax expenses, mainly related to the carve-out of Gas and Power. As a result, net income dropped 64% to €697 million. In this connection, it should be noted that the prior-year quarter benefited from a sharply lower income tax rate from continuing operations following the reversal of income tax provisions outside Germany.

Siemens Mobility is largely defying the corona crisis

"The implementation of our Vision 2020+ strategy is right on track," said Roland Busch, Deputy CEO of Siemens AG. "Digital Industries and Smart Infrastructure still aim to achieve cost savings of €320 million and €300 million, respectively, by 2023, in addition to increasing their basic productivity. Moreover, both units are making progress faster than planned. All in all, they're already set to exceed their interim targets for the coming year by €165 million."

Siemens Mobility, an integral part of Siemens AG, was largely able to steer clear of the effects of the coronavirus crisis in Q2. As of the end of March, the unit's order backlog stood at €32 billion. Despite pandemic-related restrictions limiting access to customer locations, Siemens Mobility continued to successfully execute its projects and increased its revenue by 6% on a comparable basis. At 9.3% in Q2 (Q2 2019: 10.8%), its adjusted EBITA margin was again within its target range. Siemens

Mobility has achieved compound annual revenue growth of 4% over the past five years.

Spin-off of Flender planned

Siemens is also making solid progress in reorganizing the units within its Portfolio Companies (POC). This applies particularly to Flender, the world's leading manufacturer of mechanical drive systems. Flender's products are used in wind turbines and many other industrial sectors.

Siemens is therefore taking the next step and planning to integrate the POC unit Wind Energy Generation into Flender. This transaction will complete the company's electrical and mechanical portfolio, making it an important tier-1 supplier to the wind power industry. The combined company will be a technology leader with a global presence, a competitive cost base and an attractive service business. Flender's pro forma annual revenue will amount to roughly €2 billion. In a second step, Siemens intends to publicly list the company via a spin-off. Siemens' shareholders will vote on the related proposal at the next ordinary Annual Shareholders' Meeting in February 2021.

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