SIEMENS

Press

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Overall performance as expected

Press Conference
First Quarter, Fiscal 2015

Joe Kaeser
President and CEO of Siemens AG

Check against delivery.

The World Economic Forum was held in Davos just last week. The major issues that government and business leaders discussed there are also important to Siemens: the upswing in the U.S. economy; exchange rate fluctuations and the new strength of the dollar and Swiss franc; the prospect of the European Central Bank purchasing government bonds, and the question of the effects of what the media have called the "trillion-euro bazooka"; the political crises in Europe and its immediate vicinity; the declining price of oil.

There were no simple answers to be found in Davos to the questions these issues raise. The global economic and political situation was already mixed last year, and as expected, it's remaining complex in 2015 as well. In the U.S., we noted more vigorous capital expenditures in industry and the construction sector. China is moving its structural reforms ahead and thus strengthening its economy. However, completing those reforms will take time. Finally, in Europe, we're seeing a moderate recovery thanks to a weaker euro and lower oil prices.

Decline of oil price not structural

Here, let me offer an assessment of the development of oil prices. Since the middle of last year, the price of Brent Crude, which is a reference grade for benchmarking oil, has dropped from 110 dollars a barrel to the current level of about 50 dollars. However, that sharp decline was not due to structural issues. We believe it's the result of an oversupply that has been caused more by increased production volumes than by reduced demand. The fundamental data in the oil business, on the other hand, has not changed significantly.

What specifically does the change in the price of oil mean for Siemens? On the one hand, we expect that the oil industry will be investing less over the short-term and that some projects will be delayed. We're already seeing a decrease in tendering activity. At the same time, we're not ruling out the possibility that some oil-exporting countries will reduce their expenditures on infrastructure if oil prices remain at their current level. After all, in many cases, government budget calculations are based on higher oil prices than those prevailing at present.

On the other hand, there are also positive effects: We expect, for example, the current level of oil prices to stimulate the economies of oil-importing countries, especially in emerging countries such as India. There, more money will be available

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for infrastructure investments. The low oil price will have a particularly stimulating effect on such sectors such as the automotive and chemical industries. Companies in these sectors will have more funds available for additional capital expenditures – which will likewise benefit us.

In this context, I'd like to be sure to let you know upfront that we're reconfirming our outlook for fiscal 2015.

Management changes

Before I address the business figures from last quarter, I'd like to explain several personnel changes in our management. Hermann Requardt is, in mutual consent, stepping down as a member of the Managing Board and as CEO of Healthcare. In this way, he's making way for a generation change at the start of the new Healthcare company. Mr. Requardt and his team can be proud of the extremely successful years of collaboration. We're setting up Healthcare as a separately managed business within the company. Doing that is now the responsibility of Bernd Montag as CEO, Michael Sen as CFO, and Michael Reitermann as member of the Executive Management.

Within the Siemens Managing Board, Siegfried Russwurm will be the Board-level partner for the separately managed Healthcare business in the future – in addition to his responsibility for the CIS and Middle East Regions and his position as Chief Technology Officer. Mr. Russwurm will be handing over management of Human Resources to Janina Kugel, who is joining the Managing Board and will serve as the Labor Director. Given her extensive international professional experience and broad acceptance among employees and executives, Ms. Kugel is excellently qualified for her new role. All these changes in the Managing Board will take effect on February 1, 2015.

In addition, there will be a change at the helm of our Power and Gas Division: Roland Fischer will be leaving Siemens at the end of January at his own request. In addition to her position as a member of the Managing Board, Lisa Davis will provisionally head that Division until a successor is chosen.

First quarter performance within expectations

Let's now turn to the figures for last quarter. The performance of most of our businesses was within our expectations. While some Divisions provided excellent performance, Healthcare needs to step up its efforts to quickly resume to its outstanding performance and Power and Gas will need a more comprehensive concept to return to historical margins longer turn.

Now about those figures: Orders were down 13 percent, on a comparable basis, to 18 billion euros. The decline was due to a decrease in large orders compared to the same quarter last year. Last year's business included a 1.6 billion euro order to build the metro in Riyadh. The order backlog for our Industrial Business was at 100 billion euros, as of December 31.

Revenue rose moderately, on a comparable basis, to 17.4 billion euros. Growth drivers were the short-cycle businesses in the Digital Factory Division along with the Mobility and Wind Power and Renewables Divisions as well as the Energy Management Division's low-voltage business.

The book-to-bill ratio (which depicts the relationship between orders and revenue) was 1.03 for the quarter.

Net income decreased 25 percent to 1.1 billion euros, primarily because of non-operational influences outside our Industrial Business. Here we experienced negative effects, in part from the reassessment of the value of derivatives due to low interest rates. A significantly lower profit from discontinued operations compared to the prior-year quarter, which had been substantially impacted by special effects, also had an impact. The higher investments in R&D and sales that we've planned and announced also affected profits.

Portfolio changes strengthen core business

The state of the global economy depends on factors that are out of our hands. So it's all the more important for us to concentrate on those aspects that we can influence: Siemens' realignment and the improvement of our operative performance capabilities. We're concentrating on systematically implementing our Vision 2020 concept for the future and for growth.

We've made solid progress in focusing and prioritizing our businesses in recent weeks and months. During the first quarter, we closed on our acquisition of Rolls-Royce's Energy's aero-derivative gas turbines and compressors business.

In the first few weeks of the second quarter, we completed other portfolio measures. In early January, the Primetals Technologies joint venture that we formed together with Mitsubishi Heavy Industries began operations. We've closed on the sale of our stake in BSH Bosch und Siemens Hausgeräte and the sale of our Audiology business. From today's perspective, we expect this to yield pre-tax book gains of about 1.4 billion euros from BSH and around 1.6 billion euros from the sale of our Audiology business. We'll be seeing the corresponding effects on profits in the second quarter. This stands in contrast to a funding commitment of nearly 300 million euros for the transformation of Unify, which will also take effect in the second quarter. We also intend to complete the sale of our Hospital Information Systems and Microbiology businesses at Healthcare in the second quarter.

Following the positive vote by Dresser-Rand's shareholders last November, we expect that transaction to close by no later than this summer.

All these steps strengthen our portfolio. We're concentrating our resources on our core business and investing in the growth fields that we've defined as crucial for Siemens' future.

Performance of individual businesses

Today, we're reporting on Siemens for the first time in its new organizational setup. At the beginning of this fiscal year, we reduced the number of our Divisions from 16 to 9 Divisions plus Healthcare, and we've eliminated our Sector level.

The new setup is a visible symbol of the "New Siemens": We're making the most of our traditional strengths in electrification and automation, and we're also taking advantage of the immense business opportunities offered by digitalization. Siemens is changing today, just as it has repeatedly changed over the past 167 years. We've launched our company's biggest reorganization since 1989. That's because we're convinced that only change will enable us to continue our company's traditions successfully in the future.

Let me now report on some of the most important developments in our individual Divisions.

The Power and Gas Division: No other business in the company has such a pronounced need for action. This is partly because we didn't adequately recognize the signs of the times, such as rising price pressure and overcapacities. A focused action plan should now result in a substantial improvement in competitiveness and profitability. The trend toward decentralized energy supply systems and toward smaller and medium-sized power plants continues. The changes in our portfolio –

our acquisitions of Rolls-Royce Energy's gas-turbine business and Dresser-Rand – will enable us to benefit from this long-term trend.

Revenue at the Wind Power and Renewables Division grew, primarily thanks to our offshore business. As planned, we're making progress in overcoming the technical challenges in main bearings and rotor blades which we reported at our Annual Press Conference.

The Energy Management Division posted substantial gains in orders – with a clear focus on margin quality and better risk management. The major order we landed for the Nelson River HVDC Project in Canada is a good example of how we've made successful use of our experience from previous projects.

The Building Technologies Division showed a moderate increase in orders, with stable revenue and a slight decline in profits. We expect the strong Swiss franc to present a headwind for the Division's business. We'll try to compensate for this negative currency-translation effect to the greatest possible extent with additional productivity efforts.

The Digital Factory Division did very well last quarter. It combines all the technologies for the factory of the future, for Industrie 4.0, under one roof. That makes this Division unique in the world. Digital Factory saw a substantial gain in revenue last quarter thanks to growing business in every region, especially in China and the U.S. That growth improved both the Division's margins and its profits.

Orders at the Process Industries and Drives Division felt the decline in demand in the commodity-related industries. Revenue rose moderately.

The Mobility Division put in a very good showing for the quarter with a profit margin of 8.4 percent. Strong business in components and rail infrastructure, together with the implementation of turnkey projects, yielded a significant increase in revenue.

At Healthcare, orders and revenue improved slightly. Strong business in Europe and the Americas more than offset lower orders from Asia. However, due to planned and higher investments in R&D, an unfavorable product mix, and negative currency effects, we're less than satisfied with the margin performance.

Priorities for 2015

We're on schedule and on track with our consistent, concentrated implementation of Vision 2020. Our work in the next few quarters will focus on several main areas:

First: Until February, we'll be performing a strategic assessment of all businesses that are not showing a profit, and by May we will have worked out solutions. Second: We'll continuously improve our risk management and significantly reduce our one-off charges in comparison to last year. Third: We're beginning to implement our efficiency enhancement program, with the aim of cutting costs by a billion euros. When this affects jobs, we first discuss matters with the employee representatives, and then with the employees. After that we inform the public. In the coming week, we'll be beginning talks with the employee representatives in Germany with the goal of reaching concrete agreements.

Fourth: In fiscal 2015, we're providing significantly more funding for innovation and growth: an additional 400 million euros for marketing & sales, an additional 400 million euros for R&D, and an additional 300 million euros for our property, plant and equipment. So all in all, this fiscal year we plan to invest more than a billion euros more than last year in growth, productivity and innovation. Those investments will result in significant progress for the New Siemens – a technologically strong company with an international base that plays a leading role wherever growth opportunities and earnings potential meet.

Outlook confirmed

I now come to our outlook. We still expect that revenue will remain flat year-over-year on an organic basis and that we'll achieve a book-to-bill ratio above one. In addition, we expect operative improvements and gains from divestments to enable us to increase basic earnings per share by at least 15 percent compared to fiscal 2014. We expect a profit margin of 10 to 11 percent for our Industrial Business.

For Siemens, 2015 is a year of operative consolidation as well as a year of new beginnings. This fiscal year we'll be laying the groundwork for profitable, value-generating growth. We intend to grow significantly again in 2016. And in 2017, we will have caught up with our competitors.