Excellent Performance in Stabilizing Markets

Strong profit
Revenue rises sequentially

Peter Löscher, President and Chief Executive Officer of Siemens AG

“Siemens has again demonstrated its profitability impressively,” said Siemens CEO Peter Löscher. “In this regard we are profiting in particular from measures we initiated early on to strengthen our competitiveness. In times of crisis we very intentionally maintained our innovation power and are asserting our strength in the market. We expect Total Sectors profit above the prior-year level.”

Financial Highlights:

- Total Sectors profit for the quarter rose 16% year-over-year, to €2.138 billion, on higher profit in all Sectors.
- Income from continuing operations was €1.484 billion (basic EPS €1.69), up 55% from the second quarter a year earlier, and net income of €1.498 billion (basic EPS €1.70) was 48% higher.
- Revenue of €18.227 billion was down 4% compared to the prior-year period, on single-digit declines in Energy and Industry and stable revenue in Healthcare.
- Second-quarter orders of €17.844 billion came in 14% below the prior-year period primarily because that quarter included an exceptionally high volume from large orders. Nevertheless, a majority of Siemens Divisions posted higher orders compared to the prior-year period.
- Free cash flow from continuing operations was €1.251 billion compared to €1.138 billion in the second quarter a year ago.

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Orders and Revenue

Revenue stabilizing, order development still uneven

Market development was again mixed for Siemens in the second quarter. While the Industry Sector saw signs of improving market conditions in its short-cycle businesses, some energy and industrial infrastructure businesses experienced further market contraction. As a result, orders came in 14% below the prior-year period, which included a peak volume from major orders. Due in part to the cushioning effect of strong order backlogs in a number of infrastructure businesses, revenue came in only 4% below the prior-year period and rose compared to the first quarter of fiscal 2010 in all three Sectors. The combined book-to-bill ratio for the Sectors was 0.98, and the combined order backlog increased slightly, to €84 billion, due to currency translation effects.

Modest revenue decline, growth in emerging markets

Revenue in Industry fell 4% on double-digit decreases at Drive Technologies and Industry Solutions, partly offset by increases in other Divisions led by OSRAM. Energy reported a decline of 3%, due primarily to lower revenue at its power grid businesses. Revenue in Healthcare came within 1% of the prior-year period.

On a geographic basis, revenue declined in the Americas and the region comprising Europe, the Commonwealth of Independent States, Africa and the Middle East (Europe/CAME). The general trend of stronger sales in emerging markets in the quarter was particularly evident in Asia, Australia, which posted 10% revenue growth.

Lower volume of large orders in Energy and Industry

In comparison with the prior-year period, which included the high volume from major orders mentioned above, orders came in 26% lower at Energy and 9% lower at Industry. The Industrial Automation and Drive Technologies Divisions recorded their first year-over-year order increases in more than a year. Healthcare orders came in level with the same quarter a year earlier.

On a geographic basis, Europe/CAME and Asia, Australia saw double-digit order declines due primarily to Energy and Industry as mentioned above. Growth in the Americas was due to higher order intake in Industry and Healthcare.
**Income and Profit**

**Higher profit in all Sectors**

Total Sectors profit for the second quarter rose to €2.138 billion, on increases in all three Sectors. The Sectors’ profit benefited from €180 million in gains related to curtailment of pension plans in the U.S., with the largest gains recorded at Healthcare and Industry. The pension gains were offset by €125 million in charges for capacity adjustments, most notably in Energy and Industry.

Energy’s profit growth came primarily from the Fossil Power Generation Division, which improved its business mix. Healthcare improved its business mix and cut functional costs compared to the prior-year period, and also continued to benefit from a favorable currency hedge. The Industry Sector demonstrated the success of measures taken to address the economic downturn, profiting from improving markets for its short-cycle businesses.

**Lower costs below the Sectors lift income from continuing operations**

Income from continuing operations was €1.484 billion, up 55% compared to the second quarter a year earlier. The two major factors in the increase year-over-year were higher Total Sectors Profit and a significant improvement in Corporate items and pension expense, which were reduced to a negative €156 million from a negative €451 million in the prior-year period. In particular, Corporate items benefited from income resulting from resolution of compliance-related matters.

The increase in income from continuing operations also included improved results from Centrally managed portfolio activities and higher income from Siemens Real Estate compared to the prior-year period. The pretax gains on the pension plan curtailment mentioned above totaled €192 million for Siemens as a whole.
Cash, Return on Capital Employed (ROCE), Pension Funded Status

Strong Free cash flow from Sectors

Free cash flow at the Sector level climbed 35% compared to the prior-year quarter, to €2.572 billion, due mainly to lower net working capital and tight control of capital expenditures.

Free cash flow from continuing operations was €1.251 billion compared to €1.138 billion in the same period a year earlier. The current period includes approximately €0.2 billion in outflows related to severance charges and substantially higher payments related to income taxes, cash outflows for treasury activities and supplemental pension funding in the UK. For comparison, the prior-year quarter includes approximately €0.3 billion in outflows stemming from charges related to project reviews and structural initiatives as well as to SG&A reduction.

ROCE rises on higher income

On a continuing basis, return on capital employed (ROCE) rose to 15.1% from 9.2% in the second quarter a year earlier. The increase was due mainly to higher income from continuing operations. To a lesser extent, ROCE improved on a decline in average capital employed.

Pension underfunding increases

The estimated underfunding of Siemens’ principal pension plans as of March 31, 2010, amounted to approximately €4.6 billion, compared to an underfunding of approximately €4.0 billion at the end of fiscal 2009 and approximately €4.2 billion at the end of the first quarter.

The decline in funded status since December 31, 2009 is due to an increase in Siemens’ defined benefit obligation (DBO), which was only partly offset by a positive return on plan assets and the supplemental pension funding in the UK. The DBO rose mainly due to a decrease in the discount rate assumption as of March 31, 2010 which more than offset an effect on the DBO from the pension plan adjustment in the U.S. While the change in funded status generally does not affect earnings for the current fiscal year, it affects equity on the balance sheet.
Industry Sector sees signs of stabilizing demand

Profit rose 17% at Industry, to €783 million, driven by strong turnarounds at Industry Automation and OSRAM. Capacity and cost reduction measures in prior periods improved profitability, and demand strengthened in short-cycle businesses. Industry took €50 million in severance charges, including related costs, during the quarter.

Sector profit includes €76 million of the pension gain mentioned earlier, which affected all Divisions within the Sector. This was more than offset by charges related to a project engagement with a local partner in the U.S. and a provision for a supplier-related warranty.

Revenue came in 4% lower, due primarily to weaker demand for the Sector’s process automation and late-cycle manufacturing businesses compared to the prior-year period. While orders declined 9% overall, this was due to a high basis of comparison at Mobility in the prior-year period which included an exceptionally large order in China. In contrast, all other Divisions except for Industry Solutions posted an increase in second-quarter orders year-over-year. On a geographic basis, revenue growth in Asia, Australia partially offset declines in Europe/CAME and the Americas. Orders rose in the Americas but came in lower in Europe/CAME and Asia, Australia due to lower volume from major orders.

The Sector’s book-to-bill ratio was 0.97 and its order backlog remained at €28 billion. Industry is closely monitoring capacity utilization and expects to continue adjusting capacity to the extent necessary.

Broad-based profit growth, demand in emerging markets

The Industry Automation Division generated profit of €202 million, well above the recessionary level of the prior-year period. Cost and capacity measures helped all business units report higher earnings. Restoration of customer demand fueled a broad-based increase in orders and revenue. In particular, the Division’s 14% increase in orders included accelerated growth in emerging markets. Purchase price accounting (PPA) effects related to the purchase of UGS Corp. in fiscal 2007 were €34 million in the current quarter and €36 million in the prior-year period.

Late-cycle businesses reaching bottom

Drive Technologies contributed €189 million to Sector profit in the second quarter. The Division’s volume-driven decline in profit was due mainly to its drives businesses, which typically lag macroeconomic cycles. Order development in the second quarter indicated that markets are stabilizing on a lower level for Drive Technologies. The Division’s 11% order increase compared to the prior-year period included growth in all regions and business units.

Industry Sector

Profit Sector

- Q2 2009: €671 million
- Q2 2010: €783 million

Profit margin Sector

- Q2 2009: 7.8%
- Q2 2010: 9.4%

New Orders & Revenue Sector

- Q2 2009: €8,801 million
- Q2 2010: €8,298 million

Figures in millions of €
Steady execution in challenging environment

Cost discipline helped Building Technologies increase its profit despite a decline in revenue. Profit was held back by the supplier-related warranty, largely offset by a portion of the pension gain mentioned above. Rapid growth in emerging economies enabled the Division to post a modest increase in second-quarter orders compared to the prior-year period.

New demand cycle gains momentum in lighting

OSRAM’s profit of €153 million benefited from €23 million of the pension gain mentioned above, and from a rebound in revenue compared to the prior-year period which significantly improved capacity utilization. Profit also rose on an improved product mix and streamlined cost structure. All business units reported higher revenue and earnings compared to the prior-year period, and revenue rose in all regions. With increasing demand for next-generation solid-state and LED lighting solutions, OSRAM intends to invest in market expansion and LED production capacity in coming quarters.

Downturn continues to affect process industries

Industry Solutions continued to address the effects of the downturn in global process industries. The Division’s profit of €2 million in the quarter was burdened by €63 million in charges related to a project engagement with a local partner and €38 million in severance charges, including related costs, for ongoing capacity adjustment measures. Both revenue and orders came in lower than the prior-year period.

Higher profit, steady revenue generation from strong backlog

Mobility delivered profit of €127 million, benefiting from a portion of the pension gain mentioned above. Earnings rose in all business units, due in part to the strength of Mobility’s order backlog after selective order intake in prior periods. Second-quarter orders came in well below the prior-year level, which included an exceptionally large order for high-speed trains in China.
Strong backlog sustains revenue and profitability

The Energy Sector reported profit of €863 million and was the top contributor to Total Sectors profit. Profitability was burdened by charges of €59 million for capacity adjustments at Fossil Power Generation which more than offset €25 million of the pension gain mentioned earlier. Fossil Power Generation was again the primary driver of Sector profit growth. Challenging market conditions included customer postponements of large infrastructure projects and pricing pressure on available tenders. As a result, second-quarter orders fell 26% year-over-year, due mainly to lower volume from major orders. The Sector’s strong order backlog cushioned market effects on revenue, mainly at Fossil Power Generation and Renewable Energy. Revenue still declined 3% for the Sector, due primarily to the power grid businesses. On a regional basis, orders declined in Europe/CAME and the Americas and rose in Asia, Australia. Revenue was higher in Europe/CAME and decreased in the Americas and Asia, Australia. The Sector’s book-to-bill ratio was 0.98 in the second quarter, and currency translation effects lifted its order backlog slightly, to €50 billion.

Improved revenue mix in contracting market

Fossil Power Generation delivered another strong performance, taking second-quarter profit up 11% year-over-year, to €347 million. An improved business mix compared to the prior-year period included higher-margin projects from the order backlog and an increased revenue contribution from the Division’s products business. Fossil Power Generation took €59 million in charges for capacity adjustments related to a shift of production capacity within the Americas region, including €26 million for severance. This impact was partly offset by the Division’s share of the pension gain mentioned above. Second-quarter revenue rose 3% year-over-year on order conversion from the backlog. In contrast, order intake in the current period was heavily influenced by market contraction. For comparison, second-quarter orders a year earlier included €1.1 billion in contracts in Iraq.

Steady performance in dynamic environment

Renewable Energy continued to face an environment characterized by large orders, tight debt financing markets and adverse consequences from the economic downturn. The Division’s profit rebounded from the low level of the first quarter to €107 million, up slightly compared to the prior-year period. Revenue rose 8% year-over-year, on conversion from the order backlog. Orders came in significantly lower compared to the prior-year period, which included several large off-shore wind-farm orders. The Division expects a book-to-bill ratio well above one in the second half of the fiscal year.
Favorable revenue mix, rebound in orders

The Oil & Gas Division contributed €127 million to Sector profit in the second quarter, above the prior-period level despite lower revenue. A favorable revenue mix again included a strong contribution from the service business. Orders climbed from the level of the prior-year quarter, which included relatively low volume from major orders.

Stable profit contribution, continued market challenges

Power Transmission held second-quarter profit near the prior-year level, at €161 million, despite lower revenue most notably in the transformers business. The Division saw an 11% order decline due in part to lower volume from major orders compared to the prior-year period.

Lower revenue reduces profit, order development stabilizing

Profit at Power Distribution declined modestly, to €100 million, despite benefiting from higher equity investment income as well as its portion of the pension gain mentioned above. Weak order development during the prior year led to significantly lower revenue conversion in the current period, particularly in the medium-voltage business. With demand stabilizing, Power Distribution was able to record its first year-over-year increase in quarterly orders in more than a year.
The Healthcare Sector substantially increased second-quarter profit year-over-year. Passage of healthcare reform legislation in the U.S. removed some uncertainty in the market and contributes to an easing of customer restraint regarding capital expenditures. Strong revenue growth in Asia, Australia partly offset declines in other regions, which resulted in part from pressure on public spending for healthcare in developed economies. Profit climbed to €492 million from €355 million in the prior-year quarter, benefiting from €79 million of the pension gain in the U.S. mentioned earlier, which affected all Divisions in the Sector. Sector profit continued to benefit from a favorable currency hedge which affected results primarily at Imaging & IT. In addition, profit increased due to structural cost savings and a favorable product mix at Imaging & IT. PPA effects related to past acquisitions were €44 million in the second quarter. In addition, Healthcare recorded €26 million of integration costs associated with the next phase of integration activities at Diagnostics. In the same quarter a year earlier, PPA effects and integration costs totaled €64 million.

Orders came in nearly level with the same quarter a year earlier, even though that period included an unusually large order at Workflow & Solutions. Strong order growth at Imaging & IT included double-digit increases in Asia, Australia and the U.S. Second-quarter revenue was within 1% of the prior-year level, and also included growth in Asia, Australia for Imaging & IT and Diagnostics. Excluding negative currency translation effects, orders rose 1% and revenue remained flat. Healthcare’s book-to-bill ratio was 0.99 in the second quarter. Its order backlog increased to €7 billion due to positive currency translation effects.

Order growth driven by Asia, Australia

Imaging & IT increased second-quarter profit to €374 million from €265 million in the prior-year period. Along with a favorable product mix and structural cost savings, the Division’s profitability benefited from €44 million of the pension gain and from the currency hedge both mentioned above. Imaging & IT achieved double-digit growth in revenue and orders in the Asia, Australia region, particularly including Japan and China. Overall, orders rose 7% and revenue remained level compared to the second quarter a year earlier. On an organic basis, orders rose 8% and revenue increased 1% compared to the prior-year period.
Lower profit on revenue decline

Workflow & Solutions posted €22 million in profit, benefiting from €7 million of the pension gain mentioned above. Lower profit was due mainly to a decline in revenue, particularly in Europe/CAME. Orders also came in lower, primarily because the prior-year period included the large order in Asia, Australia mentioned above.

Topline growth in emerging markets

Revenue at Diagnostics rose 4% compared to the second quarter a year earlier, or 5% on an organic basis, excluding currency translation effects. The increase came primarily from emerging markets in Asia, Australia and the Americas. Revenue was stable in Europe/CAME.

Profitability rose from the prior-year level due in part to volume-driven economies of scale and lower SG&A expenses compared to the prior-year period, and also benefited from €22 million of the pension gain mentioned above. These positive factors more than offset an increase in total PPA effects and integration costs. In the second quarter a year earlier, these impacts were €47 million and €17 million, respectively. In the current period, PPA effects were €44 million, and the Division also recorded €26 million in costs for integration activities.
Market challenges continue for Equity Investments

In the second quarter, Equity Investments recorded a loss of €87 million compared to a loss of €113 million a year earlier. The result related to Siemens’ stake in Nokia Siemens Networks (NSN) was a negative €169 million compared to a negative €136 million in the prior-year period. NSN reported to Siemens that it took restructuring charges and integration costs totaling €125 million in the current quarter, compared to a total of €123 million in the same period a year earlier. Siemens’ income from Equity Investments is expected to be volatile in coming quarters.

Siemens IT Solutions and Services impacted by weak IT demand

Second-quarter revenue and orders at Siemens IT Solutions and Services both showed a double-digit decline year-over-year due to challenging external markets and streamlined internal business with Siemens. Lower revenue resulted in a loss of €10 million in the current period compared to a profit of €25 million in the prior-year period. A previously announced plan to reduce its workforce is expected to result in substantial charges in coming quarters.

Robust profitability in finance business

Siemens Financial Services delivered €97 million in profit (defined as income before income taxes), including higher results in the commercial finance business. For comparison, profit of €117 million in the prior-year quarter included higher income from SFS’ internal services and equity businesses. Total assets rose slightly, to €11.958 billion.

Profit

Figures in millions of €

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<th>Actual change</th>
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Profit margin

Figures in millions of €

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<td>2.2%</td>
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New Orders & Revenue

Figures in millions of €

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Profit

Figures in millions of €

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Total Assets

Figures in millions of €

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Return on Equity (ROE)*

Figures in millions of €

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<tr>
<td>39.8%</td>
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* ROE is calculated as annualized income before income taxes of Q2 divided by average allocated equity for Q2 2010, which was €1.473 billion compared to €1.176 billion in the prior-year period.
Reduced losses at electronics assembly systems business

Centrally managed portfolio activities posted an aggregate loss of €25 million in the second quarter compared to a loss of €96 million in the prior-year period. The improvement was due primarily to the electronics assembly systems business, which reduced its loss to €22 million from €86 million in the prior-year quarter. While both periods under review included severance charges, the prior-year period also included impacts from impairments. Divestment of this business is expected to result in a loss. In addition, the second quarter a year earlier included a loss on the divestment of an industrial manufacturing unit in Austria, largely offset by positive effects related to former Con activities.

Higher gains from real estate disposals

Income before income taxes at Siemens Real Estate (SRE) was €107 million in the second quarter, up from €37 million in the same period a year earlier. The increase is due primarily to higher income related to the disposal of real estate. Assets with a book value of €194 million were transferred to SRE during the quarter as part of Siemens’ program to bundle its real estate assets into SRE. SRE will continue to incur costs associated with the program in coming quarters, and expects to continue with real estate disposals depending on market conditions.

Corporate items benefit from compliance-related matters

Corporate items and pensions totaled a negative €156 million in the second quarter compared to a negative €451 million in the same period a year earlier. This change was driven by Corporate items, which were a negative €105 million compared to a negative €368 million in the second quarter of fiscal 2009. The current quarter benefited from a gain of €96 million, net of related costs, resulting from an agreement with the provider of the Siemens’ directors and officers liability insurance and settlements with former members of Siemens’ Managing Board and Supervisory Board, as well as income of €38 million related to the agreed recovery of certain funds frozen by authorities. For comparison, the prior-year period included a charge related to legal and regulatory matters, €33 million in expenses for outside advisors engaged in connection with investigations into legal and regulatory matters, and €33 million in net negative effects related to severance programs.

Stable result for Eliminations, Corporate Treasury and other reconciling items

Income before income taxes from Eliminations, Corporate Treasury and other reconciling items remained stable compared to the prior-year quarter, at a negative €32 million. Lower refinancing costs due to lower interest rates were offset by negative effects on changes in fair market value from interest rate derivatives not qualifying for hedge accounting.
Outlook

While market conditions for our shorter-cycle businesses have started to improve, we anticipate that conditions for our late-cycle businesses will remain challenging in the second half of the fiscal year. We continue to expect a mid-single-digit percentage decline in organic revenue in fiscal 2010 due in part to the stabilizing effect of our strong order backlog.

We expect Total Sectors profit for fiscal 2010 above the prior-year level of €7.466 billion. This increase from our earlier guidance of €6.0 to €6.5 billion correspondingly raises our expectation for after-tax growth in income from continuing operations.

This outlook excludes major impacts that may arise from restructuring, portfolio transactions, impairments, and legal and regulatory matters.
today beginning at 09:00 a.m. CEST, the telephone conference at which CEO Peter Löscher and CFO Joe Kaeser discuss the quarterly figures will be broadcast live on the Internet at www.siemens.com/conferencecall. The accompanying slide presentation can also be viewed here, and a recording of the conference will subsequently be made available as well. Starting at 15:00 CEST, Peter Löscher and Joe Kaeser will hold a telephone conference in English for analysts and investors, which can be followed live at www.siemens.com/analyticsconference.