SIEMENS

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Fully on track

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Check against delivery.

[Joe Kaeser]

Good morning ladies and gentlemen – and a very warm welcome to our press call for the third quarter of fiscal 2017. Thank you for dialing in – despite the summer break here in Germany.

Together with two of my Managing Board colleagues, Ralf Thomas and Michael Sen, I'll be concentrating today on the essentials so we can move on quickly to your questions.

Our global team delivered a solid quarter with revenue up 8 percent and net income up 7 percent. Our Digital Enterprise business has in some cases clearly distanced itself from its competitors in terms of growth and profit, impressively expanding its leading market position in the process. We're fully on track with Vision 2020, and we're heading for another record-setting year in operations.

We're particularly happy about the performance of our teams at the Digital Factory Division, the Building Technologies Division, Healthineers and the Mobility Division. Mobility in particular doesn't have it easy in an unusually competitive field, but it's doing an excellent job holding its ground.

We're also making solid progress in expanding our digital platforms, applications and services.

Here, in particular, partnerships and networks are more important than ever. For example, we've been able to win additional partners for MindSphere, our operating system for the Internet of Things. The number of MindSphere customers is now in the triple digits. A large number of apps that run on MindSphere are already available from Siemens and other partners. And growth is continuing.

In addition, we've launched several strategic partnerships in this area – for instance with the People's Republic of China and the Kingdom of Saudi Arabia. Another highlight was the opening of our Digitalization Hub in Singapore.

- We're taking this step in order to tap the business opportunities that the megatrends urbanization and digitalization are creating in Asia.
- In Singapore, we're also using MindSphere to support the city-state on its journey to becoming a "Smart Nation" – an ambitious national project.

We’ve also entered another very promising partnership – for marketing and technology – with the FC Bayern Munich sports club. Here, too, the focus is on developing digital solutions. The MindSphere solution is to play a major role in this cooperation also.

However, not everything at Siemens is going perfectly yet, and the third quarter was no exception. The developments relating to the illegal transfer of Siemens turbines to Crimea by third parties have meant a lot of work and have been very time-consuming.

Although – as far as we can tell today – we made every conceivable effort – legally, factually and also politically – to prevent this misuse, we still have to ask ourselves what this means for future business processes.

On the one hand, it’s unacceptable that contracts are broken and agreements infringed in a criminal manner. On the other hand, it would be an overreaction to regard an entire country with suspicion – a country in which we have many loyal, reliable and leading customers.

So prudence is required, and we’ll continue exercising it in the future.

To prevent further damage, we’ve taken rigorous action at short notice. And we’re not ruling out the initiation of further measures.

In our direct business as well, the Energy Management Division couldn’t continue its impressive restructuring course to the extent expected.

And the newly formed company Siemens Gamesa Renewable Energy got off to a “flying” start – but not in the way we’d imagined.

The Process Industries and Drives Division and the Power and Gas Division – like their customers and competitors – are contending with very difficult market conditions.

Although the management teams at both Divisions are working hard to implement the initiated restructuring measures, it’s already apparent that further cost-reduction measures and capacity adjustments will be necessary due to the structural challenges their markets are facing.

Here are the key figures for the third quarter:

- Net income rose by a strong 7 percent to €1.5 billion – despite the negative M&A effects relating to Gamesa and Mentor Graphics that we already announced in Q2. Compared to the prior-year quarter, basic earnings per share rose 6 percent to €1.74.
- The Industrial Business profit margin reached 10.4 percent. As expected, the M&A effects that I just mentioned reduced this margin by 60 basis points.
- Revenue growth continued. Revenue rose 8 percent with increases in most businesses, particularly in our short-cycle businesses. On a comparable basis, adjusted for currency translation and portfolio effects, revenue grew 3 percent.
- Due to a significantly lower volume of large orders at Power and Gas and at Siemens Gamesa, orders declined 6 percent. On a comparable basis, they were down 9 percent.
- For the fourth quarter, however, we're seeing another significant rise in major projects. After all, winning the DolWin6 offshore grid connection off the German coast of the North Sea has already enabled us to book a major success.
- The order backlog for our Industrial Business remained at the high level of €117 billion.
- In the first nine months of this fiscal year, the Industrial Business generated free cash flow of €4.6 billion – a significant increase compared to the €3.5 billion in the same period last year.

So, in summary, Siemens remains fully on track for another record-setting year in operational performance.

And now I'll hand the floor over to our Chief Financial Officer, Ralf Thomas, who'll discuss the Divisions.

[Ralf P. Thomas]

Good morning ladies and gentlemen. Joe has already presented the most important figures for the third quarter. I'd now like to take a look at our Divisions:

As mentioned at the beginning, we're very satisfied with the development of our Digital Factory Division. With revenue growth of 18 percent on a nominal basis and 11 percent on a comparable basis, the Division continued to expand its market position.

Our Digital Enterprise is the gold standard in the area of *Industrie 4.0*.

The growth of DF's software business was strong, even without Mentor Graphics. With growth of more than 20 percent, the licensing business clearly outpaced the market. The integration of Mentor Graphics is fully on schedule.

DF's profitability was driven by its high-margin, short-cycle business. As already announced, the reported profits were negatively impacted by special effects relating to the acquisition of Mentor Graphics.

So-called deferred revenue adjustments, which are typical for software companies, and transaction and integration costs totaled €77 million. If you exclude these items and €30 million in severance costs, it's easy to see that DF achieved an outstanding underlying profit margin of 20 percent.

Expenses for the further advancing and rollout of MindSphere were at the lower end of the range we announced. In the third quarter, these expenditures impacted the profit margin by about 100 basis points.

As already announced, we expect expenses for MindSphere on the order of about 100 to 200 basis points in the coming quarters as well.

After several weaker quarters, orders at our Process Industries and Drives Division were up 7 percent. The main driver was the China business, which achieved significant growth.

Slight revenue growth in our process automation business was more than offset by stronger declines in revenue at other businesses.

We expect the required structural adjustments to generate additional costs in coming quarters.

Our Building Technologies Division is continuing its successful course.

Orders grew on a broad basis, especially due to strong demand in Germany and the U.S., and the profit margin was a very solid 10.3 percent.

Now to Mobility. With an increase of 111 percent (on a comparable basis), the Division's orders developed very well. All businesses and all reporting regions contributed to this growth.

Revenue also grew on a broad basis. And at 8.7 percent, profitability far outpaced that of our competitors.

In addition, the Division continues to drive the digitalization of mobility – also through targeted acquisitions. The most recent example is the acquisition of HaCon, which we announced in the second quarter and which was closed in the third quarter.

With this move, Mobility is supplementing its portfolio to include timetable software that is already used by more than 100 transportation providers in 25 countries.

In the third quarter, Mobility again won several important orders.

- The major order for our Mireo trains is particularly gratifying. DB Regio, a German provider of local mass transit systems, will begin operating the Rhine-Neckar commuter rail system in 2020. The company has placed an order for Mireo trains with a volume of more than €250 million. Production is to begin this year.
- And equally gratifying: Sound Transit – the transit system serving the Seattle, Washington, region of the U.S. – has ordered another 30 of our light-rail vehicles. This order will bring the total number of Siemens trains operating in the region to 152. A follow-up contract like this one is also always a clear indicator of a high level of customer satisfaction.

As already mentioned, the Power and Gas Division posted a sharp decline in orders. In contracting markets, revenue at PG also declined in all reporting regions. This decline was particularly evident in the large gas turbine and compression business.

Our colleagues at this Division are working hard to increase the performance efficiency of PG's entire product range and reduce lifecycle costs. Achieving these improvements is crucial for our customers.

Measures also include the structural adjustment of capacities and the development of new business models.

Our HL-class gas turbines, which are based on our proven H-class, are a good example of how we're investing in the future.

In a first step, we'll raise their efficiency level – the ratio of fuel used to the power generated – to over 63 percent in order to increase the level to 65 percent in the medium term.

To achieve this goal, we're working with the U.S. utility Duke Energy under real-life conditions. We're testing and validating our HL-class on site at the customer. The gas turbines will be up to 25 percent more efficient than the turbines used there to date.

For the fourth quarter, we expect revenue at PG to come in significantly below the prior-year level, with a corresponding negative effect on the Division's profit margin.

As Joe mentioned at the beginning, we're disappointed by the margin development at the Energy Management Division, although EM increased revenue in nearly all its businesses. This development was due, above all, to a less favorable business mix.

In the current quarter, our key customer Tennet awarded us a contract to build another offshore grid connection.

Under the agreement, we're supplying all the direct-current transmission technology for the grid connection for the DolWin6 offshore wind farm in the North Sea off the coast of Germany. The order volume for Siemens is in the high triple-digit million-euro range and will be booked in the fourth quarter.

The financial data for Siemens Gamesa Renewable Energy has now been consolidated in Siemens' figures for the first time. As you know, Siemens Gamesa reported and commented on its quarterly figures last Wednesday.

Michael Sen will discuss the wind business and the status of the integration at Siemens Gamesa in greater detail in a moment – as well as Healthineers. So I'll only touch on this briefly:

Healthineers performed strongly in the third quarter. Orders increased moderately, driven primarily by the diagnostic imaging business. Revenue was up at Diagnostic Imaging, at Advanced Therapies and in nearly all businesses. The profit margin was a solid 17.2 percent.

Last but not least: with a strong team effort, Financial Services (SFS) delivered an excellent performance again this quarter, generating €161 million in income before income taxes.

With that, I'd now like to turn the floor over to my fellow Managing Board member Michael Sen.

[Michael Sen]

Good morning, ladies and gentlemen. I'm very pleased to be beginning a dialogue with you today.

The proverbial 100 days have now passed since my return to Siemens – which means that it's time for a first assessment.

The two years that I spent outside Siemens were well invested. I had the opportunity to get to know Siemens from the perspective of a partner and customer: an excellent perspective.

Now back to Siemens. For Siemens and for me personally, this is an extremely exciting time, a time of major change.

Today, I'll primarily be reporting on Siemens Healthineers and Siemens Gamesa Renewable Energy, two businesses in industries that are undergoing a dramatic transformation.

I'm also responsible for Global Services, which include, among other things, procurement and IT at Siemens. IT, for example, is a key area for the digital transformation within our company and thus for our company's organizational flexibility.

But now to Healthineers. With a clear strategic plan and a stringent execution roadmap, we're going to publicly list Siemens Healthineers in the first half-year of 2018 in the form of an initial public offering (IPO).

The timetable has been set. The steps have been defined. And we have a sustainable strategy that is aligned with growth fields to also ensure a market-leading position over the medium term. We call this strategic plan *Healthineers Strategy 2025*.

I'm aware, of course, that some of you are wondering why it took us so long to make this decision. The reason is that all the topics that are vital for such a plan have now reached the required level of maturity and fit together perfectly like the pieces of a puzzle.

- The right timing is crucial. Over the next few quarters, new, innovative and, in some cases, groundbreaking product and platform generations from nearly all our business areas will be gaining market traction.

- Take, for example, Atellica Solution, our highly flexible laboratory diagnostics platform that will be launched in the coming months. This platform is quicker (the transport of samples is ten times faster) and more flexible and has the highest productivity per square meter in the industry. Atellica Solution will enable us to finally consolidate our platform portfolio in the area of laboratory diagnostics.

Over the past four months, I've held numerous and intensive talks with customers, peers, thought leaders in the healthcare field and, above all, with Bernd Montag and his management team.

Together, we've expanded Healthineer's strategic orientation so that it can also serve as the basis for the equity story: we've defined clear growth fields as the answer to the changes taking place within our industry.

With our Healthineers Strategy 2025, we're looking beyond the incremental enhancement of our existing business and addressing the paradigm shifts within the healthcare industry.

We'll be taking the following three steps:

- In the years to come, we intend to further reinforce our core business. We'll be building on a world-leading position in imaging and laying the foundation for greater growth, including growth in our laboratory diagnostics business – see, for example, Atellica.
- In the upgrade phase, the focus will be on adjacent growth markets. We'll be making targeted investments in these markets, for example, to drive the integration of imaging into therapeutic applications.
- In addition, we want to generate new growth and secure market leadership in 2025 and beyond.

The healthcare market is a very attractive but also a very dynamic market that is experiencing, in part, disruptive developments:

- We're witnessing a shift from evidence-based to algorithm-based diagnosis and treatment.
- Artificial intelligence is providing data and knowledge that are becoming the source of value creation.

- Everybody is becoming his or her own doctor. In other words, smartphones and other digital devices collect and process health-related data, empowering users to make their own healthcare-relevant decisions directly.

Healthineers Strategy 2025 is about shaping these paradigm shifts. That’s why we’re focusing very concretely on five future-oriented fields:

- Digital, data and artificial intelligence (AI): expanding a data platform such as Teamplay and the related vendor-independent ecosystem – but also continuing to invest in capabilities in the area of artificial intelligence.
- Precision medicine: leveraging our unique position in the in-vivo and in-vitro market to bundle “omics” data and knowledge and make it relevant for clinical use. By “omics,” we mean the process of combining and analyzing clinical data from a wide variety of sources (genomics, proteomics, metabolomics, radiomics, dataomics) in order to maximize diagnostic and prognostic accuracy.
- Therapy of tomorrow: using data and artificial intelligence to integrate existing and innovative technologies for therapy, from non-invasive to highly invasive.
- Patient journey steward: coordinating and optimizing the so-called patient journey – focusing on the patient and his or her healthcare data.
- And finally, technology-enabled services: developing and offering a full range of technical, operational and clinical services that can be made more effective and more efficient by using technologies from Siemens Healthineers.

To sum up:

- We have a clear vision of the future with defined growth fields.
- We’re going public because it will give us the resources that we need for growth and acquisitions.
- We have clearly defined, transparent milestones for an IPO in the first half of calendar year 2018 – depending, of course, on the market situation.

The employees at our healthcare business have proven their abilities and their commitment again and again. I’m convinced that this great team will continue to drive this business forward also in the future.

Renewable energies are another future-oriented business. I'd like to report on the progress we've made on integrating Siemens Gamesa.

But please allow me to begin by saying this: Siemens Gamesa reported its figures last week. There's no question but that the company remained considerably below its potential in the quarter just completed.

We're not satisfied with such a development; we cannot be satisfied with it.

As the majority shareholder, Siemens has a clear expectation for the management: we expect a leading competitive position on the market as well as a sustainable increase in the value of our stake. Siemens Gamesa has the potential to be a strong player in a growing, future-oriented market.

Its portfolio, technological strength, global setup and financial clout set Siemens Gamesa apart from its competitors. We call this scale to win.

Of course, we also expect this potential to be realized – and the management completely agrees.

I know this market from both perspectives: from the perspective of an energy provider and from that of a technology supplier.

And I can tell you that the market is focused on three things: costs, costs, costs.

To be more precise, the cost per megawatt hour of electricity. The question will be: who can significantly reduce the levelized cost of energy (LCOE) most efficiently and faster than has been the case until now – for example, by accelerating the pace of innovation?

This is the consequence of the changed market design: instead of feed-in rates that are guaranteed for years, auctions are now increasingly being used, and this is happening at ever-greater speed.

The Dutch Borssele offshore wind projects exemplify this development. At an auction, Dong Energy won a contract with a bid considerably below the €100 per megawatt hour mark. It was the first time this figure had been underbid.

A few weeks ago, Dong Energy placed an order with Siemens Gamesa for Borssele 1 and 2. I find this personally gratifying because I'd also been concerned with this project on the utility side. This shows that the customer has confidence in our technology, our project management and our competitiveness.

So our course is clear. But now we have to execute.

- The new management team headed by Markus Tacke is now in place.
- Competitiveness is primarily about customer proximity. Here, it's vital to utilize the organization's combined strengths.
- When it comes to integrating the two companies, the focus is on rapidly realizing synergies. So it's only logical that the target is now to be reached more quickly – in three rather than four years.
- The portfolio is being combined and its focus further sharpened. Where necessary, these moves also include restructuring measures.

We won't just be monitoring Siemens Gamesa; we'll also be actively supporting it.

Now I'd like to turn the floor back over to Ralf Thomas.

[Ralf P. Thomas]

When we presented our Vision 2020 strategy program in May 2014, we emphasized that we wanted to expand our wind power business. And that's exactly what we're doing.

At that time, we also announced that we intended to carve out our healthcare business as a separately managed unit within Siemens. With the IPO, we're taking the next step. So, we're rigorously implementing Vision 2020. We're keeping our word.

This also applies to our outlook:

We confirm our expectations for fiscal 2017 presented with our results for the second quarter of fiscal 2017.

We continue to expect modest growth in revenue, net of effects from currency translation and portfolio transactions, and anticipate that orders will exceed revenue for a book-to-bill ratio above 1.

We expect the profit margin of our Industrial Business in the range of 11.0 percent to 12.0 percent and basic EPS from net income in the range of €7.20 to €7.70.

We're firmly convinced:

In 2017, we will achieve one of the strongest fiscal years in our company's history – when the effects of divestments are excluded, even our best fiscal year ever.

Thank you very much. We're looking forward to your questions.