SIEMENS

Press

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Conference call

Third quarter, fiscal 2016

“Strong execution drives growth and profitability – earnings outlook raised”

Joe Kaeser
President and CEO of Siemens AG

Check against delivery.

Ladies and gentlemen,

Welcome to our press call for the third quarter of 2016.

It’s vacation time, and some of you may be on vacation already. That’s why I’d like to thank you very much for dialing in. Today, I can offer you some good news – something that doesn’t happen very often in our industry nowadays. But more on that in a moment.

As a company that operates in more than 200 countries worldwide, we, too, must keep an eye on crises and conflicts to be able to assess risks and respond to situations. Some are now saying that disorder is the new world order.

And unfortunately, this “disorder” is increasing in terms of the frequency with which it occurs and the gravity and scope of its consequences.

The citizens of the UK have voted for Brexit. This poses new and unexpected challenges for the European Union and the United Kingdom – but also for companies. With 14,000 employees and, soon, 14 production facilities in the country, we’re a major industrial employer in the UK.

For us, it’s important that Brexit does not create barriers that impede trade or exchange. One way or another, clarity must be achieved quickly so that we can make decisions and verify them.

Turkey is an important market for Siemens as well. We’ve been active there for 160 years. In light of the current developments, we can no longer reliably assess how the country will develop in the long term.

We hope that Europe and Turkey will again meet as partners and that all parties involved will work toward basing this partnership, which is so important in many respects, on democratic principles.

Acts of violence like those in Istanbul, Paris, Brussels, Nice, Würzburg, Ansbach, and here in Munich – to mention just a few – are cowardly attacks on innocent people and an attack on a free and open society. We extend our deepest sympathy to the victims’ families and friends.

However, we cannot allow ourselves to be intimidated. Otherwise, the perpetrators will have achieved their goals.

Particularly in these difficult times, leaders in politics, science, religion and business – and, I think, in the media as well – must act responsibly, provide orientation, and so fulfill their roles in society. If we want to preserve a free, tolerant, and open society, then all of us must do our part.

Responsible action is also required to maintain the competitiveness and thus the sustainability of Siemens.

That’s why we’re investing intensively in innovation – and in new approaches to innovation, such as our startup company next47.

However, to ensure our competitiveness, we will also have to make capacity adjustments in businesses that are impacted by structural and often grave market changes.

At the last Annual Shareholders’ Meeting, I announced that there was an urgent need for action at Process Industries and Drives. And the Division’s current quarterly figures have made this clear once again. Process Industries and Drives is the only Division that is not achieving the profitability targets derived from the comparison with competitors.

All of our other Divisions and the Healthineers are within their target margin ranges despite difficult business conditions in some cases. Wind Power and Renewables is even slightly above its range.

Waiting is not an option. We will resolutely make the necessary changes at Process Industries and Drives, and we will do that in a responsible and fair way.

Overall, we are strengthening Germany as a business location by continuing to invest here. In Cuxhaven, we’re building a new wind turbine factory that will create up to 1,000 jobs. A new Siemens campus is under construction in Erlangen. And in Munich, we’ve just opened our new corporate headquarters.

Two-thirds of our outlays for research and development – that is, of our investments in the future – go to Germany.

Siemens is also creating many new jobs. In the first nine months of the current fiscal year, we hired about 3,300 people in Germany. Worldwide, the figure was 25,300. And, I can assure you that Siemens will continue to hire people in large numbers.

The third quarter again shows that we're rigorously and successfully executing on our Vision 2020 concept: we're strengthening our portfolio, improving our profitability – through reliable project management, among other things – and generating growth through regained customer proximity.

The merger of Siemens' Wind Power and Renewables Division (WP) and Gamesa is a good example of prudent portfolio policy: on a cost-optimized basis, we're creating a world leader in the renewable energy market – a market that is important to us.

On several occasions, we've informed you about the goals and the purpose of our startup company next47, which we set up under the working title Innovation AG.

Here, we're taking a new approach to innovation management – one that is unique both in Germany and in our industry.

We're investing about €1 billion over a five-year period. Next47 will focus initially on five innovation fields: distributed electrification, artificial intelligence, networked e-mobility, blockchain applications, and autonomous machines including robotics.

In the third quarter, our operational performance once again enabled us to achieve convincing results, particularly compared to the market. I'm really proud of my global team, which delivered excellent performance, especially with regard to growth, in an increasingly difficult market environment.

Especially with large orders at the Power and Gas Division and the Wind Power and Renewables Division, customers all over the world – this time, particularly in Europe and the Americas – are placing their trust in our reestablished reliability.

For example, Siemens booked a billion-euro order for an offshore wind farm in Scotland: for the Beatrice project, we're delivering 84 wind turbines, each with a capacity of seven megawatts. The offshore wind farm will supply clean energy for some 400,000 households.

Siemens will also provide wind turbine services for 15 years.

Digitalization is becoming increasingly important in the service business. Through remote maintenance, we're improving the availability and performance of more than 10,000 wind turbines worldwide. Already today, we process 85 percent of all fault reports remotely, without having to inspect turbines on site.

In the U.S., we've booked an equally gratifying major order worth €700 million.

As a technology partner for the Lordstown project in Ohio, Siemens will be supplying a power plant with two H-class gas turbines on a turnkey basis. Here, too, we've signed a long-term service agreement – including remote maintenance and diagnostic software.

Siemens' solid performance in the third quarter can be told quickly:

- Our order backlog has now grown to a record €116 billion.
- Excluding currency translation effects, orders rose ten percent to €21.1 billion.
- Revenue – excluding currency translation effects – increased nine percent to €19.8 billion.
- Our book-to-bill ratio – that is, the ratio of orders to revenue – was 1.06.
- The profit margin in our Industrial Business climbed 130 basis points to 10.8 percent.
- Net income totaled €1.4 billion.
- The Energy Management Division and the Wind Power and Renewables Division have quickly implemented substantial restructuring programs.
- Eight of the nine Divisions are within the target margin ranges.

Power and Gas (PG) is leveraging its opportunities in a challenging market. The team is working hard and making good progress.

The Division's very strong revenue growth of 22 percent – adjusted for currency translation and portfolio effects – resulted from accelerated order execution, not least in the Egypt project.

Nevertheless, PG's market remains difficult and fiercely contested due to ongoing overcapacities. Competitors are reacting to losses of market share with aggressive pricing.

In addition to the Beatrice project in Scotland, the Wind Power and Renewables Division was able to win another major order: for the Arkona wind farm in the Baltic Sea off the coast of Germany. Together, these two projects account for an order intake of nearly €2 billion.

In the third quarter, the Division generated revenue of €1.7 billion – its highest quarterly revenue of all time!

The margin in the third quarter was extraordinarily high for the second time in a row since the WP team is making good progress in cutting production and installation costs. And with Gamesa, we'll be able to leverage economies of scale for the benefit of customers even better than before.

Energy Management is currently driving an impressive innovation project in China. We're participating in the construction of the world's largest high-voltage direct-current (HVDC) transmission link there.

The 1,100-kilovolt converter transformers that Siemens is supplying for the project are a world premiere.

The planned link in China is nearly 3,300 kilometers long – the distance from Munich to the North Cape. The link will have a transmission capacity of 12 gigawatts, roughly the amount of electricity generated by 12 large power plants.

Energy Management has continuously improved its profitability over the last few quarters and is now back within its target margin range, and we expect this to apply to the full year. The management team is successfully implementing exactly what it set out to do two years ago.

Building Technologies is also a success story. The Division increased orders across all regions and businesses and – thanks to a really impressive team performance – further improved its profit year-over-year.

The Digital Factory Division is coping well with a cyclically very weak market environment and has further expanded its market share. We're benefiting from our strong position in industrial digitalization – primarily in the area of product lifecycle management (PLM) software. At 15.7 percent, Digital Factory's margin – which was impacted by the integration costs for CD-adapco – was generally at the level we expected.

Let's turn now to the Process Industries and Drives Division, the only Division that didn't reach its profit target in the third quarter. This Division is being impacted by cyclically weak demand from commodity-related industries as well as major structural distortions in regional resource distribution and enormous overcapacities.

As we announced at the beginning of the year, this constellation requires material and structural corrective measures. For this reason, we booked restructuring charges of around €40 million already in the third quarter. The lion's share of the charges will likely be incurred in the fourth quarter.

Our Mobility team also delivered a gratifying margin at the upper end of its target range. Here too, our vertical integration strategy has been crowned by success.

However, state-owned enterprises primarily in China – but also state-affiliated European suppliers – are exerting considerable competitive pressure in the train business with very aggressive pricing and financing offers.

And now, finally, healthcare technology – that is, the Healthineers. They've delivered another quarter on a high level, even if the results weren't as overwhelming as in previous quarters. Top-line growth and solid profit came primarily from the diagnostic imaging business.

Our healthcare business is now expanding its position as an innovation driver in the area of laboratory diagnostics as well.

Just two days ago, the Healthineers unveiled the Atellica Solution, their new analytic system for laboratory diagnostics. The solution is more efficient and faster than the current alternatives. For instance, it enables samples to be transported on a magnetic track ten times faster than on conventional conveyers.

Ladies and gentlemen,

The results of the last quarters show that we keep our promises. We do what we set out to do. We are fully meeting the targets of Vision 2020 – despite the headwinds in the market and a number of challenges inside our company. The years of declining growth are over. And, as the comparison with our competitors shows, we're currently a clear growth leader. However, we still have a lot to do to prepare our company for the future – in terms of both profitability and flexibility.

Nevertheless, because our global team continues to deliver solid performance even in an increasingly difficult business environment, we can raise our profit forecast for 2016 for the second time this fiscal year.

Instead of earnings per share (EPS) in the range of €6.00 to €6.40, as we previously expected, we're now assuming EPS in the range of €6.50 to €6.70. All other parameters remain unchanged. Thank you very much! Mr. Thomas and I are looking forward to your questions.