SIEMENS

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Strong finish for fiscal 2015

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Check against delivery.

Today we are looking back at the first year with our new company setup. Quite a bit happened over these twelve months – with regard to geopolitical, global economic and technological changes and at Siemens itself.

The G7 agreed to achieve a decarbonization of the global economy in the course of this century – with far-reaching consequences for the allocation of resources for innovations, for value chains, and ultimately for the situation of entire industries.

The inflow of refugees is presenting Europe with a major task. At the same time, it is proving to be a stress test for Germany and the entire European Union, in every respect. These movements will have consequences for Germany. The country is changing, and it is up to us, companies and the business community, to help positively manage and shape this migration.

China's "New Normal" is a reality that we have to adjust to. Double-digit growth rates are a thing of the past. The country is facing major structural changes and social challenges. This will have effects on business with China, also on imports into the country.

The opening of Iran's market is imminent, provided that the agreement reached between the P5+1 and Iran is quickly implemented. This development will offer opportunities in numerous businesses and there will be intensive competition.

The decline in the price of oil is affecting the entire global economy in manifold ways and thus the investment behavior of oil and gas companies and national economies around the globe.

Volatile currencies, raw material prices and, above all, ongoing geopolitical tensions are causing uncertainties in business. And along with these notable changes, we are seeing the impact of digitalization. The digital transformation is extending into virtually every area of our lives and thus our business fields and those of our customers and suppliers worldwide as well. Just like the Internet for end consumers, the Internet of Things or as we call it, the "Web of Systems," will shorten value chains and thereby profoundly change entire business models – along with the competitive landscape. Customer and supplier relationships will be transformed, former competitors will disappear, and new providers will enter the market.

We are living in times of political, economic and technological changes that are faster and more profound than anything we've experienced since the Second World War. Where does Siemens stand in these turbulent times?

We, too, experienced an eventful year. But we utilized the year to focus our business and to position Siemens along the value chains of electrification, automation and digitalization. We delivered what we promised and are well positioned to deliver on our plans for the year ahead.

On the key figures for 2015: In the past fiscal year, our orders from continuing operations grew 6 percent to €82.3 billion, mostly due to currency translation and portfolio effects. While the Digital Factory, Mobility and Energy Management Divisions achieved substantial increases, order levels in our power generation business and Process Industries and Drives were lower year-over-year.

The order backlog in the Industrial Business totaled €110 billion on September 30, 2015. Roughly half this total is accounted for by fossil and renewable power generation – that is, the Power and Gas and Wind Power and Renewables Divisions. This backlog is a solid basis for the coming years.

Revenue also increased 6 percent, favored by currency translation and portfolio effects, to €75.6 billion. Energy Management, Digital Factory, and Healthcare, in particular, showed gratifying growth. Book-to-bill, the ratio between orders and revenue, was a satisfying 1.09.

Our Industrial Business increased its profit to €7.8 billion, despite substantial realignment charges of €566 million (Industrial Business), and delivered a margin of 10.1 percent. All Divisions are profitable and six out of eight Divisions were able to increase their profit year-over-year.

While Wind Power and Renewables and Energy Management considerably improved their profitability from low levels in the previous year, Digital Factory, Mobility and Healthcare are Champions League players with their impressive profitability. And even at Power and Gas, operations (excluding severance charges) lie within the set margin range, despite our difficult business environment.

Our net income climbed by 34 percent to €7.4 billion. "All-in" basic earnings per share grew 39 percent to €8.84. However, this figure naturally also includes gains of

€3 billion related to the divestments of our hearing aid business and our stake in BSH, which resulted in a one-time improvement of €3.66 in earnings per share.

We hired a total of nearly 33,000 employees in fiscal 2015, including 4,500 in Germany. Influenced by the acquisitions of Dresser-Rand and Rolls-Royce, our workforce, based on continuing operations, grew by nearly 10,000 employees to 348,000.

We delivered on all the key targets we had set for fiscal 2015. We met all points of the original outlook for the year that we had announced in November. That fact distinguishes us, in part considerably, from competitors. We are right on track in reaching our savings target, from reduced overhead costs, of €1 billion by fiscal 2016, and moved slightly ahead of schedule in the fourth quarter.

For the underperforming businesses, those units which achieved no or only very low profits, we agreed upon binding restructuring and business plans in February and are now implementing them. The first successes can already be seen: While the average margin for these businesses was still a negative 3 percent in fiscal 2014, we have now reached a margin of plus 1 percent. We want to reach 6 percent in fiscal 2017. We continue to keep all options open for these businesses.

We have noticeably improved our project management quality and structure and substantially reduced project-related net charges to around €400 million; of this total, only roughly €200 million was from our operative business. I'd like to remind you that this figure was still at €1.2 billion in fiscal 2012, and averaged around €700 million in recent years.

Our new organization's focus on market and customer proximity is proving effective. We were able to increase customer satisfaction by a full 5 percentage points within one year!

The engagement of our employees is more intact today than in a long time, despite the far-reaching changes in the company. A total of 77 percent – or more than 260,000 – of our colleagues participated in an employee survey in the past fiscal year. 92 percent of them told us that they are fully engaged for the company and ready to do even more. Even though the overall findings were somewhat lower than in the employee survey taken in 2012 and we can't be satisfied with all aspects, we still lie substantially higher than the average for comparable companies.

You certainly will ask why one conducts such a survey in the midst of the company's biggest reorganization in 25 years? Such a decision naturally takes courage, honesty and the firm will to involve employees in the change process. But we are serious about further developing our company culture. We are serious about creating a climate of openness, team spirit and personal responsibility – in short, an ownership culture.

And here as well we have made great progress. The participation of employees in our share program and other relevant initiatives is outstanding. The establishment of what we call ownership culture is in full swing across the company and everywhere in the Siemens world!

You will think this really sounds like a success story. Not quite yet – but we are well on our way to making it one! After all, we have so far reached – right on schedule – every milestone that we defined in Vision 2020. Still, much remains to be done. A long and demanding path lies ahead of us before we have fulfilled all the goals set in Vision 2020.

Above all, we must reverse the trend of declining volumes seen in past years and increase them again. This turnaround is a key task for us in fiscal 2016, although the slowing of the global economy certainly is no help here.

And we must also further boost our innovative strength. But the fact that some of our competitors are copying elements of our Vision 2020 – or now also giving their financial business an industrial focus – confirms our conviction that we have taken the right strategic course.

We look to the future with confidence and a clear focus, for we have already reached key milestones on our course. And this is also the result of hard – at times very hard – work and structural upheavals. It is all about the orientation to global and rapidly changing markets, to increasingly fierce international competition – and about the willingness and the ability to change and proactively adapt to the new situations.

As we move forward, we can't always please everyone. In all our considerations, we always give priority to Siemens as a whole. You know that already from my inaugural speech two years ago. We are also following this maxim in the current fiscal year. We have great plans for fiscal 2016 – despite a macroeconomic environment that is expected to further soften and a geopolitical environment that will be marked by tensions.

Our businesses will grow again. And, regarding orders, even grow strongly. For our Industrial Business, we expect a profit margin of 10 to 11 percent. We assume that the margin will expand with growth. For their operations, all businesses will lie at or within their target margin ranges.

Furthermore, we expect basic earnings per share in the range of €5.90 to €6.20. The earnings per share would thus increase at least 14 percent on a comparable basis. You have to compare this range to the €5.18 we achieved in fiscal 2015 excluding the €3.66 per share in gains from the divestments of the hearing aid business and our stake in BSH.

We will invest part of these earnings in innovation, for developing markets and customers and improving productivity. To this end, we intend to invest around €1 billion more in operative research and development, sales, property, plant and equipment, and intangible assets than in fiscal 2015 (excluding restructuring costs).

Fiscal 2015 was a dynamic year marked by substantial structural changes. Let me take this opportunity to remind you that this was the first year of operation in a new organizational structure. The management and all our colleagues worked hard and achieved good – in part very good – results. We want everyone to share in these successes.

Our employees will receive profit-sharing benefits totaling nearly €2.2 billion in cash and shares, plus €200 million that we agreed to contribute to the Siemens Profit Sharing Pool. We initiated this new concept of share participation one year ago so our employees can directly participate in the company's profits. Following especially successful fiscal years, one part of the generated profits, if they lie above expectations, can be paid into the Profit Sharing Pool. When the total volume of this pool reaches €400 million, then all or part of the sum will be distributed to employees worldwide, where possible in the form of Siemens shares. With a €200 million contribution in the first year, we have made a concrete start here.

The dividend for the shareholders – including 144,000 active Siemens employees – will be increased from €3.30 to €3.50. The execution of our €4 billion share buyback program, too, has made Siemens attractive to shareholders. In total we purchased through our three major buyback programs since 2008 almost 134 million shares for around €10.9 billion. Today, we are announcing a new share buyback program for up to €3 billion over a time frame of up to three years.

And as previously explained, we will continue to invest heavily in research and development, in sales, and in property, plant and equipment. Current plans earmark around €17 billion for this purpose in fiscal 2016, an increase of 7 percent over the prior year.

With the scheduled execution of our goals for fiscal 2015, the target structure for 2016 and the participation of important stakeholders in the company's success, we are implementing the core elements of Vision 2020 with prudence, consistency and transparency. In doing so, we have our eyes firmly focused on the long-term goals of our company, our customers, our employees and our shareholders.