Solid Q3 performance, softening market environment

Combined Press and Analyst Call
Third Quarter, Fiscal 2015

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EMBARGOED UNTIL 09:00 CEST
During this quarter we continued to execute on Siemens Vision 2020 as planned. I just want to highlight some important milestones.

First, in May we reached agreements with the workers representatives for comprehensive measures to improve productivity and simplify structures in the support function areas. Implementation of these measures across the organization is in full swing to drive our performance towards 2016. In total we recorded 274 million euros severance charges. Negotiations with the workers representatives for the recently announced actions on footprint optimization and fixing the underperforming businesses are in advanced stages.

Second, we strengthened our core and closed the Dresser-Rand acquisition, giving us a significantly strengthened offering and footprint in the Oil and Gas industry and for distributed power generation. Integration has started and initial customer feedback is very encouraging despite an ongoing depressed oil price.

And third, Mobility signed a major 1.6 billion euros, 40-year service contract for regional trains in Russia. We will further scale up increasingly data driven service business as one of the key levers for structurally improving profitability.

Overall the business environment started to soften further in the third quarter while the geopolitical environment saw encouraging moves. However, there are continued risks from various geopolitical conflicts, economic issues like Greece, volatile currencies and raw material prices creating uncertainties in the business going forward. On the other hand political reforms such as in India or the recent agreement relating to the Iranian nuclear program pose opportunities if executed in a stringent way.

Our short cycle business showed moderate growth on robust demand from automotive and machine builders particularly in Europe, although ongoing signs of weakness in China remain a concern. In the US we continue to see steady growth in the construction and consumer related end markets, while the strong US dollar weighs on export driven industries.

In this low global growth environment we continue to focus our resources on being even closer to customers to tap existing pockets of growth such as with a more regionalized business approach in Power and Gas and other areas.
Now, let me highlight some key developments in the third quarter. The product and service business delivered healthy order growth. However, compared to the same quarter a year ago, we saw significant lower large order volumes in Power and Gas, Wind Power as well as Process Industries and Drives, adding up to an overall order decline of 5 percent.

Revenue was down by 3 percent mainly driven by the project businesses, while Healthcare, Digital Factory and Energy Management showed their strength also in growing the business.

Nominal volume growth benefited from translation tailwinds, which added 8 percentage points to orders and 9 percentage points to revenue development.

As previously indicated the positive FX-impact on profitability accelerated and reached around 70 basis points in the third quarter. We expect this to continue in the fourth quarter. Overall the reported Industrial Business margin stands at 9.5 percent for the quarter and excluding severance charges at 10.4 percent despite a softening market environment.

Income from continuing operations declined by 7 percent due to negative swings in Corporate Items and Centrally Managed Portfolio Activities. Main driver were severance charges of 97 million euros in Corporate Items and losses from a number of items in Centrally Managed Portfolio Activities of in total 47 million euros. As previously indicated, we are cautious regarding the development of CMPA which can be volatile, among other things, also due to changing interest rates and structural movements in the centrally held portfolio assets.

Net Income benefitted from positive tax effects in Discontinued Operations related to previously divested businesses.

Free cash flow was substantially weaker year over year in particular due to higher net working capital in the project businesses of Wind Power as well as Power and Gas. For the fourth quarter, we expect a seasonally strong free cash flow development albeit below prior year.

The execution of the buyback program is well on track. Until last week we have already bought back shares for more than 3.2 billion euros and expect the program to continue as planned.
Now let’s look at some key developments in the Divisions.

**Power and Gas** is consistently implementing its growth and productivity program PG 2020 to improve its market and cost position by footprint optimization and accelerated innovation. The environment remains challenging with global overcapacities and an aggressive competitive behavior.

A further key priority is the stringent reverse integration of Dresser-Rand and the Siemens compressor business. The first line management is defined and we focus in the fourth quarter on providing a seamless customer interface as well as implementing early synergies particularly in procurement. In addition we are planning in depth the global operations footprint of the combined business to capture synergies as planned.

In the third quarter orders were down on tough comparables due to fewer turnkey projects. However we succeeded well in the market by selling 17 large gas turbines. Demand increased particularly in the US and Mexico.

We signed the largest order ever in Egypt with 14.4 Gigawatt and 6 billion euros order volume, of which around 3.6 billion euros are within the Siemens scope. Depending on the financial close we expect the major portion of the order to be booked in the first half of fiscal 2016. Together with the customer we have set up a fast track time schedule to deliver 4.4 Gigawatt within 18 months.

As expected, profitability in Power and Gas was impacted by lower margins in the large gas turbine business and higher selling and R&D expenses, while the service business was a strong profit contributor. The quite decent performance was dampened by having to take a charge of 106 million euros related to a project booked in 2011 where supply and labor conditions have significantly worsened since then.

As already indicated we expect the PG margin to be around the lower end of the margin range excluding severance charges for full fiscal year 2015.

**Wind Power** managed to swing to profit and delivered a margin of 3.6 percent. Main profit contributor was the service business. We expect the fourth quarter to be very strong in terms of orders, since we already booked the major mid three digit million euros offshore order Veja Mate in July.
We like what we see on the **Energy Management** slide: a lot of green color. Energy Management reached a profit margin of 3.7 percent and is making steady progress across the businesses. The restructuring program “Transform to Win” is well on track to drive profitability. Order growth was mainly driven by large projects in the Middle East. The team achieved significant milestones and has now handed over the four offshore grid connection projects to the customer TenneT.

**Building Technologies** had quite a strong quarter with accelerating order growth driven by the Americas. The margin improvement to 8.0 percent was supported by a favorable mix with higher product and service share. In addition the stringent execution of productivity measures helped to mitigate the effects from appreciation of the Swiss Franc.

**Digital Factory** delivered an excellent quarter in all aspects. Here, we can already clearly see the desired impact of the organizational changes as of October 1st, 2014.

As expected, China saw a moderate revenue decline due to soft growth momentum in industrial production. In addition the distribution channels are still well filled. Thus short term demand might be at the lighter side of the expectations. The US, Germany and Italy delivered growth benefitting from the high level of production in the Automotive and Machinery industry. Digital Factory continuously invests into further feet on the street and innovation to target additional growth potential.

A clear highlight was the successful completion of the biggest CAD Software migration project at the key customer Daimler to our NX software within the planned schedule.

**Process Industries and Drives** faced lower volume from large orders on tough comparables and ongoing weak demand from commodity related industries. Margins came back nicely quarter over quarter towards the lower end of the target range but the challenges in the Oil and Gas, Marine and Large Drives Solution business continue for quite a while. Further measures to optimize the footprint and reduce cost are under way.

Let’s move on to **Mobility**, which delivered a solid quarter with 5.8 percent profit margin including a negative impact of 160 base points for severance charges. Organic revenue declined due to the timing of milestones for large rail projects, while the Infrastructure and Service business delivered profitable growth.
An important milestone for the Velaro D was achieved with the start of cross-border commercial service to Paris during June.

Finally, we were pleased with the Healthcare performance. Orders were up 4 percent on increases in all businesses driven by very strong showing of clear double digit equipment growth in the Americas. The decline in Asia is related to a weaker development in China partly due to tough comps and an expected and continued slowdown in the market. Diagnostics and Imaging showed an excellent profitability development which as expected was also supported by currency tailwinds.

Healthcare is progressing like planned to further optimize its business, operationally as well as strategically! It will be set up to become the enabler for healthcare providers globally.

Building on the successful implementation of Agenda 2013 and recent portfolio optimization the Healthcare organization will be realigned. Focus is on strengthening the Regions and a new set-up of Business Areas which are tailored to specific customer requirements. As defined in Vision 2020, Healthcare is aiming to grow in the following fields: Image-guided Therapy; Molecular diagnostics; and in services like Managed Equipment Services or digital health services.

Before moving to your questions, let me close with a brief remark on our unchanged outlook: It remains unchanged.