# Speech for the

# Annual Press Conference 2018

# "Guidance fully achieved again –

# Another strong year"

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Check against delivery.

**[Joe Kaeser]**

Good morning, ladies and gentlemen, and welcome to our Annual Press Conference. Good morning also to all of you who've joined us today via the Internet.

After a successful fiscal 2016 and a record year for operations in 2017, we've built on the previous years' performance again in 2018.

Once again, we've delivered what we promised and fully achieved our guidance, which we raised mid-year.

This outcome shows the excellence of our global team, which has convincingly held its ground in growth markets and difficult environments to achieve yet another strong result for the full fiscal year. This also applies – and, in some cases, applies very particularly – when we compare ourselves to the competitors in our segments.

In fiscal 2019, we'll give our business even more entrepreneurial freedom and lay the foundation for the implementation of Vision 2020+.

Growth is broad-based and occurring across nearly all our businesses:

- In some businesses – above all, in automation and industrial digitalization – we're world-market leaders. We've used the last 12 months to expand this lead. Digital Factory is the benchmark in industrial digitalization!
- Developments at our Building Technologies and Mobility Divisions have also been gratifying. BT posted its all-time best year for operations, and MO is the most successful, vertically integrated mobility company in the world.
- However, we're also facing major structural challenges in power generation. This is also clear from the figures for both our Power and Gas Division and Siemens Gamesa (SGRE) for the full year and for the final quarter.

We've taken the right steps to adjust PG's business to the changed market conditions – price pressure, structural overcapacities, the market trend toward renewable energies – and make the business fit for the future. In the area of renewables, we recognized the signs of the times before anyone else and actively shaped consolidation. Our efforts are already paying off. We've now got a strong team in place to master the challenges.

Before Ralf Thomas reports on the fourth-quarter results, I'd like to briefly discuss the figures for fiscal 2018 as a whole.

- On a comparable basis, orders rose eight percent in fiscal 2018 – a significant increase. Some 28 percent of order intake was accounted for by our power generation businesses – that is, Power and Gas and Siemens Gamesa. Our order backlog remains at the record level of €132 billion. This means one thing above all: our customers trust us and are seeking strong, reliable partners more than ever before.
- At €83 billion, revenue was up slightly by two percent despite steep declines in the area of power generation, with a 14 percent decline at PG alone. So, we're still on a growth trajectory, to which most of our industrial businesses contributed – Digital Factory, above all, with an 11 percent increase.
- As a result, our book-to-bill ratio – that is, the ratio of orders to revenue – was a strong 1.10.
- Now to the bottom line. Excluding severance charges, the profit margin of our Industrial Business was 11.3 percent and thus clearly within the target margin range of 11 to 12 percent. Most of our businesses were within or – as in the case of Building Technologies and Mobility – above their target ranges.
- Excluding restructuring charges, earnings per share for fiscal 2018 were €7.88 and thus clearly within our guidance of €7.70 to €8.00, which we raised at mid-year.

Here, too, we've kept our word.

We fulfilled our guidance for fiscal 2018 at every point. This is now the fifth year in a row that we've achieved or exceeded our guidance – even when we raised it ourselves before yearend.

We couldn't have achieved this result without a great team performance. That's why I'd particularly like to thank our 379,000 employees worldwide, who give their best for our customers every day. They've made Siemens what it is today: a company that's known and respected worldwide and that focuses on customers and customer benefit like never before.

We have many accomplishments in this fiscal year to be proud of. For example:

- In Norway, we'll be digitalizing the entire rail network by equipping it with the European Train Control System (ETCS). This trailblazing order, which has a total value of €800 million, also includes a 25-year service contract. As you can see, our transportation business is prepared for the future of mobility and excellently positioned.

- Our public listing of Siemens Healthineers was successful. The company made it onto the MDax index very quickly. Market capitalization is currently €37 billion. Since the listing, Siemens Healthineers' share price has increased by about a third. As a so-called pure play – that is, as a focused and separately managed market player – the business now has the entrepreneurial leeway it needs to shape the future of its industry.
- In July of this year, we completed our mega project in Egypt in record time. The world's three largest combined cycle power plants are now supplying energy to more than 40 million people in Egypt – reliably and efficiently.

  For me, this is an outstanding project for several reasons:

  - First, because – working across national and business boundaries – we and our partners did a great job.
  - Second, because we've provided a very concrete benefit by improving the living conditions of millions of people. For me, this is what business-to-society is all about: providing society with an exemplary and profitable service.
  - It's also gratifying that we've received profitable, long-term contracts to service and operate the power plants – this, too, is an expression of trust.

  As a result, Egypt also provides a unique demonstration of how energy systems can be designed and reliably rebuilt in other countries as well.
- We're also thought leaders in areas that are vital for the success of the digital transformation of industry. Cybersecurity is one such area. In February, we launched the Charter of Trust, in which 15 companies – including major enterprises like Cisco, IBM and Airbus – and one think tank are already participating.
- Anticipating and shaping the future of the working world in the Fourth Industrial Revolution is another important task – one that we now want to tackle with our Innovation Campus in Berlin.
- We're also extremely pleased that our commitment to sustainability continues to receive recognition. Siemens has been listed in the Dow Jones Sustainability Index 19 times in a row. This year, we were again ranked No. 1 among industrial conglomerates.

In industrial digitalization, we're now the clear No.1. Our lead increased in fiscal 2018.

This achievement is impressively demonstrated by our Digital Factory Division, which increased its revenue from industry software by 12 percent in fiscal 2018. We assume that growth will remain strong in the years ahead.

We're also leveraging the advantages of digitalization across all our businesses, via partnerships and close interaction with our customers, in all areas of electrification, automation and digitalization.

MindSphere is becoming *the* operating system for the Internet of Things. Around 1.4 million assets and datapoints have already been networked via system.

MindSphere is a strong base for our digital services. Together with our customers, we're developing new business models and digital solutions at our MindSphere Application Centers at 57 locations worldwide.

We can be proud of these developments. And we're particularly proud of them because we've succeeded in a geopolitical environment that's dominated by uncertainty and upheaval.

**[Ralf P. Thomas]**

Good morning ladies and gentlemen,

Let's take a look now at the key figures and highlights for the fourth quarter – one of the best quarters for volume in Siemens' history.

On a comparable basis – that is, excluding currency translation and portfolio effects – orders and revenue both rose five percent. Nearly all our industrial businesses contributed to this growth. Orders totaled €23.7 billion on double-digit growth at Mobility, Digital Factory, Siemens Healthineers and Power and Gas.

Revenue totaled €22.6 billion, for a book-to-bill ratio of 1.05.

Revenue increased at all Divisions except Power and Gas.

Adjusted for severance charges, the profit margin for our Industrial Business rose 100 basis points to 11.3 percent compared to the same quarter in fiscal 2017. Most Divisions were within or even above their target margin ranges.

Joe Kaeser has already mentioned the positive development at Building Technologies. I'd like to briefly highlight this area of our business again because its success story is continuing. In the fourth quarter, which is traditionally BT's strongest, the Division achieved a record-setting profit margin of 13.7 percent. Excluding severance charges, the margin would have reached 13.9 percent. As a result, BT is representative for the continuous and sustainable improvement taking place at our businesses. In Q4, profit increased year-over-year at six of our eight industrial businesses.

Due to severance charges, profit at Power and Gas was negative for the fourth quarter.

Basic earnings per share (EPS) came in at €0.69. EPS was burdened by severance charges of nearly €500 million and substantial income tax expenses related to carve-out activities at Mobility.

Free cash flow rose by 38 percent in the fourth quarter to €3.3 billion and totaled a strong €5.8 billion for the whole year.

You already know the figures for Siemens Gamesa and Siemens Healthineers. So, to save a little time, I'd like to take a brief look now at developments at a couple of our Divisions.

As always, you'll find a detailed overview of all our businesses in our Earnings Release.

Power and Gas is still operating in a very challenging market environment characterized by excess structural capacities, aggressive competitor behavior and, as a result, high price pressure – above all, in the area of large gas turbines.

- Orders at PG rose by a gratifying 13 percent on a comparable basis – a sign of our customers' trust. With multiple major orders in Egypt, our service business made the largest contribution to this result – as Joe Kaeser already mentioned. The order backlog at PG currently totals €40 billion.
- We recognized early on that we'd have to take action at PG. To make the Division more competitive, we initiated measures to reduce costs by €500 million worldwide.
- Several weeks ago, we informed you of the reconciliation of interests concluded with our employee representatives in Germany. Severance charges in the fourth quarter totaled €301 million.
- Excluding severance charges, the Division's profit margin was 4.9 percent and thus somewhat better than our most recent expectations. However, profitability was burdened by revenue and price declines. Our service business once again made a strong contribution, as did stringent project execution.
- For fiscal 2019, we still expect a profit margin in the low to mid single-digit range, excluding severance charges.

In the final quarter, we saw a completely different, very positive picture at our Digital Factory Division: double-digit growth everywhere we look.

- Volume was up significantly across all DF businesses – above all, in the software business. This increase was also due to major orders at Mentor Graphics, which we acquired last year.
- Demand at our short-cycle businesses in Q4 remained strong. However, momentum is weakening. Growth in demand from the car industry slowed, while developments in the mechanical engineering industry continued to develop favorably.
- Despite the strong negative impact of currency translation effects, the profit margin at DF increased in Q4 to 19.2 percent, excluding severance charges – an excellent result. Improvement was strongest at the Division's software business.
- A few weeks ago, the DF team scored a major success. For its Second Century Initiative, Boeing selected Siemens as a partner for electrical and electronic design.
- As a result, Boeing will significantly expand our partnership and use Siemens products and solutions company-wide. This long-term agreement offers a potential contract volume in the low triple-digit-million range.
- We're continuing to invest in our market leadership. For example, we concluded the acquisition of Mendix, effective October 1. The leader in cloud-based low-code programming platforms, Mendix is enabling us and our customers to considerably accelerate application development.
- MindSphere is off to a good start, as is shown by the rapid growth of the ecosystem and the customer base as well as in the number of applications.
- In 2019, too, we'll continue to invest in our cloud platform and in applications in order to improve our offerings to customers even further and generate growth.
- Since we're working through our backlog and have a relatively clear picture of demand for the next three to six months, we expect our short-cycle business to get off to a solid start into the new fiscal year in the current quarter.
- To sum up, DF has again delivered a world-class performance. Customers value the combination of automation and industrial software of the kind that Siemens alone can offer. The recognized industry leader, DF is outpacing its competitors across a broad front and gaining market share.

And now to the Process Industries and Drives Division. Our efforts at PD are paying off. Orders came in close to the prior-year level despite negative currency translation effects and a higher volume from major orders in the fourth quarter of fiscal 2017.

- Revenue increased at all PD businesses, also at the Division's large drives business, which provides drives for the extractive industry, for example. Revenue was up in all regions, with particularly strong growth in China.
- In short: we're seeing an impressive turnaround, with increasing stabilization on the top line.
- Excluding severance charges, the Division's profit margin rose to 6.7 percent – and this despite negative currency effects.
- In Q4, severance charges at PD totaled €85 million. They reflect, above all, the Division's planned capacity adjustments in Germany.
- As part of the company's realignment under Vision 2020+, significant parts of PD will be integrated into the Digital Industries Operating Company. With this move, we intend to transfer DF's formula for success in the discrete manufacturing industry to the process industry as well.

The Mobility Division continued its successful course, reporting double-digit growth in orders and profit and a substantial increase in revenue. In Q4, revenue at Mobility was a record-setting €2.3 billion.

- Mobility won important major orders in Germany and Austria. Deutsche Bahn, the German railway operator, awarded us another order for our ICE 4, the flagship of our Division. And in Austria, Mobility received its first order for passenger coaches as part of a larger framework agreement.
- Revenue was up at all MO business units, with the rail infrastructure and service businesses developing particularly well.
- The increase in profit was due, not least, to the excellent project execution.
- Excluding severance charges, the Division's profit margin of 10.2 percent exceeded its target margin range of six to nine percent.
- For 20 consecutive quarters, Mobility has been at, in or above its target margin range. This impressively demonstrates that we have a firm grip on quality.
- Our mobility business is therefore in excellent shape in every respect.

The basis for good and sustainable performance is reliability!

This includes executing our projects reliably, successfully, on budget and within the planned timeframe.

We've made very good progress in recent years in project and risk management. Today, we can say it again: Siemens can execute major, complex projects – whether power plant construction, wind farm construction or mobility projects, to mention only a few of our business fields.

In fiscal 2018, there were no negative net effects from project charges. This achievement is due to the fact that, over the past few years, we've significantly improved our risk management, already during the assessment phase and before concluding orders. Furthermore, we've maintained this stringency from the start of project execution up to delivery to the customer.

We'll continue on this successful path in the future.

Overall, Siemens showed itself to be in very good shape also in the fourth quarter of fiscal 2018.

We're tackling the challenges faced by some our businesses with determination and consistency.

We know what we have to do. And we're focusing on further expanding the businesses in which we're already a world leader or are on the way to becoming one.

Of course, we also want our shareholders to profit from our company's success.

That's why we'll propose a dividend of €3.80 for fiscal 2018 at our Annual Shareholders' Meeting on January 30, 2019. This marks an increase of ten euro cents over the previous year and corresponds to a payout ratio of 53 percent. We'll thus be raising the dividend for the fifth consecutive year. This, too, is impressive continuity.

Siemens' dividend policy is both attractive and oriented toward long-term value and reliability.

Share buybacks are another lever for increasing shareholder value. Since 2012, we've repurchased shares worth around €10 billion.

And we'll continue on this course: we've launched a new share buyback program with a volume of up to €3 billion, which will run until November 2021.

Not only our shareholders but also our employees will profit from our company's success. Today, more than 300,000 Siemens employees are also Siemens shareholders.

Our Siemens Profit Sharing initiative has provided a major boost in this regard. As part of the initiative, we distributed shares worth around €400 million this year to employees below the senior management level.

What are the underlying assumptions of our outlook for 2019?

We don't expect any geopolitical risks or macroeconomic factors to have a material impact on our businesses.

Most of our Divisions have proven their competitive strength on both the top and bottom lines, and they're on track for success. We expect revenue growth, increased market share and profit margin improvements at most of our businesses.

However, contracting power generation markets will slow this positive momentum somewhat.

The decline in prices will amount to about two to three percent of revenue, whereby we expect price stability at our short-cycle businesses and continued price pressure at our power generation businesses.

Personnel costs will increase by some three to four percent.

We assume that severance charges will total about €300 million to €400 million, which is within the normal course of business.

However, as we make progress with Vision 2020+, efficiency measures at some Support Functions may have an additional impact.

Expenditures for production facilities and property, plant and equipment (CAPEX) at our Industrial Business are likely to increase considerably in fiscal 2019. In other words: we're continuing to invest!

We continue to expect negative currency translation effects, primarily from currency translation effects at our businesses in emerging countries such as China, India, Turkey and Argentina. Currency translation effects are likely to have only limited impact on our profit margin.

And now for the outlook for fiscal 2019.

We expect a continued favorable market environment, particularly for our short-cycle businesses, with limited risks related to geopolitical uncertainties.

For fiscal 2019, we expect moderate growth in revenue, net of currency translation and portfolio effects. We further anticipate that orders will exceed revenue for a book-to-bill ratio above 1.

We expect a profit margin of 11 percent to 12 percent for our Industrial Business based on our current organizational structure, excluding severance charges.

Furthermore, we expect basic EPS from net income in the range of €6.30 to €7.00, also excluding severance charges.

Fiscal 2018 basic EPS from net income of €7.12 benefited from €1.87 per share in portfolio gains related to our stakes in Atos SE and OSRAM Licht AG and was burdened by €0.76 from severance charges, resulting in €6.01 excluding these factors.

**[Joe Kaeser]**

Ladies and gentlemen,

We've accomplished a great deal with Vision 2020 and have continuously improved and moved the company forward since 2013.

Here are just a few key indicators that underscore this development and show how our team has performed over the past five years.

Since 2013, we've also made major, targeted investments in the future of our company.

In fiscal 2018, we spent €5.6 billion on research and development. In the current year, we aim to increase this figure to €5.7 billion.

We're not only investing in the ongoing development of our products and solutions, we're also focusing on future-oriented fields like artificial intelligence, digital twins, distributed energy systems and the Internet of Things – areas that promise sustainable growth and a competitive advantage.

Since 2013, we've also significantly boosted expenditures for production facilities and property, plant and equipment to €3.2 billion. Examples here include the expansion of our digital factory in Chengdu, China – the country's most modern factory – and our wind turbine factory in Cuxhaven.

Since 2013, we've also continuously increased our expenditures for marketing and sales to the current level of more than €10 billion in a concerted push to further expand our market access.

Both our record order backlog and the trend in our customer satisfaction ratings, which also set a new record in 2018, prove that these expenditures are paying off.

The successes of Vision 2020 coupled with our significant up-front investments in innovation, productivity and markets were an essential prerequisite for raising the bar even higher now.

We've done this also by increasing our over-the-cycle profit margin targets for each of our companies, which we presented to you last August:

- Our Operating Companies: Gas and Power, Smart Infrastructure and Digital Industries

- Our Strategic Companies: Siemens Gamesa, Siemens Healthineers and – subject to regulatory approval – Siemens Alstom
- Our Portfolio Companies (which I presented to you as SMEs in August) – companies that together generate revenue of roughly €5 billion and whose long-term profitability we want to sustainably improve.

What special aspirations do we have for Vision 2020+? By establishing a strategic framework, Vision 2020+ will create the conditions that will enable every Siemens business to measure up against the best in its industry – and preferably set the bar in its industry.

To achieve this objective, we want to give our businesses greater entrepreneurial freedom, a culture of self-initiative that regards change as an opportunity, and greater management responsibility. This expressly includes responsibility for reaching defined targets.

For us, it also involves mainly three things: focus, accountability and adaptability.

- Focus means that the value creation of individual businesses takes precedence over common synergies.
- Accountability means assuming responsibility for one's decisions, actions and target achievement. After all, freedom, including entrepreneurial freedom, always entails accountability.
- Adaptability is the ability of an organization to learn quickly and adjust rapidly to change in a dynamic and complex environment. We want to acquire this ability, in particular, by further developing and fostering our – as we call it – Ownership Culture.

What unites us now and will unite us in the future is the strong Siemens brand, which is the door-opener for all our businesses worldwide. Another unifying factor is our Corporate Development unit, which drives cross-business innovation at Siemens.

Preparations for implementing Vision 2020+ are fully on track, and the new organization is taking shape. Vision 2020+ is deliberately limited to defining the framework, describing the rules and creating optionality.

We've now given our Operating and Strategic Companies the entrepreneurial freedom to work out the details for achieving the goals we've mutually defined.

- Implementation of the new organization will be completed by March 31, 2019, and we'll go live the next day.
- Following the publication of our second-quarter results, we'll hold a Capital Market Day at which we'll focus on detailing the strategic priorities of the Operating

Companies and, in particular, on providing specific information about their implementation. This will include information on measures to boost growth momentum and increase efficiency.

- Later this year, we'll also host an Innovation Day. At this event, which will be entirely devoted to innovation, we'll show you how Siemens "makes a difference" with customers and partners in future fields.

So, we have a clear plan that we're rigorously and carefully executing.

Naturally, some colleagues have questions since the extent of the development is becoming quite visible: we're touching the company's DNA. We all respect it, but we also know that now is the right time to take this fundamental step. And the vast majority of our 379,000 colleagues agree.

Feedback from within our organization has been very positive. Our business managers, in particular, are eager to get started and prove they can keep pace with the best of the best. This is precisely the mindset we need. Although we're tackling our task resolutely, we're also exercising great care.

Everyone will initially find a place in the new organization. And those who lose their current roles due to efficiency- or structure-related measures have a good chance of finding other opportunities.

Siemens still needs lots of people: in fiscal 2018, we took on board nearly 41,000 new hires worldwide – including, by the way, 4,700 in Germany.

We wouldn't do that if we weren't convinced of our growth and development opportunities.

Thank you very much!