SIEMENS

Press

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Conference Call

Second Quarter, Fiscal 2016

Continuing growth in orders, revenue and profitability

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President and CEO of Siemens AG

Check against delivery.

Ladies and Gentlemen,

Good morning from London, and welcome to our press call for the second quarter of fiscal 2016. Before we come to our quarterly figures, I'd like to briefly discuss some key developments relevant for Siemens.

Last week, the world looked to Hanover while Barack Obama visited Germany. We had the opportunity to welcome the U.S. president and German Chancellor Angela Merkel to the Siemens booth at the Hannover Messe industrial tradeshow. Over the course of the week, a total of around 100,000 customers and industry professionals paid us a visit.

Hannover Messe was an important milestone in many ways. It enabled the professional community, many observers and, in particular, our American friends to see who is merely talking about Industrie 4.0, or the Internet of Things, and who is actually able to do it. This difference was clearly visible at the tradeshow booths and in the many panel discussions that were held at the event.

German industry made clear that it plays a leading role in industrial automation and digitalization, and some manufacturers from our partner country who are quite gifted at holding presentations and making symbolic gestures were given some food for thought.

For those of us in Germany, having this edge is not a reason to rest on our laurels, but rather to continue working humbly, systematically and diligently to expand our lead.

And the same holds true for Siemens. We're working on very concrete solutions with and for our customers – solutions for shorter time-to-market, higher efficiency and greater flexibility.

Hanover has once again shown that Siemens is taking concrete action to drive Industrie 4.0. With our Digital Enterprise software suite, we're the only company that can offer holistic, end-to-end solutions for manufacturing-industry customers.

The U.S. president's visit focused on two other major topics: First, the necessity of strengthening Europe as a political and economic unit.

Second, the Transatlantic Trade and Investment Partnership, TTIP, an agreement that can make Europe and America the world's leading economic zone. Siemens and a number of other large German companies don't need TTIP, because we have a strong local footprint in the U.S. anyhow.

With more than 75 manufacturing sites and 50,000 employees in the U.S., we achieved more than US$22 billion in revenue in fiscal 2015.

However, many small and mid-sized companies don't have these local possibilities. For them in particular, the elimination of trade barriers is crucial.

In addition, a transatlantic trade agreement offers the tremendous chance to set standards for world trade. This is particularly relevant in light of global digitalization. We shouldn't fail to take advantage of this opportunity.

In the area of digitalization, or Industrie 4.0, Siemens is systematically strengthening its position through its own innovations, but also through acquisitions. The acquisition of CD-adapco, a U.S. simulation software specialist, was our most recent step in this direction.

We were able to close the transaction in early April and already made an impressive joint appearance at Hannover Messe.

We're also heading into the future with a strengthened position in the area of automotive electrification. With the new 50/50 joint venture with our French partner Valeo, we're creating a strong European player in the global market of powertrains for electric cars, a market that will be attractive over the middle term.

In addition, we closed the divestments of Unify and Sivantos in the second quarter.

As you can see, we're continuing to focus our portfolio, and we're also investing in visionary innovation. The most recent example here is the development of hybrid electric propulsion systems for aircraft, which we're driving forward together with Airbus.

Ladies and Gentlemen,

Two years ago, I presented our Vision 2020 company concept to you for the first time. Here, the system of Electrification, Automation, and Digitalization – or EAD – which sets global standards, played a crucial role.

And that's also how our customers see it. No other company in this industry can address this system holistically. This fact, too, became unmistakably clear at Hannover Messe.

We're continuing to execute this company concept stringently, and we're right on track.

This also includes our efforts to foster responsibility and initiative among our employees in accordance with the guiding principle: "Always act as if it were your own company." By cultivating this Ownership Culture, we're laying the foundation for our company's long-term success.

I'd now like to turn to the key figures for the second quarter:

We delivered another convincing performance in the second quarter, compared to both the prior year and our industry sector. Despite ongoing challenges in the market environment, we will continue to focus rigorously on profitable growth.

Orders rose to €22.3 billion, which – excluding currency translation effects – corresponds to a solid gain of about 10 percent.

Large orders from Egypt and the UK made crucial contributions here. For one thing, we booked €3.1 billion including service for the large Burullus and New Capital power plants in Egypt. We're lining up all resources to execute the biggest order in our company's history – the modernization of Egypt's energy system – successfully and on time.

In addition, we booked a major order, worth €1.2 billion including service, for the East Anglia ONE offshore wind project off the English coast.

This is the largest order to date for our 7-megawatt direct-drive turbine. We'll be installing a total of 102 wind turbines for our customer ScottishPower Renewables beginning in 2019. The turbines will be manufactured at our new factories in Hull, England, and Cuxhaven, Germany.

Partly due to these two major orders but also owing to our standard products business, our order backlog has climbed to the record level of €115 billion.

Turning to revenue, the positive trend that had already emerged in previous quarters continued. Excluding currency translation effects, revenue rose in the second quarter by seven percent to €19 billion.

Our book-to-bill ratio, which is the ratio between orders and revenue, is an outstanding 1.17.

In our Industrial Business, we were able to increase the profit margin to 10.9 percent. This includes a positive effect of 60 basis points in connection with the partial lifting of the Iran sanctions. This positive effect is a result of revised estimates related to the resumption of long-term construction and service contracts in Iran.

Net income was at a strong €1.5 billion. Excluding the gains of €3 billion from the BSH and Audiology divestments in fiscal 2015, net income rose by over 60 percent year-over-year. Also positive was the development of free cash flow, which at €800 million was an improvement of €1.1 billion over the prior-year quarter.

Now let’s turn to our Divisions:

Power and Gas systematically improved its technology and cost position in a highly competitive environment and is concentrating on seizing attractive market opportunities in some parts of the world.

The projects in Egypt, above all, contributed to a strong 15-percent increase in revenue.

In addition, revised estimates in the context of the partial lifting of the Iran sanctions had a positive impact of 280 basis points on the profit margin.

Power and Gas delivered a strong performance, increasing both market share and profitability – although profit was also driven by a positive one-off impact and a favorable business mix.

The binding agreements we’ve just concluded with our customer Ende Andina S.A.M. in Bolivia also fit into this picture. We’ll boost the capacity of three existing power plants by more than one gigawatt. Our technologies for combined-cycle power plants will thus play a key role in modernizing Bolivia’s energy system – with long-term benefits for the country.

At Wind Power, we were also gratified by strong order intake and clear growth in revenue resulting from the successful execution of offshore and onshore projects from the large backlog of nearly €15 billion.

Significant progress in our efforts to optimize our operational excellence and a strong project completion helped drive an exceptionally strong profit margin of 9.4 percent.

Although this may not yet be sustainable for the quarters to come, we expect Wind Power to deliver within the target margin range for the remainder of the year.

Energy Management continued its impressive turnaround and approached the target margin range on the back of stronger profit contributions from its solutions, transformer and high-voltage products businesses. In the power transmission solutions business, we continue to have a clear focus on backlog quality.

Building Technologies again reliably delivered a solid set of numbers, although seasonably light.

The management team is continuing to expand the Division’s service business and make use of our company’s extensive knowhow in automation and digitalization.

Digital Factory is managing its cyclical challenges well and profiting from its strategic advantages – in particular, from the software components of the business.

Order growth was driven by the PLM software business, while the short-cycle business was down as expected due to market conditions. PLM delivered double-digit growth in Germany and is excellently positioned in the U.S.

On the other hand, our short-cycle business saw a clear decline in China, a moderate decline in Germany, a slightly negative development in the U.S., while Italy was flattish.

Although already at a high level, demand from the automotive industry continued to grow, while machine building continued to lose momentum.

Despite these cyclical challenges, profitability increased 100 basis points year-over-year to 15.1 percent.

We assume the bottom has been reached in our short-cycle businesses. However, over the next few quarters we expect slower recovery rather than material growth.

Thus, while the automation and low-voltage businesses are expected to recover slowly, we assume that the software business will continue to deliver good revenue growth, confirming our digitalization strategy.

The Process Industries and Drives Division continued to face further weak demand from the commodity-related industries. This decline is being only partially offset by order growth from the wind power-related businesses.

As you know, we've launched a restructuring program to adjust our capacities and align our footprint to changed market demand.

We've already informed you about the planned workforce adjustments. We're aware of our social responsibility and are striving to reach fair solutions in dialogue with the employee representatives.

We expect severance charges of around €200 million to €300 million, probably impacting the fourth quarter.

Our Mobility business showed another strong quarter, continuing to perform within its target margin range. We are benefitting from the business's strong vertical integration.

Finally, let's turn to Healthcare. We were once again pleased with what we saw at our healthcare business, which delivered a good quarter. Growth was driven by our business in the Americas, where we're continuing to expand our already strong position.

As part of Vision 2020, we set up Siemens Healthcare as a "company within the company" – that is, as a separately managed business. Siemens Healthcare is optimally prepared for the shifts in its industry.

And we want to stress this message in the market even more. That's why our colleagues at Healthcare are today launching a new brand campaign, which will be another milestone on the way to increasing the business's customer focus, demonstrating the pride of employees in their company and emphasizing its innovative strength in the market.

Ladies and Gentlemen,

I hope you can see that we're working hard, diligently and also successfully to keep the commitments laid out in our Vision 2020. In the two years since we announced Vision 2020, Siemens has gotten closer to its customers. We've become leaner and more streamlined. And we've enhanced our innovative power. All this is bearing fruit. We're seeing continuing growth in orders, revenue and profitability. But we haven't reached our goal yet. We're continuing on our way.

After this strategic assessment, I'd now like to conclude with our outlook.

We confirm our financial guidance for fiscal 2016 although – as previously mentioned – the market environment for our high-margin short-cycle businesses may not pick up materially in the second half.

Thank you very much. Mr. Thomas and I will be happy to answer your questions now.