SIEMENS energy

"SOLID START INTO THE NEW FISCAL YEAR"

Q1 2021 PRESS CALL

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Check against delivery.

Christian Bruch:

Good morning, ladies and gentlemen, and a warm welcome to our press call for the first quarter of fiscal 2021. I hope you all had a pleasant and above all healthy start in the new year.

As you know, we published our preliminary figures for the first quarter on January 24 and confirmed our outlook for the current fiscal year. We sent out an ad hoc announcement because our EBITA result for the quarter (adjusted EBITA) was higher than expected. Today, our CFO Maria Ferraro and I would like to give you a more detailed report on the first quarter results. We'll also present our plans to improve our profitability and competitiveness.

The energy markets are undergoing a transformation. The management and employee representatives agree that we have to increase our profitability if we want to successfully shape this transformation.

I'm therefore pleased that we signed a future-oriented agreement last week between the management, the General Works Council and IG Metall that is ground-breaking for co-determination in our company. The "Future Agreement 2030" regulates the principles for the upcoming transformation of our company. This agreement describes how the future of Germany as an industrial location can be secured in a joint effort despite all the operational challenges presented by the energy transition. It thus also serves as a framework for concrete discussions on how to increase profitability, which I will go into at the end of our presentation.

Siemens Energy has been listed on the stock exchange since September 28, 2020, and we were admitted to the MDAX in December. Our share price has developed positively since the listing, rising nearly 40 percent.

In comparison, the MDAX increased by 18 percent and the DAX by 8 percent during the same period.

This increase is also related to the trend we are currently seeing toward investments in companies that are oriented to ESG criteria – that is, high standards for Environmental, Social, Governance.

These ESG criteria are the pillars of our company strategy and serve as the guideline for our actions in transforming the company. We contribute to all 17 sustainability goals of the UN Agenda 2030, with a focus on five goals, including “gender equality”, “affordable and clean energy”, and “climate action”. We take ESG very seriously, which is why we’ve anchored responsibility for it in our Executive Board. I have taken on the role of Chief Sustainability Officer. Maria Ferraro has additionally taken over the role of Chief Inclusion and Diversity Officer.

We have set clear goals, such as exclusively using green energy by 2023 and becoming a climate-neutral company by 2030. And we will gradually increase the share of women in top leadership positions from just above 20 percent at present to 30 percent by 2030.

Let’s turn now to the quarter and a couple of highlights:

Part of our strategy is to drive further developments in close cooperation with customers. We have begun a promising cooperation with the Russian gas company Novatek. Together, we aim to reduce emissions at plants producing liquefied natural gas (LNG) and thus reduce the production of CO_2 in this process.

One important hydrogen lead project is **H2Mare**, in which Siemens Energy and Siemens Gamesa are joining forces. We want to develop an electrolyzer that produces green hydrogen and can be integrated directly into an offshore wind turbine developed by Siemens Gamesa. The green hydrogen will be produced directly on the high seas, transported onshore by pipelines, and used in transportation and industry. Siemens Energy will be investing a total of €40 million in the project over the next five years, and Siemens Gamesa is contributing an additional €80 million. The development projects are part of the H2Mare initiative and will be funded by the German Federal Ministry for Education and Research. These projects underscore our intention of playing a leading role in the hydrogen economy.

Now for some important orders received in recent months.

Siemens Energy is supplying 114 low-loss distribution transformers for **Seagreen, Scotland's largest offshore wind farm**. With an installed capacity of roughly one gigawatt, this wind farm will provide renewable energy for around 1.3 million households. It is expected to reduce CO_2 emissions by 1.6 million metric tons annually and contribute to the U.K.'s goal of achieving its net-zero emissions targets. Seagreen is scheduled to be operational in 2022 to 2023.
In Latin America, we are supplying eight complete topside modules for floating production and storage units (FPSO) for an **offshore oil and gas production project** off the coast. The scope of supply includes key components such as compressors and industrial gas turbines as well as the entire electrical system including an electrical control and management system.

These topside modules enable sustainable, efficient, and environmentally friendly power generation, transmission, and distribution as well as gas processing and compression on board the oil and gas production vessels. In the project, we are supporting our customer in optimizing its industrial processes through electrification and automation.

With our support, **Stadtwerke Leipzig** will decarbonize the city's energy supply step by step. The order for the Leipzig-Süd combined heat and power plant includes the delivery of two highly efficient SGT-800 gas turbines and two SGen-100A generators. With the new plant, Stadtwerke Leipzig will no longer depend on district heating from a lignite-fired power plant, and we will provide a solution that substantially reduces CO_2 emissions.

Just a few years after commissioning, the plant is expected to operate with 30 to 50 percent green hydrogen. Over the long term, the goal is to operate the facility with 100 percent hydrogen, which would enable the plant's CO_2-free, climate-neutral operation.

As you can see, we are supporting customers worldwide as they successfully shape the transformation of the energy industry, regardless of where they currently stand in the energy transition.

COVID-19 has also had an impact on our business activities in the new fiscal year. Our highest priority continues to be ensuring the health and safety of our employees and partners. The current status at Siemens Energy: All of our production facilities are in operation and only one in every five locations is working at slightly reduced capacity. The supply chains are largely stable so far.

However, many customers are still postponing investments and there are also delays in the execution of some orders.

In these days of social distancing, digital services are also gaining in importance in our industry. The ability to offer customers the best digital solutions, such as the remote maintenance of their systems or the remote commissioning of turbines, is increasingly becoming a key success factor in winning business.

Our 92,000 colleagues worldwide have been doing an outstanding job in these highly challenging times. On behalf of the Executive Board, I would like to thank them for their commitment and engagement. And with that, let me hand you over to Maria Ferraro. Maria, it’s all yours.

Maria Ferraro:

Thank you very much, Christian. I’d also like to welcome you to our press call and thank you for joining us today.

It’s my pleasure to guide you through our financial results for the first quarter of fiscal 2021 and I’ll be happy to answer any questions you may have.

Let me start with the overall performance of the Siemens Energy Group. As you know, some of the key figures were already released on January 24, so now I would like to walk you through the overall Q1 financial figures for Siemens Energy and Gas and Power.

Our **orders** came in at €7.4 billion. As expected, they were substantially down compared to the prior-year quarter, where SGRE booked several large offshore orders. Order intake also declined at Gas and Power, yet was stable year-over-year on a comparable basis.

Revenue for the Group nominally increased by nearly 3 percent to €6.5 billion. It was impacted by negative currency translation effects of 5.1 percentage points.

While SGRE achieved a significant increase, GP posted a moderate decline. On a comparable basis, which is excluding currency translation and portfolio effects, revenue rose clearly by nearly 8 percent. Service revenue came in slightly below the prior-year quarter due to a moderate nominal decrease at GP.

This led to a **book-to-bill ratio,** the ratio of orders to revenue, of 1.1. Our strong **order backlog** remained stable at €79 billion, despite negative currency translation effects which reduced our backlog by more than €0.5 billion compared to the end of Q4 in fiscal 2020.

Now let's take a look at our bottom line. **Adjusted EBITA before Special Items** increased to €366 million, with a margin of 5.6 percent. The increase in the first quarter was in part due to operational improvements in both reporting segments, including lower costs year-over-year.

However, other positive improvements were temporary in nature. At GP, we experienced gains from hedging, positive customer settlements, lower discretionary spend – for instance, due to travel restrictions, we see lower travel or marketing expenses – and cost phasing (e.g. IT projects that were shifted to the following quarters).

At SGRE, the year-over-year increase was in part due to substantial negative effects in the prior-year quarter, totaling approximately €150 million, related to project delays in Northern Europe. The recent quarter benefited from volume effects and the reversal of ordinary provisions associated with a lower rate of product failure and lower maintenance costs.

As expected, **Free Cash Flow** before taxes was negative. Improvements at GP were more than offset by a strong decrease at SGRE.

Now, let me briefly touch on **cash flow for the Group**. Asset management and Cash is at the top of my agenda. But this is – as I pointed it out many times – a marathon and not a sprint and we, the entire team, continue to work on this every month, every quarter with diligence and focus. Given the seasonal pattern that we inherently have experienced, Q1 reflected a slow start in cash flow generation. I am quite satisfied with the result as we need to distinguish between our reporting segments. I'll get to this in a moment. Looking at Capex, it rose from €144 million in the prior-year Q1 to €188 million in the current quarter. GP was flat and the increase was driven by SGRE.

At **GP,** Free Cash Flow pre-tax was above the prior-year quarter's level and supported by project-related cash inflows and the ongoing focus on asset management.

At **SGRE,** Free Cash Flow pre-tax was significantly down year-over-year as the prior-year quarter strongly benefited from customer advance payments due to the high order intake.

Now let's take a closer look at the **Gas and Power Segment** in the first quarter. At GP, we see a solid development in orders. Due to headwinds from currency translation effects, **orders** were moderately down by 5 percent compared to the prior-year quarter. GP secured some large orders including a major Industrial Applications project in Brazil and a Generation project in Libya that, combined, total more than half a billion euros.

Revenue decreased moderately by 3 percent year-over-year. Service revenue was down 2 percent while new units revenue was down 4 percent nominally. Currently we continue to experience impacts due to Covid-19 as it has led to deferrals of projects and outages.

While revenue slightly increased in our Generation Division, it declined in our other two Divisions, Industrial Applications and Transmission.

Revenue was impacted by negative currency translation effects of 5.5. percentage points [or €253 million], mainly due to our long position in USD or USD-denominated currencies. Excluding those effects, revenue was up by 2.6 percent.

Orders exceeded revenue, resulting in a positive **book-to-bill ratio** of 1.2.

Order backlog slightly increased compared to the end of last fiscal year, reaching €49 billion, slightly above the prior fiscal year-end, including negative currency translation effects.

Adjusted EBITA before Special Items sharply increased, to €267 million (Q1 2020: €68 million). As mentioned earlier, this increase was due to a combination of operational improvements leading to lower costs, as well as positive temporary effects.

Free Cash Flow pre-tax was above the prior-year quarter's level, supported by project-related cash inflows and our ongoing focus on asset management.

Overall, Siemens Energy had a solid first quarter in a market environment that remains challenging. We confirm our outlook for the current fiscal year 2021.

For **Siemens Energy**, we expect the nominal revenue growth rate to be in the range of 2 to 12 percent and an Adjusted EBITA margin before special items of 3 to 5 percent.

For our **GP Segment**, we assume a return to revenue growth compared to fiscal 2020 and thus nominal revenue growth to be in the range of 2 to 11 percent and an Adjusted EBITA margin before special items of 3.5 to 5.5 percent.

For further details, please take a look at our Earnings Release. There, you will also find the figures for Siemens Gamesa Renewable Energy.

And with that, I'd like to hand you back over to Christian.

Christian Bruch:

Thank you, Maria. We've made a good start in our first year of independence. Our quarterly figures are solid, particularly in view of the difficult market environment. For various reasons, we were able to significantly improve our bottom line. Yet we still have a long way to go before we get to the level of profitability we want and need in the mid-term, and will continue to tackle improvements.

The electricity market is undergoing a fundamental transformation. It is changing rapidly in the direction of renewables and decarbonization solutions.

By energy source, this means: clear growth in wind and solar – from which Siemens Gamesa will benefit; flat development in natural gas, nuclear and hydropower; and a decline in coal and oil.

For example, the International Energy Agency (IEA) expects global electricity generation to increase by up to 50 percent by 2040 (compared to 2019). This prediction reflects the increasing electrification of industry and electromobility and represents an annual growth rate of up to 2 percent.

Growth rates will vary among energy sources. While the IEA expects an annual increase of 8 percent in **renewable electricity generation**, it assumes just 0.6 percent growth for **conventional electricity generation**.

To sum it up: The market is growing faster than average outside our traditional markets of Gas and Power.

What exactly do these developments mean for us?

On the one hand, good opportunities, since 50 percent of our revenue already comes from our decarbonized portfolio – such as renewable energies and transmission technologies.

For some of our other businesses, however, these changes in the market pose major structural challenges. Above all, for power generation with fossil fuels – and thus also for our Generation and Industrial Applications Divisions.

We are convinced that interim solutions – such as replacing outdated coal-fired power plants with highly efficient combined cycle plants – will be needed in the foreseeable future if the energy transition is to succeed worldwide.

Yet to seize the opportunities offered in these business areas, we need an optimal setup. We have to be efficient, agile, and flexible. We aren't there yet in all parts of the company.

The expectations are clear.

First, we want to improve our profitability and reach our communicated margin targets.

Second, we want to actively shape the energy transformation and align our portfolio to growth fields.

The "Energy of Tomorrow" strategy we presented at the Capital Market Day early in September also concentrated on these two aspects.

We've taken a very close look at the entire company over the past few months and also reviewed our product areas and the respective market expectations. We have now begun to present the concrete plans for improving our profitability to the employee representatives.

These measures affect all parts of our company: the headquarters, the businesses, and the Regions. They should help reduce our cost base by at least €300 million by 2023.

They supplement the savings already planned in the PG2020 and GP2020+ programs.

The focus here lies on further reducing material costs and improving internal workflows. Among other things, we want to reduce procurement costs and lower non-conformance costs – the extra charges incurred in executing projects. We also want to standardize and modularize our production processes and simplify internal processes and structures.

Part of the planned measures, however, will also require a further reduction of jobs as a consequence. The reasons here vary by business. We plan to cut around 7,800 jobs worldwide by the end of fiscal 2025, including roughly 3,000 in Germany and approximately 1,700 in the U.S.

Along with jobs in production, the affected positions will be in administrations, headquarters, logistics, management and sales.

We want to avoid closing locations and requiring compulsory redundancies ["betriebsbedingte Kündigungen"] in Germany.

To help you put these numbers in context: We currently have 67,000 employees at Gas and Power worldwide, including around 23,000 in Germany. We expect cumulative restructuring costs of a mid-to-high, triple-digit million-euro amount from fiscal 2020 to fiscal 2023 for the GP Segment. That lies within the range we had previously projected.

We will proceed responsibly and diligently with all measures affecting our employees. These are colleagues who are committed to their work, have a high level of expertise and, with their dedication, have made their contribution to the company, often over many decades.

Nevertheless, one thing is clear: change is necessary, and the pace of change in the energy markets has, if anything, accelerated over the past twelve months. We must therefore lower our costs now and fix our business. We must now work step by step to become more profitable.

Only then will we have the scope to invest in growth areas that will once again create sustainable jobs. In the future, Siemens Energy will focus on three areas:

- Low- or zero-emission power generation;
- Efficient transport of electricity and storage;
- And reducing CO_2 footprint and energy consumption in industrial processes by applying electrification, automation, and digitalization.

One particular focus will be on strengthening our service business. It currently accounts for more than 40 percent of Gas and Power's revenue; and for 16 percent of SGRE's revenue (FY 2019). Service stands for robust revenue streams, long-standing relationships with our customers, and a high margin quality. We want to continuously expand this business, also with the help of digital offerings.

We want to tackle these challenges together with the employee representatives. The “Future Agreement 2030” sets the framework for the approach we will be taking in Germany. Some of the key points are:

- As part of the transformation, no compulsory redundancies should be undertaken if at all possible. We want to achieve the necessary personnel adjustments through voluntary measures.
- We fundamentally intend to maintain existing locations in Germany and, if possible, not close any locations.
- Competencies critically important for the energy world of the future are to be expanded or established at locations in Germany. These fields include electrolysis, technologies for stabilizing power grids, solutions for the digitalization of industrial processes, and the expansion of our service offerings.
- The training of young people will continue to play an important role at Siemens Energy. That’s why we are aiming for a training quota of 4.5 percent across all training years.
  This is the proportion of apprentices and dual-vocational students in the overall workforce at Gas and Power in Germany. Currently, it stands at 4.2 percent.

I’d like to briefly summarize the key points of our quarter and the upcoming measures:

- We have made a solid start in our first year as an independent company and confirm the outlook for the fiscal year.
- We have worked out our plans for improving our competitiveness and have presented them to the employee representatives. We are aware that these plans will demand a great deal from parts of our workforce. With this in mind, we want to carry out these measures

with as much social responsibility as possible.

- The company management, General Works Council and IG Metall have found a good, sustainable and, above all, future-oriented solution. It is also a commitment to Germany as a location for doing business.

Before Maria and I take your questions, I'd like to point out two dates. In just over a week, on February 10, we will hold our first Annual Shareholders' Meeting. Unfortunately, the pandemic situation won't allow us to hold it in the Olympic Hall as planned, but virtually. And on March 19, we will hold a Hydrogen Day to present our hydrogen strategy to the analysts and you. I'm looking forward to welcoming you to both events.
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