Speech for Press Conference

Q1/2019

"Strong orders continue into the new fiscal year"

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Check against delivery.

[Joe Kaeser]

Good morning, ladies and gentlemen.

Thank you very much for joining us again at such an early hour – in person, on the telephone or via the Internet.

Just last week, I met with a large number of customers, business partners and government representatives in Davos. Global sentiment has turned around. The euphoria that still prevailed last year has evaporated. The pendulum is swinging in the other direction.

The volatility of U.S. domestic politics, the directionless debates about Brexit, the tone of trade disputes – above all, between China and the U.S. – are having an impact, an impact that's also reflected in the latest growth forecasts. The business world has discovered geopolitics. And it's a fact that constant geopolitical uncertainties can impact our customers' investment decisions. However, we've been talking about these things for years and have prepared ourselves for them.

On the positive side, I learned in Davos that Siemens is considered to be the leader in the fields that will be decisive for the future: in *Industrie 4.0*, in the future of energy, but also in artificial intelligence. Interestingly, global companies are also discovering the importance of purpose and social integration. Even our rather Wall-Street-focused U.S. colleagues are now talking about them.

In Q1, we worked intensively on our company's new setup – a key prerequisite for the successful implementation of our Vision 2020+. We've made good progress and are even somewhat ahead of our original plans. Therefore, it's certain that we'll complete our preparations by March 31. I'd like to cordially thank the project team for this outstanding achievement.

Our start into fiscal 2019 presents a somewhat mixed picture. On the one hand, order intake remained strong in Q1. Revenue also rose, despite the ongoing weaknesses in fossil power generation. On the other hand, Adjusted EBITA for our Industrial Business tended toward the lower end of our planned range. Free cash flow also indicates that more will have to be done in the area of asset management. We've achieved better results in this area in the past.

Our continued high order growth underlines the customer confidence in the performance of our company. There is still much to do before we achieve industry-leading margins in all our businesses – which is another reason why we've launched Vision 2020+.

At €25.2 billion, order intake in Q1 reached its highest level in absolute terms in over ten years. At €137 billion, our order backlog is at the highest level in our history and will likely prove to be of great value in times of a possible economic downturn.

Many of our businesses won important major orders:

- For example, Mobility won a large order to supply the customer **Transport for London** with 94 **metro trains**. The transaction has a total value of about €1.6 billion. We intend to start delivering these advanced trains in 2023.

- In Canada, **Mobility** won another major order to supply the customer **VIA Rail Canada** with a total of 32 trains. The transaction also includes a 15-year maintenance contract for these trains.

- Adjusted EBITA at the **Energy Management** Division was disappointing in Q1. Nonetheless, order intake was strong at EM: the **Moray East Project** is now the eleventh offshore wind park in the U.K. for which Siemens is providing a grid connection to the mainland. In terms of transmission capacity and order volume, it's also Siemens' largest offshore grid connection project in the UK to date. Moray East will provide green electricity for nearly one million British households.

- Our **Power and Gas** Division won a very gratifying order in the United Arab Emirates. We're supplying the very first H-class turbine in the Gulf Region. The turbine will power an aluminum smelter in **Dubai**.

As you can see, we're a trusted partner to customers all around the world. And we're expanding our market share. How is this reflected in our Q1 figures?

- Above all, in orders: **order intake** in Q1 rose on a comparable basis – that is, excluding portfolio and currency translation effects – 13 percent year-over-year.
- As expected, **revenue** increased slightly, by two percent, to €20.1 billion. Revenue growth was strongest at Digital Factory, Process Industries and Drives, and SGRE, while it declined sharply at Power and Gas.
- The **book-to-bill ratio** – that is, the ratio of orders to revenue – was a very strong **1.25**.

- **Net income** declined to **€1.1 billion**. When adjusted for substantial special effects, however, it was roughly at the prior-year level. The prior-year period was impacted by a special effect from the sale of Osram shares. We also benefited from significant tax effects – particularly in the U.S.
- Excluding severance charges, the **Industrial Business Adjusted EBITA** margin was a robust 10.6 percent.
- **Free cash flow** from the Industrial Business was seasonally weak, as is usually the case in the first quarter of a fiscal year. The **cash conversion rate** was 0.25.

Over the last few weeks and months, we've been intensively addressing the planned combination of Siemens Mobility and Alstom. The teams have worked hard and presented a very balanced concept.

Now it's up to the antitrust authorities to make a decision. And it will be interesting to see if the future of mobility in Europe will be determined by backward-looking technocrats or by future-oriented Europeans.

Is Siemens dependent on the merger of Siemens Mobility and Alstom? My answer is: if the merger works, it will be good for all participants. However, we won't pursue it at all costs, because we're competitive and – due, among other things, to our expertise in digitalization – we're highly innovative. And we have options.

The Mobility carve-out is, by and large, already complete. At the beginning of the fiscal year, we strengthened the Division by adding our rail traction drives business, which was previously part of the Process Industries and Drives Division. As a result, Mobility is the most vertically integrated business in its industry. So we can consider all options from a position of strength.

With Vision 2020+, we're giving our three Operating Companies and our three Strategic Companies the entrepreneurial freedom they need. This freedom will enable them to measure themselves against the best – and, preferably, be the best – in their markets. But it's always linked to the resulting responsibility and accountability.

Our new setup will be in place, as planned, by April 1. At that point, we'll be ready for takeoff and Siemens will have the prerequisites it needs to develop optimally and sustainably.

We're investing more than ever. We're supporting our customers. We're focusing on growth. And we're hiring. In Q1, we hired more than 10,000 people worldwide. And one in ten of these new hires is in Germany.
And with that, I'd like to turn the floor over to our CFO, Ralf Thomas.

[Ralf Thomas]

Thank you, Joe. Good morning, ladies and gentlemen!

I'd like to provide you now with some details about business developments at our individual Divisions. You're already familiar with the figures for Siemens Gamesa and Siemens Healthineers. As always, you'll find a detailed overview of all our businesses in our Earnings Release.

I'll begin with **Power and Gas**. The Division's business environment – characterized by contracting markets, massive overcapacities, fierce competition and price pressure, particularly in the area of large gas turbines – remains unchanged. However, thanks to several major projects, including projects in the service business, orders were up 16 percent on a comparable basis.

Nevertheless, the extremely demanding business situation is impacting revenue and Adjusted EBITA. In Q1, the Division's Adjusted EBITA margin was 4.2 percent. Our estimate that the Adjusted EBITA margin would be in the low-to-mid- single-digit range for the whole of fiscal 2019 remains unchanged.

There was also a gratifying increase in orders at the **Energy Management** Division. Order intake rose 36 percent on a comparable basis. Joe has already mentioned Moray East. Also worthy of note is a high-voltage direct-current (HVDC) order for the Ultranet Project, one of Germany's most important north-south power transmission links.

EM's business performance in the area of grid control projects, which had a negative impact on Adjusted EBITA, was by no means satisfactory. We'll continue to provide very close support for these projects and monitor them intensively. As a result of these issues, together with lower revenue and lower Adjusted EBITA at our transmission products business, EM's Adjusted EBITA margin declined to 3.6 percent in Q1.

Building Technologies remains a success story for Siemens! In Q1 of the new fiscal year, the Division again posted gains in orders and revenue. At 8.5 percent, BT's Adjusted EBITA margin was somewhat below that of the previous quarters. The margin was impacted by investments in digitalization, for which we see large opportunities for future growth at BT in particular, especially in connection with our latest smaller acquisitions.

As Joe has already explained, the **Mobility** Division remains one of Siemens' outstanding businesses, with double-digit order growth. Revenue and profitability were at the same high level as in Q1 of fiscal 2018. For 21 quarters in a row, this business has been very close to, within or even above its target margin range. In Q1, the Adjusted EBITA margin was 10.9 percent.

Now to **Digital Factory**. Order intake at DF was somewhat weaker compared to the very strong first quarter of fiscal 2018, which benefited from several major orders at Mentor. We explained this to you in detail in the prior-year quarter.

All DF units – and the automation business, in particular – contributed to impressive revenue growth of six percent. From a regional perspective, China was a standout, with a double-digit increase.

At 20 percent, DF's Adjusted EBITA margin was again at the top edge of its target range. With its impressive performance in Q1 of fiscal 2019, the Division has once again reinforced its claim to be the global pioneer in industrial digitalization.

The **Process Industries and Drives** Division also made very good progress. PD achieved a clear increase in orders and revenue. Order growth was, in fact, in the double-digit range. Strong growth momentum came from China, and the commodity-related industries stabilized further. PD made substantial improvements in the operating performance of all its businesses and achieved an Adjusted EBITA margin of 9.6 percent, which also benefited from the revaluation of the Division's stake in Bentley Systems.

Last but not least: **Siemens Financial Services**, which supports our industrial businesses worldwide with tailored financing solutions, remains a highly profitable pillar within the Siemens portfolio. With a return on equity of 19.9 percent, SFS also achieved very good results in the first quarter of the new fiscal year.

We're still the partner of choice for our customers. This is very impressively demonstrated by our order intake of more than €25 billion in Q1 of fiscal 2019 and our record order backlog of €137 billion. All this was achieved by our 380,000 employees, who deserve a big "thank you"!

We'll now move Siemens forward from a position of strength. Vision 2020+ establishes the strategic framework for these measures and will make our company even more successful.

We're off to a solid start in the first quarter and confirm our outlook for fiscal 2019.