SIEMENS

Press

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Annual Press Conference Fiscal Year 2014
Fiscal Year Guidance Achieved –
Execution of "Vision 2020" Begun

Joe Kaeser
President and CEO of Siemens AG

Ralf P. Thomas
CFO of Siemens AG

Lisa Davis
Managing Board Member of Siemens AG

Check against delivery.

Joe Kaeser:

Today, we look back on a year of transformation for our company – and a year of upheaval for the global economy and global politics. And we also look ahead to the new fiscal year and the "New Siemens."

The world in 2014 is facing crises in some 40 different hot spots, more than we've seen in decades. Media headlines are dominated by Syria, Iraq, Ukraine, and Ebola. Our geographic location here in Europe makes us particularly susceptible to the resulting uncertainties. This situation has been accompanied by heterogeneous economic developments. Among the major economic areas, only North America has shown dynamic growth. Economic growth in Asia this year was stable, while in Europe it was disappointing. Economic stimuli are still lacking here.

So global conditions in our industry were not easy in the past fiscal year. In addition, Siemens had to deal with setbacks of its own making – above all the high one-time charges from legacy projects. Such charges are not in keeping with what Siemens stands for – we can do better! We're working hard to improve our risk management and we assume that we'll see improvements here in the coming year.

Fiscal year 2014 guidance achieved

Despite everything, Siemens as a whole has delivered reliable results. In the past fiscal year, orders from continuing operations, on a comparable basis, rose one percent year-over-year to €78.4 billion. The company had an order backlog of €100 billion as of September 30, 2014. Revenue also rose one percent year-over-year, on a comparable basis, to €71.9 billion. The book-to-bill ratio, that is the relationship between orders and revenue, was a solid 1.09. Net income rose to €5.5 billion. Basic earnings per share grew 25 percent to €6.37.

This means: We delivered the results we originally promised for fiscal 2014, exceeded our goal for earnings performance, and made substantial progress in strengthening our portfolio. Vision 2020 gives us clear strategic direction going forward.

One Siemens Cockpit

When we look at the One Siemens Cockpit, we can be generally satisfied with what we see. With our revenue growth in fiscal 2014, however, we clearly trailed behind our competitors. And this can only partly be explained by the fact that our competitors were more active in M&A and there were substantial currency effects. We are lagging behind in growth and we must improve here. With Vision 2020, however, we'll catch up to our competitors again.

Regarding our margins: The Industry and Infrastructure and Cities Sectors lie within their target margin ranges, and Healthcare even lies a bit above its margin range. The Energy Sector, however, has a significant amount of catching up to do. Lisa will talk later about these challenges, but also about the big opportunities for our energy business.

In the area of capital efficiency (ROCE), we've improved significantly compared to the previous year and, at 17.2 percent, we've reached the target range. The capital structure still lies below the target range. But this will change with our ongoing share buyback program and the announced acquisitions.

Vision 2020 as a growth agenda

In the past fiscal year, we set the course for the future of our company. Many of you were here in the Mosaic Hall on May 7 when we presented the Vision 2020 concept for our company. Vision 2020 also defines a long-term growth agenda for Siemens. We're positioning our company in attractive growth fields.

While we took all the time we needed to design Vision 2020, we've implemented it in record time. Not many companies of our size could have done that. We've been working in our reorganized form as planned since October 1. Clusters and Sectors now belong to the past and we've reduced the number of Divisions from 16 to 9. We have streamlined our company governance through efficient support functions. We have substantially strengthened our business in the Regions. And we've also strengthened our portfolio with the help of targeted activities. I'll return to this point later.

We're focused, prudent, and responsible in making strategic decisions. The same holds true when it comes to possible structurally required adjustments to our workforce, which have been the subject of much public discussion in recent weeks.

Whenever such measures become necessary, we first discuss them with employee representatives and those who are affected. We talk with people – not about them! But one thing should also be clear: We must respond to structural changes in the economy that affect our business. And we must align our resources where it is necessary. We follow the markets. And in the end, it’s not the Managing Board or our managers, but our customers who call the shots.

Vision 2020 is not about restructuring. It is a program for the future and above all for growth. As part of the program, we’re aligning Siemens with the electrification value chain. E-A-D – electrification, automation, digitalization: That’s what the new Siemens stands for! And while many people talk a lot about Industrie 4.0 or the Internet of Things, we’re busy creating hard facts: with our new Digital Factory Division.

This clear alignment also opens up prospects for our 357,000 employees around the world. This can also be seen in the number of new hires: 33,500 new employees joined us in fiscal 2014.

Let’s take a look now at the business of our sectors in the fourth quarter of 2014. A note here: This will be the last time we report on the Sectors. From now on, we’ll report on business by Division.

Healthcare Sector

We continue to be especially pleased with the performance of Healthcare. Our medical technology business has consistently delivered very good results for several quarters. The ongoing success of “Agenda 2013” has played no small part in the Sector’s impressive earnings of €611 million.

One reads and hears quite a bit these days about the future of Healthcare. That’s why I’d like to clarify one point: Healthcare is not “still” part of Siemens. Healthcare is not “staying” with Siemens. Healthcare is Siemens! It is a “company within the company.”

To continue the success story of medical engineering at Siemens and give it greater freedom of action and perspectives in the future, Healthcare will now be reorganized as a separate legal entity in Germany, too. Here we are following the model in the U.S., where this has been the case for years. Preparations for legal independence are also underway in a number of other countries. As a separately managed business, Healthcare will be better able to respond more efficiently to trends and to the expected paradigm shifts in the industry.

Industry Sector

I'll turn now to the Industry Sector. Industry showed a strong performance in the fourth quarter, delivering a profit of roughly €700 million – the largest contribution to Total Sectors profit. On a comparable basis, revenue rose by four percent year-over-year, while new orders fell five percent due primarily to a decline in large-scale orders in the long-cycle business of Drive Technologies.

By reorganizing our industry business into the two Divisions, Digital Factory, and Process Industries and Drives, we're positioned for Industrie 4.0 like no other company. Our expertise and power of innovation are driving the Fourth Industrial Revolution. Industrie 4.0 offers excellent prospects not only for Siemens but for the German economy as a whole to set global standards in a dynamic market of the future.

Infrastructure and Cities Sector

Some commentators had written off our Infrastructure and Cities Sector as a low-margin business with no prospects. Here and there one could even read about a "junk store." But we didn't let that distract us. We stayed the course and kept our focus. We were thus able to improve business step by step in the Infrastructure and Cities Sector. And now that's starting to pay off. The Infrastructure and Cities Sector delivered impressive earnings of €482 million.

Transportation and Logistics contributed the biggest share to the higher earnings, thanks to solid execution of large rolling stock contracts. Major contracts for local transit and regional trains in the UK and a €483 million contract for light rail vehicles for San Francisco drove new orders in the fourth quarter. Our job now is to stay the course and solidify the turnaround in our infrastructure business.

Lisa Davis will now report on the Energy Sector. As of today, Lisa has been with Siemens exactly 98 days. And although we normally give people 100 days to get up to speed, Lisa is already with us today to give her first interim report.

Lisa Davis:

Energy Sector

The past 98 days have been very exciting, and I'm really looking forward to the work that lies ahead in this great company. One reason for this is the amount of change, growth and actually transformation that is happening in the energy market. Another reason is the many new challenges and opportunities that this changing energy world presents us at Siemens. We certainly have some work to do to ensure our success in this business environment of today and tomorrow. I'll tell you a bit more about our plans shortly.

First, our performance. Our fourth-quarter results also make it very clear that we have some work to do. Due to the highly competitive market environment, the Energy Sector posted a five percent decline in orders compared to the same quarter a year ago. Even so, our order books are at €58 billion, so quite full. Our revenue for the quarter declined slightly by two percent while profit dropped substantially by 28 percent.

Profit as reported at Power Generation was underpinned by our robust service business showing the continued strength of this business model. However, Q4 performance is certainly a sign to us that challenges are growing in the Power Generation business.

In the Wind Power and Power Transmission Divisions, the challenges are of a different nature. Growth is not the problem, but delivering this growth with excellence has been. This has resulted in special charges being incurred once again.

Wind Power posted a fourth-quarter loss of €66 million compared to a profit of €179 million in the same quarter a year earlier. This change is due to charges totaling €223 million.

These charges include: Costs for inspecting and replacing main bearings due to early degradation for a certain type of onshore wind turbine. These issues appear to be related to recent batches of bearings, and we are in close discussions with our supplier. And costs for blade repairs caused by harsh weather conditions, both offshore and onshore. This is a topic which we see across the industry and where we have already successfully implemented a design change for leading edge protection in our manufacturing facilities and will roll out a similar retrofit at affected locations.

Power Transmission posted a fourth-quarter loss of €67 million. The fourth quarter again included charges related to a high-voltage direct-current (HVDC) project in the United Kingdom. On the positive side, the four offshore grid connection projects are now installed in the North Sea and commissioning is taking place.

Power Generation: Improving competitiveness

At Power Generation, we're working quickly to improve the competitiveness of our business. The trend toward decentralized power generation is impacting our business with large gas turbines. Since 2008, the business with large gas turbines has been in continuous decline. All suppliers are facing the challenge of substantial plant overcapacities. As a result, current demand is being accompanied by high pressure on prices and margins. This demands that we focus more on capturing efficiencies and meeting customer needs.

Given this business landscape, we are focusing our efforts to drive competitiveness and growth in three areas: First, we will intensify R&D to shorten innovation cycles and apply new technologies such as data analytics to enhance customer value through our services. This requires significant additional investments.

Second, we will change our go-to-market approach towards a structure that is closer to the customer. We will gain significant additional customer access and breadth in portfolio through the integration of Rolls-Royce ADGT and Dresser-Rand.The demand for small gas turbines is rising in nearly every region of the world. Decentralized power generation is growing steadily. Through the acquisition of Rolls-Royce's business with small and mid-sized gas turbines and the announced addition of Dresser-Rand, we've taken important steps to strengthen our portfolio and to profit in an optimal way from this trend toward decentralization.

And third, we are continuing to adjust our cost base towards actual demand and are working to further improve flexibility and optimize our manufacturing footprint according to market requirements.

Wind Power: Challenges in a growth market

The wind business is a highly attractive market, and we have outstanding opportunities here due to our strong position in the fast-growing offshore market and our rapidly developing service business. In our wind business, however, we're currently transitioning from handcraft production to industrial manufacturing. That's a big change for the entire value chain. We understand these challenges and are tackling them now.

First, we've added additional resources to put a stronger focus on research and development and our core production processes. Second, we're continuing to work on industrializing our production processes with the goal of lowering the costs of wind power. Third, we're focusing on launching new products, including turbines that feature higher performance, and on rapidly expanding our service business.

After my first 98 days and many meetings with customers and employees, I can assure you that our teams in our energy businesses are tackling these challenges head-on. We are highly motivated to fix the things that aren't going well, to protect and regain our leadership position in this industry, and to grow beyond our past.

Ralf P. Thomas:

Lisa Davis did a good job of explaining how we'll tackle the challenges in the energy business. We're devoting the same attention to risk management, which I'll address in a moment.

Below Total Sectors

But first, let me turn to the results below the Sectors. Our equity investments generated solid earnings of €65 million in the fourth quarter, thanks primarily to Bosch und Siemens Hausgeräte GmbH. Financial Services showed strong growth, delivering an outstanding return on equity of 18.3 percent as well as earnings of €120 million. Our centrally managed portfolio activities added €72 million to company earnings in the fourth quarter. The solid results outside the Sectors helped the company's overall earnings. However, we cannot rely on this effect being repeated at a similar level in the coming quarters. It's therefore all the more important that we grow stronger in our core businesses.

And one key to achieving this is the sustainable reduction of one-time charges. Although charges still remain far too high and we need to reduce them permanently, we've already made clear improvements in our risk management during the past year. Still, this issue will remain one of the focal points of our work.

Allow me to note one thing here: As Joe Kaeser just said, in the future we'll adjust our financial reporting to the new company structure which has been in operation since October 1. In mid-November, we'll provide you with the figures for fiscal 2014 and its quarters broken down in the new divisional structure. This will give you a clear picture of the organizational changes, and we can focus on current developments in fiscal 2015 when we present the first-quarter numbers in January.

Free Cash Flow

I'd like to emphasize the very strong development of our free cash flow in the past quarter. "Cash is king," as they say. And it's true. In this sense, the fourth quarter was in a way a "crowning moment" of the fiscal year. All-in, we reached €5.2 billion for fiscal 2014, a level only slightly below the previous year's extremely strong figure. Across all of fiscal 2014, we achieved a somewhat more steady cash flow than in the previous year. But we certainly still have room for further improvement here.

Dividend payout

Siemens is and will remain a worthwhile value for our investors. We're supporting this pledge with a reliable and attractive dividend policy – one that also applies to the past fiscal year. At the coming Annual Shareholders' Meeting in January, we'll therefore propose a dividend of €3.30 per share to our shareholders. This represents a payout ratio of 49 percent.

Share buyback program

We're also generating value for our shareholders with the ongoing share buyback program that began last May. As of the end of October, we'd spent slightly under €1.5 billion to acquire 16 million Siemens shares.

With nearly €9 billion in liquid assets at the end of the past fiscal year, we remain on excellent footing. We also expect material proceeds from the pending sale of businesses. This makes us ideally equipped for our planned acquisitions and for continuing our share buyback program. Siemens is a therefore a financially strong company as we begin to implement Vision 2020.

Joe Kaeser:

Vision 2020: Value creation and cultural change

Our goal with Vision 2020 is to increase the value of our company over the long term. We reached important milestones in the past fiscal year. We completed the Siemens 2014 program; we launched our new organization on October 1; we introduced a new system for executive compensation – more on that in a moment – and we're strengthening the Siemens brand step by step. And we'll continue to report to you regularly on our progress in implementing Vision 2020.

We're following a clear roadmap to ensure sustainable and long-term growth in the company's value: We made use of 2014 to define our strategic direction and align our organization accordingly. Operational consolidation will follow in 2015. And we're making additional investments in research and development and in our go-to-market activities in selected areas. Overall, additional investments of up to €800 million in innovation and growth are planned. Operational improvements from these measures will already be visible in 2016, but even then we'll continue to structurally optimize our company step by step. All these efforts will bear fruit through accelerated growth and greater cost efficiency starting in early 2017.

We must achieve stronger profitability and growth. This isn't a question of greed. We make targeted investments in innovation and growth in order to create long-term value for our stakeholders.

Vision 2020: Strengthening the strategic core

Part of this realignment involves focusing our portfolio. We made very good progress on this front in fiscal 2014. Our M&A department oversaw more than 150 projects and signed or closed over 50 M&A projects.

On the one hand, we're strengthening ourselves with targeted acquisitions in our growth fields – such as with the aero-derivative gas turbine business of Rolls-Royce and the compressor manufacturer Dresser-Rand. On the other hand, we've found good solutions for Water Technologies, Metals Technologies, our microbiology business, and our hospital information systems business. The same is true for BSH, which will be in the best hands with Bosch as the new sole owner. At the same time, the Siemens brand will remain present in the households of end consumers.

Today, we can announce the sale of our hearing aid business to the investment company EQT and Germany's Strüngmann family of entrepreneurs for €2.15 billion. Siemens will also have an earn-out component with payment dependent on a future increase in company value. The transaction isn't only excellent from a financial perspective; we're also convinced that the investors will continue to develop the hearing aid business over the long term with a clear growth strategy. Siemens will remain invested in the hearing aid business with preferred equity of €200 million and benefit from future business successes. Siemens will also have a seat on the board of the buyer group. Under the new owners, the Siemens product brand can still be used for the hearing aid business over the medium term.

Vision 2020: Simplified and transparent compensation system

We're proceeding in optimizing our portfolio with focus and great care. This approach is characteristic of Vision 2020. It's also the approach of our new compensation system, which took effect with the new fiscal year. The principle here is: transparency through simplicity.

From now on, compensation will be composed of three parts: a fixed base pay, a variable annual bonus, and a variable long-term share-based component. We've carried over provisions that have proven effective, such as the requirement to hold a certain number of Siemens shares. The new system will apply to members of the Managing Board as well as to the management levels below the Board, and is consistently oriented across all levels.

Priorities for 2015

We have big plans for the new fiscal year: First, we'll seize growth opportunities through a market-oriented organization. This will help us compensate for weaker revenue at Power and Gas. Second, we'll simplify processes in the company and work on getting project charges under far better control. Third, we'll improve our portfolio and integrate our strategic acquisitions – above all Dresser-Rand and Rolls-Royce's small and medium-sized gas turbine business. And fourth, we'll optimize our capital allocations by setting the right priorities. Because that's what it's all about: prioritizing and focusing.

Last but not least, we'll flesh out our strategy with the right corporate culture. I am confident that we can succeed with this cultural shift toward a living ownership culture. A few weeks ago, I asked employees and managers what "ownership culture" means to them. The large majority in both groups chose the word "responsibility". And that gets to the very heart of it: An awareness of our responsibility to pass along a better Siemens to the next generation.

Assumptions for fiscal 2015

Before we turn to our outlook for fiscal 2015, I'd like to explain our assumptions for the year. As I said earlier, we continue to expect complex market conditions in view of the geopolitical developments. We therefore anticipate only moderate growth in our short-cycle businesses. We assume that the book-to-bill ratio will remain above 1, driven by the Energy Management and Power and Gas Divisions.

We expect, on the one hand, pricing pressure of around 2.5 percent for our products. On the other hand, we anticipate productivity gains of three to four percent of the cost base.

As already mentioned, we intend to invest up to €800 million in innovation and sales in carefully selected business areas. From portfolio sales, we expect substantial proceeds that will cover the restructuring costs and increase the basic earnings per share. In addition, we expect to see moderate tailwinds from currency effects.

Outlook for fiscal 2015

And now, let me turn to the outlook for fiscal 2015: We believe that our business environment will be complex in fiscal 2015, among other things due to geopolitical tensions. We expect revenue on an organic basis to remain flat year-over-year, and orders to exceed revenue for a book-to-bill ratio above 1.

Furthermore, we expect that gains from divestments will enable us to increase basic earnings per share (EPS) from net income by at least 15 percent from €6.37 in fiscal 2014. For our industrial business, we expect a profit margin of 10 to 11 percent.

During the past fiscal year, we strengthened the inner structures of Siemens. Our direction is clear, and team spirit is growing in the company. We have every reason to look to the future with confidence. We know the challenges we face. And we know how to master them.

One year ago, I said: At Siemens, Siemens must again come first! Today, I can tell you: At Siemens, Siemens once again comes first! We are proud of this company and are going into the new fiscal year with drive and dedication.