SIEMENS

Press

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Annual Press Conference – Fiscal 2016

TWICE-RAISED GUIDANCE EXCEEDED – HISTORIC SUCCESS THROUGH STRONG TEAM PERFORMANCE

Joe Kaeser
President and CEO of Siemens AG

Ralf P. Thomas
CFO of Siemens AG

Check against delivery.

Ladies and gentlemen,

Good morning and welcome to the first Annual Press Conference at the new Siemens headquarters. Today, we're right in the section linking the historic Ludwig Ferdinand Palace and the modern building.

I think this is a good place to look back at last year and also talk about the present and future of Siemens.

Perhaps you, too, are still suffering this morning from "jetlag" from staying up the night-before-last to follow the U.S. elections. The American people have just elected a new president. Siemens congratulates Mr. Trump on his victory. We're looking forward to continuing our trust-based cooperation with the new U.S. administration and the U.S. Congress.

We have over 50,000 employees in the U.S., which is our largest and, in many industries, most important single market. Economic momentum of any kind from the U.S. would also have a significant impact on the global economy.

And the global economy can certainly use some positive momentum. As expected, it didn't provide us with any tailwinds in fiscal 2016 – which is all the more reason why we can be pleased with our performance.

The fiscal year just ended was one of the strongest in the history of our company. Setting aside portfolio divestments, it was actually the best. We worked hard and I am very proud of what our global team has achieved. In fiscal 2017, we will continue to work quietly but intensively and with full concentration on the execution of Vision 2020.

Siemens also stands, once again, for reliability.

- In 2016 – as in 2015 and 2014 – we kept our business promises. That is, we achieved our original guidance for the year, raised our profit forecast twice and even exceeded it a bit. That's not something all our competitors can say.

- The Siemens share price is above €100. We considerably outpaced the DAX in fiscal 2016.

- Project execution has been more than satisfactory.
- And what's most important: we're growing again – even in a tough environment – and even more strongly in 2016 than most of our competitors. Growth means perspectives, growth gives people confidence and strength to master the tasks lying ahead.

Let's take a quick look now at our key figures for fiscal 2016:

- Excluding currency translation effects, orders were up six percent to €86.5 billion. Our order backlog is currently a substantial €113 billion.
- Excluding currency translation effects, revenue also rose six percent to €79.6 billion.
- The book-to-bill ratio – that is, the ratio of orders to revenue – was 1.09.
- The profit margin of our Industrial Business was 10.8 percent. All Divisions, with the exception of Process Industries and Drives, were within their target ranges.
- This strong operating performance was also reflected in net income, which totaled €5.6 billion. This is equal to basic earnings per share of €6.74. On a comparable basis – that is, excluding last year's profit from the sale of our hearing aid business and our stake in Bosch und Siemens Hausgeräte – this figure is 30 percent above that of fiscal 2015.

Step by step, Siemens is transforming itself into a digital company – a transformation that can also be seen in our hard business figures. In fiscal 2016, our revenue from software and digital services increased overall by 12 percent and thus considerably exceeded average market growth of eight percent a year. This is a very solid performance and shows that our digital strategy is taking hold.

- In 2016, our industry software business grew to €3.3 billion. Today, 29 of the 30 leading carmakers use Siemens PLM software. And a total of 140,000 customers use it worldwide.
- Our business with digital platforms and services generated revenue of more than €1 billion in 2016. And Power Services alone already has an order backlog of more than €3 billion in long-term, data-based service agreements.

We'll further strengthen this position as a digital company, such as through investments in Mindsphere – our operating system, so to speak, for *Industrie 4.0*. Mindsphere enables customers to collect and analyze data and use it to develop new service and business models. We'll be telling you more about Mindsphere at our innovation event here in Munich on December 7.

Now let's take a look at some more highlights of fiscal 2016.

In September, the Argentine government and Siemens stated their intention to cooperate intensively in the future in the areas of energy, transportation and smart cities. This cooperation has a potential value of up to €5 billion. President Macri has embarked on a clear course of reform and is opening his country to foreign investors.

As a reliable contributor to Argentina's modernization, we can foster local value-added, create new jobs and expand educational opportunities for young people – as we've successfully demonstrated in Egypt.

We're getting closer to our customers. This is also reflected by the Net Promoter Score, our yardstick for customer satisfaction, which has continuously improved since 2014. Customer proximity enables us to seize opportunities in an uncertain environment – something we'll be focusing on again in the current fiscal year.

We're not just winning orders; we're also implementing them successfully. In June 2015, we signed agreements for three combined cycle power plants in Egypt with a total capacity of 14.4 gigawatts. Of this capacity, 4.4 gigawatts will be connected to the power grid in December, a mere 18 months after the agreement was signed.

Never has a country's energy system been expanded so quickly. Argentina and Egypt are proof that Siemens is close to its customers worldwide and is making important contributions to the development of societies all around the globe.

Stringent project management is also paying off for the ICE 4 – the largest rail order that we've ever received.

In September, we – together with Deutsche Bahn (German Railways) – presented the new train to the general public. At every step, we've made sure that this project sticks to its original time plan.

Now in trial operation, the ICE 4 is expected to enter regular service in December 2017.

The train offers a host of advantages: more flexible train configurations, greater reliability and availability, and 22 percent less energy consumption per passenger seat than the first ICE generation.

Rüdiger Grube, the head of Deutsche Bahn, put it in nutshell: “more quality and more comfort.”

We’re grateful for this praise from such an important customer. The high energy efficiency of the ICE 4 will help Deutsche Bahn reduce its CO_2 emissions over the long term.

We’re also very successful in reducing the amount of CO_2 that our own company generates. You know our target: to be climate-neutral by 2030 and the first major industrial company to achieve this goal.

And we’re progressing faster here than originally planned. In fiscal 2016, we cut our CO_2 emissions to 1.7 million tons from 2.2 million tons in fiscal 2014.

And to our CFO’s delight, our efforts in the area of climate protection don’t just benefit the environment; they also pay off financially since the investments are offset within a few years by energy savings.

Ladies and gentlemen,

The fourth quarter made a strong contribution to our very gratifying figures for the full year. Our CFO Ralf P. Thomas will now provide you with more details.

[Ralf P. Thomas]

Thank you very much, Joe, and good morning everyone. We closed fiscal 2016 with a strong sprint to the finish line, and we can be very satisfied with the results – also in comparison with our competitors.

In a moment, I’ll discuss the individual Divisions in greater detail, but let’s first consider Siemens as a whole:

On a percentage basis, we achieved double-digit gains in both net income and basic earnings per share. It’s particularly gratifying that most Divisions posted profit growth and that eight of our nine Divisions were within – or even above – their target margin ranges.

We continued to grow in the fourth quarter, too, and were able to increase revenue by five percent on a comparable basis.

Orders were down. This decline was due to a lower share of large orders, especially at Power and Gas and at Wind Power and Renewables. However, our basic business – our business with orders below €50 million – grew moderately. As Joe said, orders for the overall year were solid.

Now let's look briefly at the individual Divisions:

Power and Gas achieved strong revenue growth by processing existing orders – particularly the Egypt projects. Among other things, we delivered 16 large gas turbines in Q4.

Profitability, however, was negatively impacted by a less favorable revenue mix, which included less service business.

There are still overcapacities in the Power and Gas Division's markets. This situation is leading to aggressive competition and increased price pressure. Nevertheless, the Division is making good progress in strengthening its market access, improving its productivity and further developing its technologies. For example, from fiscal 2015 to fiscal 2016, Power and Gas was able to increase its share of the market for large gas turbines from 25 to 29 percent. This strong installed base will have a positive impact over the long term, such as in the service business.

Wind Power and Renewables delivered another strong quarter with an outstanding margin of 8.3 percent. The Division achieved this improvement through higher revenue, productivity improvements, increased capacity utilization and a larger share from the service business. As a result, the Division has a strong basis for its merger with Gamesa.

Energy Management delivered an impressive performance in Q4. This is evident in all its key figures. The Division achieved a profit margin of 8.4 percent, with improvements in most of its businesses. Energy Management grew faster than its competitors, with revenue increasing in all three reporting regions.

Building Technologies made a strong contribution to Siemens' profit with a typically robust fourth quarter. The Division's margin was in the double digits, with continuing strong order growth.

Digital Factory delivered a very good fourth quarter with industry-leading revenue growth and a strong profit margin.

Let's take a look now at the individual markets: China is stabilizing at a moderate level, with a strong automotive industry, while the development of the U.S. market remains flat.

Europe, including Germany, is growing slightly, driven primarily by the automotive industry. In the machine tool industry, on the other hand, an upturn is not yet visible.

In this environment, our strategy of combining software and automation in our Digital Enterprise is paying off. When it comes to Industrie 4.0, there's no way around Siemens. Percentage growth in software orders was in the double-digit range. Factory automation also made clear gains.

As far as revenue is concerned, factory automation drove significant growth in software and moderate growth in our short-cycle businesses. Overall, revenue growth had a positive impact on the Division's margin, which reached 18.5 percent in Q4.

At Process Industries and Drives, orders and revenue were down compared to the same quarter a year ago, due especially to ongoing weakness in the oil and gas sector and other commodity-related businesses. Demand for wind-turbine components remains strong, however.

Profit at the Division was negative, with results burdened by personnel restructuring charges of nearly €200 million related to previously announced capacity adjustments.

Mobility booked fewer major orders in Q4 than in the comparable prior-year quarter, but won a major contract worth €400 million for light-rail vehicles in Seattle, Washington. Revenue rose four percent, with the largest increase posted in the train business. Although Mobility's profitability was impacted by a less favorable revenue mix, the Division achieved a margin of 8.4 percent, which put it in the upper end of its target margin range. Joe has already mentioned the Division's solid project execution, in particular with the ICE 4.

Finally, we come to Healthineers. Orders at our healthcare business were up slightly year-over-year, and revenue increased by two percent. The diagnostic imaging business achieved significant growth, with continued robust profit development. The Division's overall margin was also strong. Our healthcare area is a great business. And in a few minutes, we'll explain how we intend to make it an even greater one.

Ladies and gentlemen,

Fiscal 2016 was not just a financial success; we also made significant progress with our Vision 2020 program.

We're rigorously implementing Vision 2020 step by step. In some respects, we're ahead of schedule. This also applies to our efficiency enhancement program ("1by16"). We've achieved our targeted savings of €1 billion faster than originally planned.

We had set ourselves ambitious goals. And in my eyes, our colleagues have consistently delivered a truly impressive performance that they can be proud of.

In addition, we've initiated substantial measures across our entire company in order to meet our target of improving productivity by three to five percent a year over the long term.

How are we doing it?

- We're focusing on digitalization. In 2020, for instance, we intend to be processing more than 80 percent of all our transactions with suppliers electronically. This will save time and money, and enable us to considerably improve the integration of our business processes. We're also helping our suppliers do an even better job of leveraging their innovation potential.

- Digitalization is also making our own activities more efficient. For instance, we're constantly expanding the use of our own software offerings, such as Digital Enterprise. This enables us to reduce time to market for Siemens products by 30 to 50 percent – at Power and Gas, for example. By increasingly digitalizing our work environment and, among other things, using mobile applications, we're making the workplace more attractive, and we're saving large amounts of money – in this case, around €100 million. We're continuing to drive this digital transformation forward.

Our performance improvements also extend to our underperforming businesses. As already reported, we've developed clear realignment plans for these businesses and we're implementing these plans step by step.

In fiscal 2016, our underperforming businesses – which, after all, generate revenue of €14.5 billion – achieved an average margin of three percent, as originally planned. Is that enough? No, not really. Although we assume that 85 percent of these businesses will fully achieve their target margin of six percent by the end of 2017, about 15 percent of them won't, according to current planning.

You can be certain that this topic will remain a management focus in our drive to ensure sustainability.

Performance and efficiency are also a matter of stringent project management. Joe has already mentioned Egypt and the ICE 4 as examples of the complex, large-scale projects that we implement.

In fiscal 2016, we made major progress again in risk management and project execution. So these aren't just one-day wonders.

I'd like to remind you again briefly of the background.

Annual charges for the fiscal years from 2007 to 2014 averaged about €700 million.

In 2012, projects charges reached €1.2 billion. By fiscal 2015, we'd reduced them to €200 million. For fiscal 2016, we're not reporting any net negative effects from project charges. This means that improved execution in some projects more than compensated for charges at other projects. It's important now that we stay efficient and remain willing to improve rigorously and continuously. This applies to all levels of the company. Now back to you, Joe.

[Joe Kaeser]

Thank you very much, Ralf. Ladies and gentlemen, when we presented Vision 2020 in May 2014 and began implementing it in October of that year, there were many skeptics, critics and even opponents. Some said: “Yet another program...like so many in recent years…it’ll fizzle out…as always.”

Today, we can say that Vision 2020 is working. In fact, it’s working very well. It’s working because it’s NOT just one single program but an overall concept.

And it’s working, above all, because we have the right people and because teamwork and Ownership Culture now have the prominence we’ve always wanted them to have.

As a team, we’ve defined the company’s strategic direction and cooperated to drive operational consolidation, focus our portfolio and improve Siemens’ position.

Last year’s record results were the product of a strong team performance – in our Regions, our Divisions and our Corporate Functions. More and more people throughout the company are working hand-in-hand and following our maxim: “Always act as if it were your own company.”

On behalf of the entire Managing Board, I’d like to cordially thank all our Siemens colleagues for their commitment and very hard work.

The last few years of transition have not been easy – but the hard work has been crowned with success. The next few years won’t be easy either. But we know how to get the job done, and we can rely on one another. It’s been a long time since our employees have shown such enthusiasm for our company and eagerness to contribute to our success.

In fiscal 2016, more than 35,000 people joined our company, including 4,600 in Germany. As a result, the net number of Siemens employees increased by more than 3,000 to a total of 351,000 at the end of fiscal 2016.

Even if we have to make structural adjustments in a few areas, we’re still growing as a company – in business volume, in profit, in R&D investments and in the number of employees.

Our new hires include the roughly 1,900 employees who’ve begun training programs at more than 30 Siemens locations in Germany. Worldwide, Siemens is training around 9,000 young people in 22 countries. We’re particularly pleased by this development – because trainees, too, are the future of Siemens.

And there's been yet another gratifying development: Siemens employees are becoming more international, more multicultural and more diverse.

- Offering more work-study training programs outside Germany gives us clear competitive advantages.
- As one of our Vision 2020 goals, we intend to locate more than 30 percent of our Division and Business Unit management headquarters outside Germany. And we're making good progress here, too.
- The percentage of women in management positions has also considerably increased in the last few years – from 11 percent in 2005 to 16 percent in 2016.

We're going to continue driving this transformation in our company culture in order to make our organization more diverse and more international.

Ladies and gentlemen,

Performance should pay off for everyone – including our shareholders. That's why I'd like to talk now about the dividend.

Against the backdrop of a strong fiscal 2016, the Managing Board will propose that shareholders at the upcoming Annual Shareholders' Meeting on February 1, 2017, approve a dividend of €3.60. This is a three percent increase over the prior-year level. Our dividend policy is geared toward long-term, reliable results. For its shareholders, Siemens is and will remain a worthwhile investment. It's good that our more than 153,000 employee shareholders also profit.

This year, we'll also be allocating €100 million to the Profit Sharing Pool, which will then total €300 million. If the pool reaches the threshold of €400 million, all or part of it can be distributed to non-managerial employees worldwide – wherever possible in the form of Siemens shares.

This plan will enable our employees to participate in the company's success and to further cultivate our company's Ownership Culture.

Let's turn now to the future of Siemens. We'll begin with our portfolio.

Many of you were present at our half-year press conference at the *Mosaikhalle* in Berlin in May 2014. At that time, we announced that – as part of our Vision 2020 program – we intended to operate Healthcare as a "separately managed unit within Siemens," as a "company within the company," in order to be better positioned to react to changes in markets and technologies.

Siemens Healthineers has continuously gained market share over the last few years, has established its position with its own market presence and has an outstanding portfolio with leading technologies.

- Within the last five years, our healthcare business has increased its profit margin by 400 basis points to 17.2 percent – and the growth potential is by no means exhausted.

- Revenue and free cash flow development has also been very gratifying during this period.

We intend to substantially expand our healthcare business in the growth fields of molecular diagnostics and advanced therapies as well as services. We want to give Healthineers even more flexibility and strength in implementing its growth plans.

That's why we're now planning the next step and preparing to publicly list our healthcare business.

Ladies and gentlemen,

The Healthineers have advanced from a good business to a great one. We're now going to turn a great business into a fascinating one – under the guidance of Siemens – a strong brand! We'll keep you up to date on the developments.

Let's take a look now at the merger of Siemens Wind Power and Gamesa.

We've made good progress here, too. At Gamesa's extraordinary General Meeting on October 25, 99.75 percent of the shareholders voted to approve the merger. We now have several more milestones ahead of us on the way to finalizing the deal.

We're right on schedule and expect to fully consolidate the new unit in the third quarter of our fiscal year.

Together, we'll create the world's leading supplier of renewable energy.

Ladies and gentlemen,

By implementing these strategic measures, we intend to strengthen and develop these businesses at Siemens and further expand their leading positions.

If you want to be successful over the long term, you have to be able to deal with changing developments in markets and societies. You have to adapt, keep developing and often even reinvent yourself. And this applies above all to innovation at all levels and within all functions of a company.

In fiscal 2017, we're increasing our investments in research and development to about €5 billion. Since 2014, we've continuously increased our annual R&D expenditures by a total of about 25 percent.

In addition, we're now focusing more than ever before on disruptive approaches in innovation – and applying modern forms of innovation management.

next47 – a new, separately managed unit – began operation in October. It bundles our existing startup activities and will drive innovation and provide momentum for culture change at Siemens.

We've brought Lak Ananth – a well-known manager from Silicon Valley – on board to head next47.

Mr. Ananth has more than 20 years of experience in building and financing startups and in integrating young companies into large enterprises. We wish him every success and will give him our full support.

Ladies and gentlemen,

Current geopolitical developments require our attention to a particularly high degree. The rapid rise of political and social populism and accelerating global migration are causes of concern. As a result, uncertainty continues to dominate our lives. The future relationship of the UK to the EU remains unclear. In many European countries, nationalist movements are gaining momentum.

The conflicts in Syria, Iraq and Ukraine are unresolved. Over 60 million people in the world are now refugees – more than ever before.

This uncertainty continues to negatively impact the economy and investment behavior. There has also recently been positive news from some countries. Iran and Cuba are opening to the world. Argentina is also back on the map for investors.

This takes us now to our outlook:

We continue to anticipate headwinds for macroeconomic growth and investment sentiment in our markets due to this complex geopolitical environment. Therefore, we expect modest growth in revenue, net of effects from currency translation and portfolio transactions. We further anticipate that orders will exceed revenue for a book-to-bill ratio above 1.

For our Industrial Business, we expect a profit margin of 10.5 percent to 11.5 percent. We expect basic EPS from net income in the range of €6.80 to €7.20, compared to €6.74 in fiscal 2016 which included €0.23 from discontinued operations.

This outlook assumes further stabilization in the market environment for our high-margin short-cycle businesses. It further excludes charges related to legal and regulatory matters as well as potential burdens associated with pending portfolio matters.

Ladies and gentlemen,

With Vision 2020, we want to make Siemens fit for the future. And developments in fiscal 2016 showed that it’s working.

Digitalization provides many opportunities for our company: an opportunity to make Siemens more innovative and efficient, an opportunity to ensure profitable growth and an opportunity to generate long-term value for our customers and society as a whole.

And we’re seizing these opportunities as they arise.

To sum up:

- In fiscal 2017, we’re investing €5 billion in research and development, and we’re taking the bold step of launching next47, an exciting initiative for disruptive innovations.

- We're improving continuously in efficiency and performance.
- All around the world, we're training employees and creating jobs.
- We're cutting our CO_2 emissions. And our products and solutions are helping customers reduce their climate footprint.
- Ownership Culture is the basis of all our actions.

In the year that marks the 200th anniversary of the birth of our company's founder, Siemens is in a very good position. To celebrate his birthday, we've given him the best operating results of all times and we're working hard and conscientiously to sustain this success.

Thank you very much! Mr. Thomas and I will now be available to answer your questions. I'll pass the microphone back to Ms. Haller.