SIEMENS

Press

Munich, February 1, 2017

Press Conference

First Quarter, Fiscal 2017

Siemens continues on road to success – earnings outlook raised

Joe Kaeser
President and CEO of Siemens AG

Lisa Davis
Member of the Managing Board of Siemens AG

Klaus Helmrich
Member of the Managing Board of Siemens AG

Ralf P. Thomas
CFO of Siemens AG

Check against delivery.

Ladies and gentlemen,

Thank you very much for joining us at our press conference in the Olympiahalle even earlier than usual. As you can see, I've brought along some reinforcements today. There's a lot of good news, and I wanted some of it to be reported by the colleagues whose teams are responsible for it. Ms. Davis and Mr. Helmrich will do the honors today. Mr. Thomas will then discuss the financial figures, which are also good.

As you've already seen in our Earnings Release, we've considerably raised our earnings outlook.

The target range for basic earnings per share from net income is now €7.20 to €7.70. We expect the profit margin of our Industrial Business will now be in the range of 11 percent to 12 percent in the current fiscal year.

With a strong first quarter and a considerably raised outlook for fiscal 2017, we are sending a clear signal. I am proud of my global Siemens team that has been working hard and has delivered convincing success. We will continue to rigorously execute our strategy program Vision 2020 to even further strengthen our innovation power and customer proximity.

We had many highlights and outstanding performances in the first quarter. I'd like to spotlight some of them for you now:

Net income climbed 25 percent, and this was achieved with solid revenue growth. This means: Siemens remains on a profitable growth path – something not every competitor can say today.

And this growth is broad-based: profit was up at nearly every Division. Eight of our nine Divisions are within, or close to, their target margins. The Process Industries and Drives Division also made solid progress in an environment that remains difficult.

Free cash flow was once again positive in a Siemens first quarter – for the first time since 2011. Mr. Thomas will discuss the financial figures in greater detail in a moment.

Ladies and gentlemen,

We've made major investments in research and development. Since 2014, we've increased our R&D outlays annually by more than a quarter to €5 billion. This added investment is having an impact.

One indication is the feedback to the Innovation Day at our company headquarters at the beginning of December – an event that many of you and a large number of industry and financial analysts also attended.

The launch of our new startup unit next47 has also been successful. This unit is enabling us to foster a startup culture at Siemens and break new ground in innovation management.

We're on track with our Vision 2020 strategy program and in some cases have progressed faster than originally planned. But we still have a lot to do, and not everything is going as well now as it could or should.

Ladies and gentlemen,

The World Economic Forum at Davos took place two weeks ago under the slogan "Responsive and Responsible Leadership."

However, the main topics of discussion were Trump, Brexit and digitalization. That was a shame since the motto was extremely important and timely. As you know, I expressed my views on these matters in detail in an opinion piece for a German newspaper last Friday.

Climate change is one of the key issues of our time. We've always made it clear that this is an area where we want to make a contribution to society. And we're actually doing so, as our aim to become a carbon-neutral company by 2030 attests.

That we're a serious pioneer in this respect has also been recognized by others. Siemens has recently been named the world's most sustainable corporation in a new study by Corporate Knights, a renowned research company in the sustainability field. This is a distinction we can all be proud of. One of our main competitors was also ranked in the top 100 worldwide – but at No. 99.

Ladies and gentlemen,

As a global Siemens team, we're making solid progress. Our more than 350,000 employees worldwide are working hard day after day to achieve success. I'm extremely proud of them.

New members are joining our great team every day. In the first quarter, we hired 8,000 people – more than 1,000 of them in Germany.

Our colleagues are not only a part of Siemens: many of them also own Siemens shares.

Today, 165,000 Siemens employees – or nearly every second employee – are shareholders in our company. We expect this figure to increase to more than 200,000 by 2020. It's involvement of precisely this kind that makes us strong. Our Ownership Culture and the corresponding willingness to take responsibility are the foundation of our success.

And this foundation is getting stronger and stronger.

Lisa Davis would now like to tell you about our energy business in the first quarter and about a megaproject of which we're particularly proud – because, among other things, it's a model of global teamwork.

Thank you, Joe. And good morning, ladies and gentlemen!

With regard to our energy businesses, I'd like to share three messages in these next few minutes:

First: We're improving significantly in our project excellence and demonstrating this strength.

Our best-practice example here is our Egypt megaproject – three simultaneous 4.8 gigawatt H-class combined cycle plants. In less than 18 months after signing the contract, we've been able to connect 4.8 gigawatts of new power-generation capacity to the country's grid.

This is 4.8 gigawatts of the total 14.4 gigawatts that we've committed to – so we're well underway.

These projects set a new worldwide benchmark for fast power. In fact, so far, we – together with our local partners – have exceeded our commitments to the Egyptian government.

Our Egypt megaproject is a great example of where we've strengthened our project execution by learning from past experiences.

This megaproject has also contributed to the decline you see in our Q1 order intake for Power and Gas. The exceptionally high level of orders last year was due to the booking of the first tranche of the project.

We're also seeing a highly volatile and cautious market reflecting current uncertainties in the political environment. This caution is dampening investor confidence and resulting in projects being largely deferred.

Despite this difficult market environment, we scored important successes with orders for large gas turbines in markets like Sudan, Saudi Arabia and Hong Kong.

Our small and medium gas turbines, and especially our market-leading SGT 800 with a capacity of around 50 megawatts, are fitting nicely to market demand for decentralized generation. We see this particularly in markets in Asia and Latin America.

My second message: We're continuing to focus on innovation and technology leadership – and are again demonstrating this in our new large gas turbine.

As you know, we're the world leader in proven, high-efficiency large gas turbines with our current H-class with over 350,000 hours of operation. Through this, we've demonstrated a combined-cycle efficiency of well over 60 percent and an average reliability of 99.5 percent.

We're continuing this leadership trend this year by beginning our first commercial project to build a combined cycle power plant with an efficiency of 63 percent and a significantly higher net power output. In addition, with new technologies, like microsystems, 3D printing, digitalization and new materials, we're successfully executing our roadmap to 65 percent efficiency in combined cycle power plants.

And my third and final message today: Our leadership in the wind business continues to strengthen with our merger with Gamesa.

We see a growth opportunity in the wind market – especially in traditional markets like Europe, the U.S., India and China.

We're seeing rising investment in onshore wind plants in the Middle East, Africa and Latin America – in emerging countries like Morocco and Mexico. And we expect offshore markets will be opening up in the Asia-Pacific region as well as in the U.S. over the longer term.

We've also made major advances in our production facilities in Morocco, Cuxhaven and Hull and in our technology and products offered to the market.

The wind industry is highly competitive and has committed to achieving ambitious levelized cost of electricity (LCoE) targets. To do this, new products are clearly a major success factor.

In onshore, we've launched two new platforms with leading annual energy production (AEP) in the respective wind classes.

In offshore, we continue to develop new products based on our proven direct-drive technology and track record of over 600 units sold.

And lastly and equally as important, regarding the merger of our wind business with Gamesa, we've passed major milestones in recent months that have brought us closer to our goal of completing the transaction smoothly and seamlessly. We expect to consolidate the merged entity as of Q3 of fiscal 2017.

Looking forward, we see continuing competitive pressure and market caution in our traditional power plant business.

We see a stabilizing trend and slight recovery in our oil and gas business although the market continues to face increasing challenges from a political and economic perspective.

We do see opportunity though in the combination of these two – the ability to leverage our power-plant capability and leadership and our Oil&Gas portfolio to be successful in the emerging gas-to-power market. With this combination of power and oil and gas, we're in the best shape to win in the developing LNG market, where we expect continuing growth.

All in all, I’m satisfied with the good results we achieved in Q1. I’m confident that our focus on being competitive, on fast innovation, and on creating value through new setups such as gas-to-power and our merger with Gamesa, will give our Siemens energy businesses continued strength in the coming quarters.

Ladies and gentlemen,

The Digital Factory Division exceeded our expectations in the first quarter. Our revenue increases were primarily driven by very high demand in China, good business in the U.S. and stable demand in Germany.

In all three of these regions, our short-cycle businesses posted clear growth. Our business in China, in particular, is profiting from rebounding demand in diverse industrial segments such as the automotive industry.

During the last quarter, the Product Lifecycle Management and Factory Automation Business Units were able to win significant orders.

Just to name two examples that are representative of many: Siemens PL has signed a multi-year contract with a major American carmaker. This new contract strengthens our existing partnership and supports our customer with digitalization solutions.

A second example comes from the food and beverage industry. The Ferrero Group is equipping its largest manufacturing facility in Canada with our Simatic automation system and with the accompanying drive technologies.

From our position of leadership in automation, we’re driving the digitalization of our business and of the entire industrial sector. In recent years, we’ve expanded our software expertise continuously and systematically.

Based on our software portfolio from UGS, we’ve strengthened our software suite systematically with further acquisitions, such as LMS and, in fiscal 2016, CD-adapco, a leading supplier of computer-aided engineering software. In this way, we’re continuing to expand on our position of leadership with simulation software.

We’re rounding off our portfolio with the planned acquisition of Mentor Graphics, an established technological leader for design and simulation solutions for electric and electronic systems. By offering these capabilities, we’ll enable our customers to perform their design processes using a complete digital twin for mechanical and electrical components as well as software. In this way, we'll make it significantly easier to optimize intelligent products, such as smartphones and components for operating autonomous vehicles.

With our highly attractive Digital Enterprise portfolio, we already offer our customers solutions for the entire *Industrie 4.0* value chain. This is an offering for small and medium size businesses as well as for major corporations with global operations.

Our Digital Enterprise encompasses: Industrial software, our automation portfolio, including, for instance, Simatic, Sinumerik and PCS7, solutions for industrial communications, solutions for industrial safety, and the new data-driven industrial services.

One key element here is our cloud platform MindSphere, the cloud-based, open operating system for the Internet of Things.

Siemens customers can use MindSphere as a basis for their own applications and digital services and to connect their manufacturing assets – for example, for predictive maintenance, energy data management, resource optimization and fleet management for gas turbines, for instance. We're now also opening our platform for external app developers.

Ladies and gentlemen,

With the Digital Enterprise, Siemens already has an offering for implementing *Industrie 4.0* in the manufacturing and process industries. In this way, we're enabling our customers to make the transition into the digital world, and we're driving the digitalization of the entire industrial sector.

Thank you very much.

As Joe just reported and Lisa and Klaus have further explained, our new fiscal year did indeed get off to a very strong start.

And this success is reflected in our key financial figures:

Revenue was up three percent to €19.1 billion on a comparable basis. So we're still on course for growth. In this connection, we also profited from a strong upturn in our short-cycle business.

At a healthy 1.02, the book-to-bill ratio – that is, the ratio of orders to revenue – was again above 1.

However, orders declined 14 percent on a comparable basis to €19.6 billion. This decline was due primarily to base effects from the prior-year quarter, when we booked several large orders.
With a high-quality order backlog of €115 billion, we can continue to build on a solid foundation. And as you know, we've booked several important major orders in the current quarter – a power plant project in Thailand, for instance.

Profit and margin development was extraordinarily strong. This is reflected operationally above all in the greatly increased gross profit margin of 31.4 percent.

The profit margin for our Industrial Business rose substantially by 260 basis points to 13 percent, with nearly all Divisions reporting higher profitability due to strong operating performance.
Ninety basis points of this margin improvement were due to a special gain of €172 million related to the eCar business that we contributed to a joint venture with Valeo. This gain was reported at the Digital Factory Division.

As you know, closing for our joint venture Valeo Siemens eAutomotive took place last December. This new company will become a world-leading supplier in the growing electric mobility market.

In the first quarter of the new fiscal year, eight of our nine Divisions were in or – in one case – very close to their target margins. The Process Industries and Drives Division made good progress, too.

Free cash flow improved significantly to €714 million – a positive swing year-over-year of more than €1.4 billion. Unlike in prior years, the increase in working capital in the first quarter was only very moderate. We improved considerably year-over-year particularly in the area of receivables and advance payments.

Some topics outside the Industrial Business also had an impact on net income. We profited, in particular, from interest rate development, which was also positively reflected in the measurement of long-term provisions.

We also reduced provisions connected with earlier portfolio measures through the elimination of the related risks. These effects were partially offset by a slightly higher tax rate and lower positive effects from discontinued operations compared to the prior-year quarter.

Let’s take a look now at developments at our individual Divisions.

Lisa Davis has already reported on our energy businesses in detail. So I’ll keep my remarks brief. The Power and Gas Division’s market environment remains challenging.

We have to fight for every order. Price pressure is intense. Nonetheless, in the first quarter, we booked a total of 11 orders for large gas turbines and delivered 12 large gas turbines.

The Division achieved impressive revenue growth of seven percent year-over-year on a comparable basis.

Orders at PG declined considerably year-over-year. This was due, to a large extent, to the exceptionally high level last year from the Egypt orders, the first tranche of which we booked in the first quarter of fiscal 2016.

The margin increased to 11.8 percent thanks to sustainable improvements in project execution and higher profitability in the service business.

Regarding Wind Power and Renewables: The Division is very well prepared for the planned merger with the Spanish company Gamesa. The book-to-bill ratio was above 1, driven by an offshore order from Belgium worth more than €700 million.

The offshore business in Europe made the biggest contribution to revenue growth. Profitability was at the upper end of its target margin.

The Energy Management Division continued to develop very promisingly and reported moderate revenue growth.

At 6.7 percent, profitability was very close to the margin target, driven by the product business in the high-voltage segment and the solutions business in the area of transmission technology.

We continue to be very pleased with the Building Technologies Division. The team there did an excellent job. Revenue growth went hand-in-hand with greatly improved profitability. Order growth was primarily attributable to double-digit growth rates in the U.S., Asia and Australia.

Klaus Helmrich has already discussed the Digital Factory Division in detail. DF did, in fact, turn in an excellent operating performance. I've already mentioned the additional positive special effect related to the contribution of our eCar business at Valeo.

Revenue and order growth was broad-based across all regions, with significant double-digit growth in China, particularly in the Division's short-cycle business.

The PLM software business reported substantial order growth on a comparable basis and profited on a nominal basis from the integration of our acquisition of CD-adapco.

The Process Industries and Drives Division reported strong orders for wind power components. However, weak demand in the commodity-related industries continued to predominate.
Nonetheless, profitability could be further stabilized. PD is continuing its structural adjustments as planned.

Now for the Mobility Division. Mobility again reported a strong quarter thanks to rigorous order execution. Mobility won several large orders such as for commuter trains in Austria and from the U.S. customer San Diego Metropolitan Transit.

We expected the revenue decline since it resulted primarily from the scheduled execution of major rail projects and the partially related time lag in revenue recognition in the business.

However, despite the lower revenue, profitability was maintained at a high level through solid project execution.

We expect Mobility to achieve substantial growth in business volume in the remaining quarters of fiscal 2017.

And now, finally, Healthineers. This unit got off to a very good start into the new fiscal year. Orders grew moderately by four percent on a comparable basis, driven by strong growth in the Region Asia / Australia, in China and in India, where growth was even in the double-digit range. Healthineers posted moderate growth in the U.S. and Europe.

The diagnostic imaging business was the key revenue driver, although all Healthineers businesses reported improved profitability.

As you know, Siemens wants to give its medical engineering business even more flexibility in implementing its growth plans and is preparing to publicly list Healthineers. We'll keep you posted on developments and, of course, notify you as soon as there's something new to report.

Here, in conclusion, is our outlook for the current fiscal year:

We anticipate increasing headwinds for macroeconomic growth and investment sentiment in our markets due to the complex geopolitical environment.

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

After a strong start into the fiscal year, we raise our previous expectation for profit and EPS for fiscal 2017. As Joe already said, we raise our previous expectation for the profit margin of our Industrial Business in the range of 10.5 percent to 11.5 percent to the range of 11 percent to 12 percent. Furthermore, we raise our previous expectation for basic EPS from net income in the range of €6.80 to €7.20 to the range of €7.20 to €7.70.

This outlook assumes continuing stabilization in the market environment for our high-margin short-cycle businesses. It further excludes charges related to legal and regulatory matters as well as potential burdens associated with pending portfolio matters.

Thank you very much.