SPEECH PRESS CALL Q2/2018

"INVESTMENTS IN DIGITAL INDUSTRY MAKING AN IMPACT"

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Check against delivery.

[Ralf P. Thomas]

Good morning, ladies and gentlemen.

Welcome to our press call for the second quarter of fiscal 2018. Thank you for dialing in.

Before we turn to our business figures, I'd like to briefly highlight some of the underlying conditions of the past quarter.

Headlines in the past few months have been dominated by geopolitical tensions and uncertainties.

You're all familiar with reports of the Syrian conflict, discussions of the Iran treaty and the U.S. government's expansion of its Russia sanctions. On the Korean Peninsula, on the other hand, we're seeing what appear to be encouraging developments.

The U.S., Europe and China may, however, be on the verge of major trade disputes that could negatively impact the free exchange of goods and services.

Why am I emphasizing this? As you know, Siemens is active in more than 200 countries and has always been committed to free and fair trade. Our position is that free trade must benefit all nations – and that protectionism is poison for the world economy. In view of current developments, our commitment to this position is now even stronger.

So, the geopolitical challenges remain substantial. Still, we haven't yet registered a slowdown in the world economy. The global upturn is continuing.

In this demanding environment, most of our businesses have maintained their strong performances of the previous quarters and are within or above their respective target margin ranges.

The Power and Gas Division, which accounts for 15 percent of our revenue, continues to operate in a contracting and fiercely competitive market. Lisa Davis will explain the related structural changes and our responses to them in a moment.

All in all, however, we're operating in attractive growth markets in which there is strong demand for our products and solutions.

It's increasingly clear that our sharp focus on the digitalization of our businesses is paying off.

“Digital Siemens” is already a success story. We want to sustain this success – and we will sustain it.

This applies first of all, of course, to our Digital Factory, but also to a large number of other Siemens businesses.

Take, for example, process automation at the Process Industries and Drives Division, rail automation at Mobility and the digital grid business at the Energy Management Division – to name just a few.

All these businesses have become even more competitive because they’ve been rigorously driving digitalization – to the benefit of our customers, in particular.

This also applies, by the way, to Power Generation Services, whose digital services such as remote gas turbine monitoring are in great demand. As a result, Power Generation Services is helping stabilize the Power and Gas Division somewhat.

Let’s take a look now at the most important key figures for the last quarter:

The book-to-bill-ratio – that is, the ratio of orders to revenue – was a healthy 1.11 despite a substantial decline in new business at Power and Gas.

The order backlog was an impressive €129 billion, once again a new record. And it wasn’t just the backlog’s level that was high; its quality was also very high.

At €22.3 billion, orders were virtually unchanged year-over-year.

Our standard products business – in which individual orders do not exceed €50 million – showed strong growth. This indicates that the development of our business volume is on a broad and solid base.

At €20.1 billion on a comparable basis, revenue was slightly above the figure for the prior-year quarter. Revenue increased – and in some cases increased substantially – at six of the eight units in our Industrial Business. However, this increase was negatively impacted by a decrease in revenue at Power and Gas of slightly more than one-fifth.

We’re very satisfied with the Industrial Business profit margin of 11.0 percent. Six of eight businesses were within or even above their respective target margin ranges.

Net income of €2 billion included a one-time gain of €900 million resulting from the transfer of Atos shares to the Siemens Pension Trust.

Our strategic partnership with Atos, to whose joint innovation and investment program we added €100 million in Q2, had a tangible positive financial impact.

The transfer of our Atos shares substantially increased the funded status of our pension obligations. This funding is now at its highest level since fiscal 2012, and we're now one of the leading DAX30 companies in this regard.

We've also set a new standard with our equity culture. More than 300,000 Siemens employees worldwide – or around 80 percent of our total workforce – are also Siemens shareholders.

The distribution in March of some €400 million from the Siemens profit sharing pool was a major step forward in the development of our equity culture. Experience has also shown that employee shareholders are very often long-term investors, and we're especially pleased by this commitment to our company.

How did our individual businesses develop in Q2?

Our Energy Management Division continued its broad-based improvement with a clear increase in revenue and profit. The Division's profit margin is well within its target range. As these quarterly figures underscore, EM is clearly headed in the right direction.

Our Building Technologies Division once again delivered an excellent operating performance with a strong profit margin of 10.9 percent. In its project execution, in particular, the team's work in Q2 was again outstanding. Revenue rose on a broad basis across all Regions.

Building Technologies is a Siemens success story, and the Division's clear orientation toward digitalizing building systems is increasingly paying off.

The Mobility Division – which has now reached or, as in Q2, exceeded its target margin range for 18 quarters in a row – continues to be a source of great satisfaction to us.

Mobility is continuing on its successful course, with a sharp focus on quality, concentrated order execution and strong growth. The Division's profit margin of over 11 percent is unparalleled in its industry.

The management team – led by Sabrina Soussan, Michael Peter and Karl Blaim – and all the Division's employees are doing a truly outstanding job.

As a result, our mobility business is in excellent shape for its planned combination with Alstom.

In Q2, we signed a business combination agreement, marking another major milestone in this transaction.

Now to Digital Factory: as I've already mentioned, this Division again delivered an outstanding performance in Q2, with double-digit growth in orders, revenue and profit. Digital Factory truly deserves the title "world-class."

The Division's profit margin of 20.9 percent was driven primarily by its PLM software business and by factory automation.

The acquisition of Mentor is paying off. Mentor is far more than just a great business on its own account; it's also an enormously important component of our full range of industrial software offerings.

We're the unchallenged pioneer worldwide in the area of industrial digitalization, and we continued to expand our market share in Q2. The strength of our entire portfolio was once again impressively on display at the Hannover Messe at the end of April.

Under the banner "Digital Enterprise – Implement Now!" we welcomed more than 100,000 visitors to our booth – or nearly one of every two trade show attendees. The resonance was very positive: we registered more than 7,400 leads – that is, concrete customer inquiries. That's an outstanding achievement, and it now gives us an opportunity to partner with our customers to meet their market needs even more precisely.

We presented visitors with a wide array of practical solutions – solutions that are helping our customers leverage the benefits of the digitalization success factor in their respective businesses even more effectively.

MindSphere – our open, cloud-based operating system for the Internet of Things – is naturally playing a key role here.

Our Process Industries and Drives Division is making solid progress with its turnaround program. Despite substantial improvements, the Division hasn't quite reached its target margin range.

Orders at the Division rose substantially. Revenue and profit also grew. Margin development is also headed in the right direction.

Development in PD's markets has recently been mixed. While the commodities industries have further stabilized, demand for mechanical components in the wind power sector has remained weak.

Turning now to Siemens Healthineers: as a shareholder, we're very pleased by Healthineers' second-quarter profit, which was announced last week, and by its management's confirmation that the business is right on course to meet its target for the full fiscal year.

An "historic event" took place on March 16, when we were allowed to ring the bell at the Frankfurt Stock Exchange to signal the initial public offering of Siemens Healthineers.

The market environment at the time was not easy. Nonetheless, we were able to list Siemens Healthineers very successfully. It was one of the largest IPOs of a healthcare company in history.

The offering structure we selected enabled us to attract a large number of long-term investors. And we achieved a launch that was strong – also compared to other IPOs.

As a separate, publicly listed company and with Siemens as a long-term majority shareholder, Siemens Healthineers can now leverage its potential even better and play a key role in helping shape the future of healthcare technology.

Let's take a look now at our wind power business. The market environment for Siemens Gamesa continues to be challenging. Price pressure in the wind sector is unremitting, which is also reflected in SGRE's profit margin.

That's why it's extremely important that Siemens Gamesa is rigorously implementing its L3AD2020 ("lead 2020") strategy program.

Analysts at MAKE Consult, a leading consultancy to the wind industry, have recently determined that SGRE increased its global market share in 2017 by 3.3 percentage points to 17.2 percent. As a result, the young company is already the world market leader in the wind business.

And orders in the last quarter signal a positive outlook for the future. For example, SGRE won important onshore orders in India and the U.S.

With its customer Ørsted, previously Dong, SGRE also signed an exclusive supply agreement for HornSea2 – which, when completed, will be the largest offshore project of all time, generating nearly 1.4 gigawatts of electricity.

By continuously cutting the costs of wind power through industrialization, technological innovations and digitalization, SGRE is strengthening the competitiveness of this environmentally vital form of power generation, turning it into a model of economic success and thus making a major contribution to the global economy.

[Lisa Davis]

Good morning, ladies and gentlemen! Over the past few years, we've provided continuous updates on the market environment and performance of Siemens' Power and Gas Division. I'd like to give you another update today.

Overall, the market environment for Power and Gas remains tough. Let's start by taking a look at our three product markets: large gas turbines; small, medium, and aero-derivative gas turbines; and compressors.

Since 2015, demand in all three markets has contracted by 30 percent or more, and we've also seen a substantial decline in prices.

There are no signs of a medium-term recovery in the large gas turbine market, which remains structurally challenged.

In the small/medium/aero turbine market and the compressor market, we're seeing a moderate medium-term recovery. Higher oil prices are beginning to support investments in O&G in the upstream and midstream sectors. However, customers are very cost-sensitive and competition is fierce.

In this difficult environment, our colleagues at Power and Gas have worked hard and achieved some very impressive successes:

- In the second quarter of fiscal 2018, we won several key contracts: we sold six large gas turbines, which included the first two H-class turbines to be installed in China apart from Hong Kong. The turbines will be part of the most efficient gas-fired power plant in the country.
  Our H-class fleet now comprises 88 units sold, with 65 of them in operation. This fleet puts us significantly ahead of our competitors.
- In looking at the market for all gas turbines (>10 megawatts), Siemens had the highest market share of all competitors in the second quarter of fiscal 2018. This represents a significant increase over our market share in fiscal 2017.

Despite the good work of our teams, however, global energy trends are continuing to reduce the demand for the Division's products. New-unit business is declining and price pressure is growing. Industry overcapacities and aggressive market conditions remain key features in our business.

This environment requires us to stay focused on reducing our capacities and costs, on prudently assessing our risk and on executing without error.

Let’s look now at service: our service business remains very strong and our outlook is positive.

From the current service backlog of €31 billion, around €25 billion are related to large gas turbines. And we expect the backlog to increase even further: our service-relevant fleet will grow substantially in the years ahead.

By 2022, our service-relevant fleet of industrial steam turbines will grow overall by five percent, our fleet of industrial and aero-derivative gas turbines by 15 percent, and our service-relevant fleet of large gas turbines by 20 percent.

Here, again, the success of our H-class is paying off: all these turbines were sold with long-term service agreements and are now becoming service-relevant. Going forward, this will stabilize our service revenue.

Let’s take a look now at the Division’s figures for the second quarter. Our profit margin came in at 3.9 percent.

Year-over-year, the Division’s orders were down seven percent, revenue declined by 21 percent, and profit fell 74 percent. These numbers confirm the need to adjust our capacities.

Last November, we announced that approximately 6,100 jobs at the Division need to be reduced worldwide.

- In the U.S., where 30 percent of the reductions are planned, we’re already in the implementation phase.
- In Germany, which accounts for 50 percent of the reductions, we’re striving to reach an agreement with the employee representatives in the current fiscal year. Yesterday, we informed you that we’ve now reached important milestones in our talks with the Central Works Council and the IG Metall labor union in Germany. All sides understand – and now share – our assessment of the market situation. Together, we’ve established a framework agreement for the announced restructuring measures.

How do these actions impact our financials?

- We expect substantial severance charges to be booked toward the end of fiscal 2018.
- We expect revenue in fiscal 2018 to be significantly lower than in 2017.
- We expect our PG margin, excluding severance, to be in the mid to high single-digit range in fiscal 2018 and also in fiscal 2019.

Capacity reductions are just one area we're focusing on in order to adjust to new market conditions and ensure a viable and profitable business going forward. Let me highlight six other fields in which we're also taking action:

- We're continuing to focus on delivering productivity gains and on reducing our product costs.
- We're pursuing the restructuring of our footprint and reducing the level of our support functions.
- We're further prioritizing our R&D spending by reducing the number of platforms and frames.
- We're driving for consistent and error-free project execution.
- We're continuing to emphasize product innovation and customer delivery innovation – for example, by exploiting the full range of opportunities provided by digitalization.
- And lastly, we're generating new revenue streams. For example, we're investing in additive manufacturing. We're already a world-leader in 3D-printed parts for our gas turbines, and we intend to extend that lead.

I'd like to sincerely thank all of our colleagues at Power and Gas and Power Generation Services, who are giving their very best every day to make our business more successful in this tough environment.

It'll take time to get where we want to be. We have a clear plan and are dealing with the challenges in a forthright and urgent manner.

[Ralf P. Thomas]

Ladies and gentlemen,

We're continuing to fulfill all our responsibilities – including the less pleasant ones – in a rigorous and focused manner. Our goal remains the same: we want all the businesses at Siemens to fully leverage their potential and be among the best in their respective industries.

That's exactly what we mean when we talk about "next-generation Siemens": we want to develop the company so that it can optimally exploit the opportunities of the digital age.

Compared to our competitors, we want to be more decisive, faster, more effective and more innovative – and thus create the greatest benefits for our customers.

Now for our outlook:

We continue to expect geopolitical uncertainties such as trade restrictions that may affect investment sentiment.

Following the strong results achieved in the first half of fiscal 2018, we raise our outlook for basic EPS from net income to the range of €7.70 to €8.00, excluding severance charges, up from the range of €7.20 to €7.70.

The rest of the outlook remains unchanged.

Most of our businesses showed impressive performance and operationally more than offset structural challenges in fossil power generation. By raising our guidance, we demonstrate our commitment to the company's capability to master structural change and shape digital industry.

Thank you very much for your attention.