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SPEECH PRESS CALL Q3/2019

SIEMENS CONTINUES TO GROW DESPITE SIGNIFICANT HEADWINDS IN KEY MARKETS

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Check against delivery.

[Roland Busch]

Good morning, ladies and gentlemen, and thank you very much for dialing in even though it's vacation time. Today, Ralf Thomas and I would like to give you an overview of the third quarter and of other topics that Siemens is currently focusing on.

After a successful first half of the fiscal year, Siemens continued to generate growth in orders and revenue despite a geopolitical environment increasingly marked by uncertainties.

The volume growth we achieved in the third quarter shows one thing above all: our customers trust us even in challenging times.

Iran, the trade conflict between the U.S. and China, and the impending no-deal scenario for Brexit – you're familiar with the issues. In the meantime, these geopolitical and geo-economic developments are also impacting core markets such as the automotive and machine-building industries as well as various Regions, above all, Europe and China.

Although we held our ground well, these factors hampered our business's development in the third quarter, sometimes to a considerable extent – particularly in our short-cycle businesses. Ralf will be discussing this point in greater detail later.

On April 1, we gave Siemens a new setup, and we're rigorously executing our Vision 2020+ program step by step.

A sharper focus and greater entrepreneurial freedom are intended to make each of our individual businesses stronger in terms of content and more agile with regard to structure – and thus more innovative and more successful.

Since launching our new organization, we've won important contracts in many businesses. I'd like to point out a few highlights here:

- **Siemens Gamesa** has acquired not one but two impressive major orders in the offshore business in **Taiwan**. Both include a long-term service contract. The orders have a combined volume of <u>€2.3 billion</u>. SGRE is thus strengthening its position as a wind-power supplier in the important Asian market.
- Another success in our energy business is the contract awarded to **Gas and Power** for the <u>840-megawatt</u> Maisan combined cycle power plant in Iraq, including a long-term service contract. The plant is a key milestone in the country's reconstruction. We're currently involved in <u>15 projects</u> in Iraq and are prepared – within the framework of the **Energy Roadmap for Iraq** – to make an even larger contribution to ensuring a reliable power supply for millions of people in the country.

- **Siemens Mobility** has also won large-scale new orders. I'd particularly like to mention a contract from Russia: **Russian Railways** (RZD) has ordered 13 Velaro RUS high-speed trains. The order is worth around €1.2 billion.

  The contract also includes maintenance of the trains for 30 years and is a great token of the trust that Russian Railways places in us.

- We're also expanding the role that we play in local public transportation. **Munich City Utilities (SWM)** has placed an order for 73 Avenio trams with a total value of more than €200 million.

  Plans call for the first trams to be delivered in 2021. Back in 2012, Munich was the first customer to order the Avenio model, and we're proud that we're still SWM's first choice.

- At **Digital Industries**, we expanded an important partnership: our **strategic alliance in additive manufacturing with the U.S. technology company HP.**

  HP's industrial 3D-printing system has been fully integrated into Siemens' Digital Enterprise offerings – that is, into the automation and software solutions for our Digital Factory. As a result, our customers can use 3D-printing for series production in industrial manufacturing. A customer like Volkswagen, for example, expects that innovation cycles will be accelerated, new products will be launched more quickly, and production efficiency and sustainability will be improved.

- Innovation and the future of the energy sector are also the focus of the memorandum of understanding for our **Görlitz location**, which was signed in mid-July by Siemens, the German state of Saxony and Fraunhofer-Gesellschaft. This **Future Pact** calls for establishing an innovation campus for hydrogen technologies on the premises of our Görlitz facility.

  By attracting technology companies and research institutes, we want to help successfully shape the structural transformation of this region, which is being particularly hard hit by the phase-out of coal.

Germany intends to reduce its greenhouse gas emissions by at least 55 percent by 2030 and to be nearly climate neutral by 2050.

The planned phase-out of coal by 2038 is one step toward achieving these goals. But there's more to do: The country's long-term climate target can only be reached by using synthetic energy sources or so-called **power-to-X technologies**.

Power-to-X technologies make it possible to store or use power in another way when there's an oversupply of renewable energies. The more precise term would thus be **green power-to-X**.

For this reason, we're also focusing research at Siemens on these conversion and storage technologies – two areas that we consider very promising in terms of future business. Since these topics are so important – not only for Siemens, but also for the global economy – I'd like to discuss them in greater detail today.

McKinsey and the Hydrogen Council estimate that the investment possibilities for "green" hydrogen will rise to as much as US$475 billion by 2030.

On the slide, we've provided a schematic diagram that shows what a hydrogen economy of this kind could look like – from the supply and conversion of energy to its application.

Hydrogen creates new possibilities for utilizing green power by enabling the long-term storage of large amounts of energy when local supply exceeds local demand.

As a result, it's possible to link green power generation to industry and the mobility sector, an approach called sector coupling.

Electrolysis is used to convert the electricity generated from renewable energy sources into hydrogen.

As you see here, hydrogen can be directly used for industry, mobility or energy.

We're very pleased that the German government intends to present a national hydrogen strategy by the end of this year. As the next step, we should also make progress at the European level. We should seize this opportunity. If we don't, others will. Battery cell production, for example, shows how expensive it is to catch up once Asia and the U.S. have taken the lead in technology and cost.

Germany absolutely must maintain – and ideally extend – the lead that it still has in power-to-X technology.

And we're doing precisely these things at Siemens.

Our hydrogen testing center at **Görlitz** will also make a key contribution to research for other projects – like the one now being set up in **Leuna**, a city in the German state of Saxony-Anhalt.

Leuna will soon be the site of the world's largest electrolysis facility for the production of "green" hydrogen. The facility will have a capacity of up to 100 megawatts and enable us to reduce emissions by up to 90 percent compared to so-called steam reforming, a common method for obtaining hydrogen from carbon-based energy sources like natural gas.

In Leuna, Siemens will be teaming up with Linde and the Fraunhofer Institute for Microstructure of Materials and Systems (IMWS) to implement electrolysis technology on a large, industrial scale for the first time.

And that's exactly our aim now: to achieve the scalability and cost efficiency required for successful industrial utilization on a scale that will enable successful energy transitions worldwide.

The Leuna project is further proof that Siemens' innovative strength can make tangible contributions to improving our quality of life and the industrial exploitation of new technologies.

And with that, I'll turn the floor over to our CFO Ralf Thomas.

[Ralf P. Thomas]

Thank you very much, and good morning, ladies and gentlemen.

As you've heard from Roland Busch, our COO and Chief Technology Officer, innovation continues to play a prominent role in all Siemens businesses. The further strengthening of our power of innovation also continues to be the basis for our future success.

Let's take a look now at the key financial figures for the third quarter:

- **Orders** increased on a comparable basis – that is, adjusted for portfolio and currency translation effects – by six percent year-over-year, considerably exceeding market expectations. Growth was highest at Siemens Gamesa due, among other things, to the major orders in Taiwan that Roland has already mentioned.

  As a result, our **order backlog** totaled €144 billion, a new record and – what's even more important – it's also qualitatively very healthy.
- **Revenue** rose slightly by two percent on a comparable basis, with Siemens Gamesa and Healthineers posting the strongest growth. Revenue declined, on the other hand, at Digital Industries and Gas and Power.

- The **book-to-bill ratio** – that is, the ratio of orders to revenue – was a strong 1.15. Excluding severance charges of 0.3 percent, the **profit margin of our Industrial Businesses** was 9.9 percent.

  At nearly €560 million, **Digital Industries** made the largest contribution to profit. However, the unfavorable market environment – which you're all familiar with and which many other companies have also reported on – led to sometimes considerable margin declines at a number of our businesses.

  Of our six Industrial Businesses, only one, Siemens Mobility, achieved a profit margin within its newly defined, ambitious target margin range.

- However, **basic earnings per share** remained strong at €1.37, excluding severance charges. **Net income** totaled €1.1 billion.

- The **cash conversion rate** – that is, the ratio of profit to cash – totaled 51 percent.

  Free cash flow from the Industrial Businesses totaled €1 billion.

  In Q3, free cash flow was burdened, among other things, by Deutsche Bahn's (German Railway's) temporary refusal to accept ICE 4 trains.

  Deutsche Bahn has since resumed acceptance, and six trains have been accepted to date.

  And our strong Mobility team will likely recover all the lost ground in the current quarter.

  By the way, the repairs are being made within the scope of Bombardier's warranty and thus won't negatively impact Siemens' profitability.

In line with our new organizational setup, we're now reporting the key financial figures for our **Operating Companies** and our **Strategic Company** Siemens **Mobility**. You're already familiar, of course, with the figures for **Siemens Gamesa** and **Siemens Healthineers.**

As usual, you'll find a detailed overview – also of the results for **Financial Services** and our **Portfolio Companies** – in our comprehensive Earnings Release.

Let's start with the results for **Digital Industries** (DI), where the third quarter was very challenging – above all, for DI's short-cycle businesses.

Currently, customers in the machine building and automotive industries, in particular, are increasingly holding back on larger investments. This development was reflected in a significant decline in orders and revenue in DI's industrial automation business.

All these factors resulted in a moderate decline in **orders** at DI. This decline was not fully offset by an increase in DI's software and process automation businesses.

The **downturn in revenue** also had a corresponding impact on profit. The **profit margin** at DI fell to 14.3 percent.

This figure also includes investments in new cloud-based solutions in the software business, which continues to grow, as well as the focused R&D outlays we're making in order to continue positioning ourselves in key growth fields.

Profitability was also held back by about one percent due to the revaluation of our stake in Bentley Systems.

To make the market development even clearer, I'd like to provide you with an in-depth view of DI's key customer segments.

DI generates about 65 percent of its business in five sectors – the automotive industry, machine building, pharmaceuticals and chemicals, food and beverages, and electronics and semiconductors.

From today's perspective, we anticipate the following developments in these market segments:

- We're expecting the cyclical downturn in the automotive and machine building industries to continue for the next three to four quarters.
- We're assuming steady, moderate growth in the food and beverage industry.
- We're anticipating a moderate downturn in the later-cycle process industries, such as the chemicals industry.
- The electronics and semiconductors market is, of course, very closely linked to the software offerings of our Mentor business. In this area, we continue to foresee solid growth opportunities.

As the Regional overview on the right side of the chart shows, the decline in our automation business (excluding software) in Q3 was broad-based.

Of course, we're taking countermeasures to secure our business's profitability to the greatest extent possible. These measures include monitoring market developments very closely, making appropriate adjustments to our investment plans where necessary and controlling costs very stringently.

In addition, we're rigorously implementing the cost optimization program that we presented at our Capital Market Day.

In this connection, we're engaged in intensive talks with Siemens' employee representatives.

Our aim, as you know, is to cut costs by €320 million by 2023 – in addition to increasing basic productivity every year by three percent to five percent of total costs.

Ladies and gentlemen, the market environment is currently very challenging. Our goal, however, is unchanged: to remain the world market leader in industrial digitalization and, ideally, to further increase our lead over our competitors and extend the success of our Digital Factory to the process industry.

Let's take a look now at our **Smart Infrastructure Operating Company** (SI). Smart Infrastructure reported an increase in orders and revenue.

Order growth was driven by major orders in the solutions and service business and in the systems and software business.

Revenue rose in all three businesses – that is, across the solutions and service business, the systems and software business, and the product business.

Growth in SI's product business was generated primarily by low-voltage products – despite being burdened somewhat by a decline in the industrial area. On a geographic basis, growth was generated in all Regions – particularly, the Americas.

Profitability was hampered by the announced ongoing investments in smart building solutions and a somewhat unfavorable business mix.

The team is working intensively on measures to implement Vision 2020+ in order to advance SI's product and systems businesses, improve its business mix and make its overall setup even more agile.

Let's take a look now at **Gas and Power** (GP). The aim of GP's new setup is to improve our competitiveness in the energy business.

The market environment continues to be characterized by structural change and the resulting price and competitive pressures.

Our successes in Iraq, the agreement to implement an energy roadmap in Nigeria and our participation in the Viking Link Project to construct an undersea cable between the UK and Denmark – the world's longest cable of its type – are proof that GP can hold its own in this environment.

Orders declined compared to the prior-year quarter, when we booked two particularly large projects, in Israel and the UK, with a total value of €800 million.

Revenue declined moderately – primarily in GP's new unit business – as a result of weak orders in the previous periods.

The service business continued to make a solid contribution to profitability, which – on the other hand – continued to be burdened by price declines and low capacity utilization in GP's new unit business.

As we reported at the time, there was also an extraordinary contribution to profit of €80 million in Q3 2018 from a divestment gain.

At GP, too, we're implementing the competitiveness- and productivity-boosting measures with which you're already familiar.

These measures include, among other things, appropriate adjustments to capacities and to GP's Regional setup.

Our teams are working with high motivation and great commitment to realign GP and prepare its spinoff, for which we have an ambitious time plan that we're rigorously implementing.

Let's take a look now at the performance of **Siemens Mobility**, which has once again been very gratifying.

Orders increased an impressive 18 percent on a comparable basis, driven above all by major orders. Roland has already mentioned Mobility's two largest projects in Q3.

Revenue remained roughly stable compared to the prior-year quarter – despite negative effects due to the time lag in the execution of major train orders.

At 10.4 percent, Mobility's profit margin was once again strong and solidly within its target range.

Consequently, Mobility has now achieved profitability levels very close to, within or even above its target margin range 23 times in a row.

As far as I'm concerned, that's a trend that can continue…

I'd like to particularly emphasize the substantial contribution that the service business made to Siemens Mobility's profitability in Q3.

So, as you can see, Mobility is still in the success lane!

Now, ladies and gentlemen, for the outlook:
The favorable market environment for our short-cycle businesses, which was a material basis for our outlook, has significantly deteriorated in the second half of the fiscal year.

- Nevertheless, we confirm our financial expectations for fiscal 2019, even though it becomes more challenging to achieve our expectation of **moderate growth in revenue, net of currency translation and portfolio effects**.
- We continue to anticipate that orders will exceed revenue for a **book-to-bill ratio** above 1.
- We expect that **Adjusted EBITA margin** for our Industrial Businesses will reach the lower half of the range of 11.0 percent to 12.0 percent excluding severance charges.
- Finally, we confirm our expectation of **basic EPS** from net income in the range of €6.30 to €7.00 excluding severance charges.