SIEMENS

# Annual Report 2004

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| | **CORPORATE STRUCTURE**** |


* With separate table of contents
** See foldout inside back cover.

2004

Siemens – a global network of innovation comprising more than 400,000 people – offers innovative products, solutions and services spanning the entire field of electronics and electrical engineering. Our innovations are shaping tomorrow's world, giving our customers a competitive edge and improving the lives of people everywhere. We aim to capture leading market positions in all our businesses and to achieve profitable growth now and in the future. Our success is based on a well-focused business portfolio, a truly global presence and an international workforce of highly qualified and highly motivated managers and employees.

## KEY FIGURES

| in millions of euros | **2004** [1] | 2003 [1] |
|---|---|---|
| New orders | **80,830** | 75,056 |
| Sales | **75,167** | 74,233 |
| Net income | **3,405** | 2,445 |
| *Effects related to Infineon share sale and a goodwill impairment* [2] | *403* | |
| | *3,002* | |
| Net cash from operating and investing activities | **3,262** | 1,773 |
| Research and development expenses | **5,063** | 5,067 |
| Shareholders' equity (September 30) | **26,855** | 23,715 |
| Employees (September 30, in thousands) | **430** | 417 |

(1) Fiscal year: October 1 to September 30

(2) Pretax gain of €590 million on sale of Infineon shares plus related €246 million reversal of deferred tax liability, less a goodwill impairment of €433 million.

Dear shareholders,

A year ago, our management team made a commitment to "Go for Profit and Growth." We were convinced that the prospects for increasing sales and earnings in fiscal 2004 were excellent. We even predicted a double-digit increase in net income.

Our figures for fiscal 2004 prove we were right:

- New orders climbed eight percent to €80.8 billion and sales one percent to €75.2 billion. Adjusted for consolidation and currency effects, orders were up nine percent and sales three percent.
- Net income totaled €3.4 billion, compared to €2.4 billion in fiscal 2003. Excluding a gain on a sale of shares of Infineon and other non-recurring effects, net income increased 23 percent.

Cash flow development, which has been positive in each of the past four years, was again very gratifying. Net cash from operating and investing activities totaled €3.3 billion. Our managers have learned the art of professional asset management. Strong cash flow is giving us the entrepreneurial leeway we need for targeted strategic moves.

Our Groups can currently be divided into four categories:

- Automation and Drives, Medical Solutions, Power Generation, Osram, Siemens VDO Automotive, Siemens Financial Services and now also Power Transmission and Distribution are in the first category. These Groups have met or exceeded the margin targets agreed upon with the Managing Board, proving that sustainable success can be achieved by utilizing all the tools of our *top*+ management system.
- The second category comprises Siemens Building Technologies, Industrial Solutions and Services, and Logistics and Assembly Systems. These Groups have not yet met their performance targets. However, they have overcome earlier difficulties and are now on track.
- The Groups in our Information and Communications business area – the third category – have weathered the structural crisis that erupted in 2001. They are now working to achieve long-term stability and profitability. Two Groups, IC Networks and IC Mobile, were combined on October 1, 2004 to form the new Communications Group, which offers a complete range of information and communications technologies in the areas of wireless and wireline networks, devices and services.
- Transportation Systems is in the fourth category. After rebounding in the last few years, our railway systems business slipped back into the red in fiscal 2004. This was largely due to flaws in our Combino low-floor trams and the related provisions. However, the problems are now contained and will rapidly be solved.

**"Go for Profit and Growth" to continue in 2005**

At the Siemens Business Conference in Berlin at the beginning of October, the Company's top managers worldwide pledged to "Go for Profit and Growth" again in 2005. The Group margin targets set in December 2000 were left unchanged.

"The Company's top managers pledged to 'Go for Profit and Growth' again in 2005."

To further improve overall earnings, our weak Groups must intensively employ all the levers in our management system in order to approach their margin targets and achieve steady, sustainable progress. In particular, we are focusing on solving project-related problems at Transportation Systems and positioning the new Communications Group and Siemens Business Services for future success. Our strong Groups – which have shown how to optimize processes, achieve profitable growth through innovation and engender customer loyalty – cannot rest on their laurels. These Groups, too, will have to further strengthen their market positions.

Our regional units are under a special obligation to grow their businesses. This applies, in particular, to our new regional organization in Germany, into which we funneled our Groups' domestic sales and service activities at the beginning of fiscal 2005. The new organization will leverage its country-wide presence and customer proximity to expand its business.

We are also driving growth initiatives in selected regions – such as the United States, China, Russia, India, Japan, and Central and Eastern Europe – and working to generate further gains elsewhere.

In the future, our growth will continue to be external as well as internal. We have made several key acquisitions recently: Alstom's industrial turbine business and the Danish wind power plant supplier Bonus Energy for the Power Generation Group, DaimlerChrysler's electronics plant in Huntsville, Alabama for Siemens VDO Automotive, and water treatment specialist USFilter for the Industrial Solutions and Services Group. Further moves are planned. For example, we have also made an offer to acquire Austria's VA Technologie AG.

"Our growth will continue to be external as well as internal."

"Profit and Growth" – this is the ultimate goal of the three *top*+ programs in our Siemens Management System. These programs – Innovation, Customer Focus and Global Competitiveness – comprise eleven initiatives in all. Mandatory for all our Groups, the initiatives focus, for example, on driving trendsetting technologies and cross-Group technology platforms; acquiring and retaining customers through strategies like Siemens One, in which several Groups cooperate on large-scale projects; improving project management; optimizing processes; upgrading asset management; expanding our service business; and, last but not least, restructuring quality management.

In response to the problems at our Transportation Systems Group, quality management has been reorganized throughout the entire Company. In every Group and every Region, we have established quality managers who are authorized to intervene and halt projects and processes if quality problems arise. In such cases, improvements that would entail high costs after project completion can be defined and implemented at an early stage.

"Siemens was, is and always will be a living organism."

**Continuity and change**

Klaus Kleinfeld will succeed me as President and CEO at the conclusion of the Annual Shareholders' Meeting 2005. With this transition in mind, the Siemens Business Conference in October dealt not only with matters of immediate concern but also with the fundamental issues confronting our Company. We asked ourselves, for example: Do we have the right setup? Do we have the right focus? What should we leave as it is? What should we alter? All of these issues, most of which are also addressed in our Corporate Principles, involve continuity and change. We have spelled them out in concrete terms as follows:

- The first issue is our **business portfolio**. Can we be a highly profitable global leader in electronics and electrical engineering with our current setup? This is a matter for constant review. Power engineering, communications technology and medical solutions have been the three main pillars of our business for decades. Even in difficult times, we have always maintained a broad portfolio within our enormous field of activity. That is continuity. But we have also proven that we take the need for change seriously. Siemens was, is and always will be a living organism. We withdrew from the electrical components business for very good reasons. For equally good reasons, we entered the automotive electronics business. These are only two of the many major revisions we have made to our business portfolio. Strengthening weak businesses with acquisitions and cooperative ventures, withdrawing from stagnant markets, investing in high-growth sectors – these are and will remain key tasks. And nothing is sacred.

- The second issue is **innovation**. "Innovation is our lifeblood." That has been our credo for generations. Here, too, we are showing continuity. Our Medical Solutions Group provides a prime example of successful innovation. Faced with hard times in the 1990s, the Group capped costs and optimized processes. That was certainly necessary. But more importantly, Medical Solutions took steps to ensure that it was more innovative than its global competitors in as many sectors as possible. Business success was the result. All Siemens Groups are required to conduct frequent innovation benchmark studies. This means that they measure their power of innovation against that of their leading competitors and initiate concrete programs to rapidly close any gaps they discover.

We are now in the process of further expanding our global R&D network. New research centers have been opened in China and India. Another is planned for Russia. All facilities in our global R&D network – including those in Germany – can leverage their specific strengths. The Groups are also internationalizing their R&D departments. And a strategically positioned patent portfolio is protecting the knowledge we are generating. Our patent initiative has made good progress in the last few years.

- The third issue is **customer orientation**. In recent years, change in this area has been particularly dramatic, for our customers have undergone major transformations themselves. Some who were previously public-sector companies or governmental authorities have now been privatized and must contend with tough competitive environments. We have adapted our corporate culture to accommodate this shift. Our Corporate Principles state: "We strengthen our customers – to keep them competitive." This means we treat customers as partners, involving them in our own development processes to ensure market-oriented solutions.
  Customer orientation is also a primary focus of our Siemens One initiative, which is helping our Groups present one face to the customer in key segments like hospitals, sports venues and hotels as well as in selected sectors of industry. Siemens One complements the Groups' vertical business structures with an added emphasis on cross-Group cooperation. Our customers expect us to approach them as a single team. This strategy gives us an edge over competitors who operate in only one or a few segments – a situation we intend to exploit even more rigorously in the future.
  Nearly 40 regions are now implementing the Siemens One concept. In addition, a Siemens One Team, which reports directly to our President and CEO, has been set up in our Corporate Development Department. As well as generating its own business, this new team is assisting the Groups and Regional Companies in creating cross-unit structures.

"In our global R&D network, all facilities – including those in Germany – can leverage their specific strengths."

"Every job in Germany is important to us. And it is encouraging to see flexible, location-specific employment models now enjoying greater acceptance."

- Customer proximity everywhere in the world – this key principle of our corporate philosophy applies to more than just our sales activities. True **global presence** – our fourth issue – can be achieved only when all links in the value chain – R&D, hardware and software development, procurement, production, services and, of course, sales – are combined within a global network.
  Here, too, we see continuity and change. Change, above all, because of the major geopolitical events of recent years. A prime example is the opening of China, which began 20 years ago and has created vast new business opportunities for Western companies. Russia is undergoing a similar transformation. And the changes that have taken place in Central, Eastern and Southeastern Europe are just as fundamental. The eastern expansion of the EU has opened up extraordinary business opportunities. As a result, the world map of regional strengths and weaknesses now looks very different than it did only a few years ago – a development we cannot afford to ignore.
  We have shown that these global changes do not necessarily mean a loss of jobs in Germany, a high-cost country. Every job in Germany is important to us. And it is encouraging to see flexible, location-specific employment models now enjoying greater acceptance.

- The next issue – **employee orientation** – has a long tradition at Siemens. However, its meaning has changed. It now includes advanced training at all levels of the organization. Lifelong learning is just as important on the factory floor as it is in the board room. This has always been true. But now the content of training programs has changed. Employees have to learn new types of jobs and managers have to master new types of tools in order to hone their leadership skills. That's why we introduced a process several years ago to orient and permanently align our training programs to the changing needs of the marketplace.
  The targeted, systematic development of young high-potentials has long been part of Siemens' employee orientation. Our annual employee and management reviews provide a solid basis for our efforts in this regard.

In a global enterprise like Siemens, employee orientation naturally has a multicultural character. For our global network to function smoothly, we have to develop an understanding of cultural differences, learn how to combine the strengths of our different cultures and continue to internationalize our global management team. Although we have made good progress in this respect in the last few years, we still have much to do.

- Our commitment to responsible **financial management** is unwavering. Financial solidity – the sixth issue – has been the basis of our enduring success for more than 150 years.
  Although there can be no change in the fundamental principles of our conservative approach, the methods and tools we use are always evolving. In the second half of the 1990s, we introduced economic value added (EVA) as a performance yardstick to enable us to better manage our businesses. EVA accommodates the interests of our investors without compromising those of our other stakeholders.
  Our internal control systems have also changed. Although the recent discussion of corporate governance has entailed considerable administrative effort and expense, we now know with greater certainty that the principles agreed upon are being observed throughout our entire company.

“Financial solidity has been the basis of our enduring success for more than 150 years.”

- Financial solidity and corporate governance are both related to the last issue – **responsibility**. In a narrower sense, responsibility means correct behavior, such as strict compliance with our Business Conduct Guidelines across all our Groups and Regions.
  In a broader sense, however, responsibility means taking into account the interests of all our stakeholders: customers, employees and investors. It also means taking into account society as a whole and the environment. The Siemens business portfolio largely comprises activities that directly impact people’s quality of life – in fields that encompass true “life technologies.”

This explains why our Company and our projects are always in the limelight – which is just one more reason why it is so important for us to be a good neighbor everywhere we do business.

So much for the fundamental issues confronting us. As I mentioned earlier, Klaus Kleinfeld will be taking over from me at the close of the Annual Shareholders' Meeting on January 27, 2005. Together with the other members of the Managing Board and the Company's top management, he will work to maintain continuity and to actively shape the process of change. I would like to wish Mr. Kleinfeld and his colleagues every success – for the benefit of our customers, our employees and you, the shareholders of Siemens.

Dr. Heinrich v. Pierer
President and Chief Executive Officer
Siemens AG

# At a glance

## Managing Board of Siemens AG*

Johannes Feldmayer

Edward G. Krubasik, Prof. Dr. rer. nat.

Rudi Lamprecht

Thomas Ganswindt

Claus Weyrich, Prof. Dr. phil., Dr.-Ing. E. h.

Erich R. Reinhardt, Prof. Dr.-Ing.

Heinz-Joachim Neubürger

Klaus Kleinfeld, Dr. rer. pol.

Heinrich v. Pierer, Dr. jur., Dr.-Ing. E. h., President and Chief Executive Officer

Jürgen Radomski, Dr. rer. pol. h. c., Dr. techn. h. c.

Uriel J. Sharef, Dr. rer. pol.

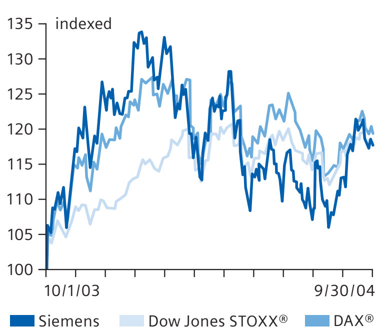
Klaus Wucherer, Prof. Dr.-Ing., Dr.-Ing. E. h.

* As of January 1, 2005
For further information, see page 180 and back cover foldout.

## Stock market information

| in euros | 2004 [1] | 2003 [1] |
|---|---|---|
| **Stock price range** (XETRA closing prices, Frankfurt) | | |
| **High** | **68.30** | 58.32 |
| **Low** | **52.02** | 32.05 |
| **Year-end** | **59.21** | 51.14 |
| **Number of shares** (year-end, in millions) | **891** | 891 |
| **Market capitalization** (year-end, in millions of euros) | **52,761** | 45,559 |
| **Per-share data** | | |
| **Earnings per share** | **3.82** | 2.75 |
| **Earnings per share** (fully diluted) | **3.66** | 2.75 |
| **Dividend** | **1.25** [2] | 1.10 |

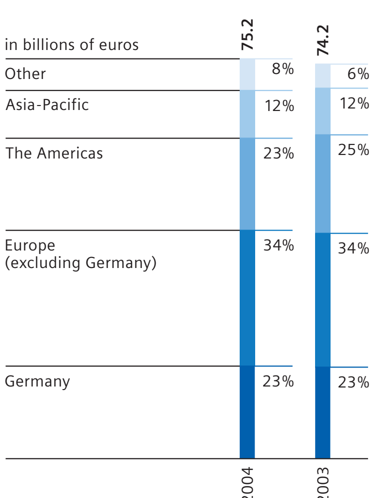
Figures reflect the stock split of April 30, 2001 (one additional share for every two shares held).
[1] Fiscal year: October 1 to September 30
[2] To be proposed at the Annual Shareholders' Meeting




## The Siemens share

As of September 30, 2004, the capital stock of Siemens AG totaled approximately €2.7 billion, representing some 891 million no-par value shares in registered form. Each share has one vote.

In fiscal 2004, Siemens shares were traded on all German exchanges, the Swiss stock exchange, and stock exchanges in New York and London. On the New York Stock Exchange, Siemens shares are traded in the form of ADRs (American Depository Receipts), with one ADR corresponding to one Siemens share.




## Sales by region

Adjusted for currency effects and portfolio activities, Siemens' sales in fiscal 2004 climbed 3% to €75.2 billion. Sales totaled €17.1 billion in Germany, €25.2 billion in the other European countries, €13.6 billion in the U.S. and €9.3 billion in Asia-Pacific, where China alone accounted for €2.9 billion.

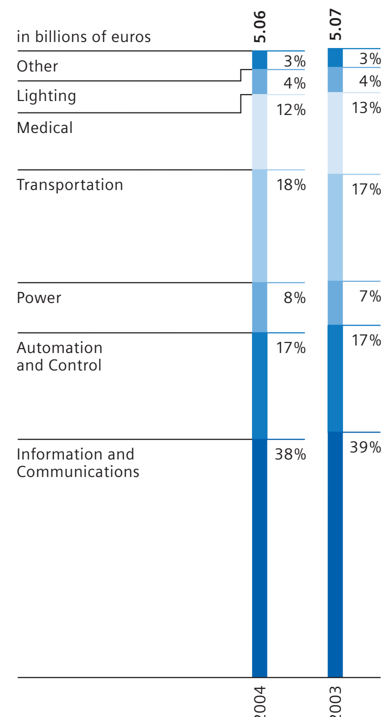
## Investments in research and development

With R&D expenditures of some €5.1 billion in fiscal 2004, we were once again a leader among electronics and electrical engineering companies. A large share of our R&D outlays, more than 55%, continued to flow into information and communications and automation and control technologies.

A strong patent portfolio gives us a head start in developing trendsetting technologies. Critical success factors include cross-Group technologies – such as software architectures, innovative materials, imaging processes and sensor systems – that find application in a wide variety of fields. Our company-wide *top*+ Innovation Program is providing new momentum in our drive to fully leverage our synergy potentials. Initial results include cross-product technology platforms for remote services; a uniform controls architecture for applications ranging from power plants and railway systems to industrial controls and communications networks; and systematic best practice sharing of the kind that has long characterized our software initiative. By moving toward technological leadership in all our businesses, we are also strengthening our customer focus and global competitiveness.

About half of our more than 45,000 researchers work outside Germany. Our goal is to locate R&D activities in every market with high economic and technological potential and to attract the best employees worldwide. With these objectives in mind, we began substantially expanding our research and development activities in China last year.

**www.siemens.com/research_and_development**

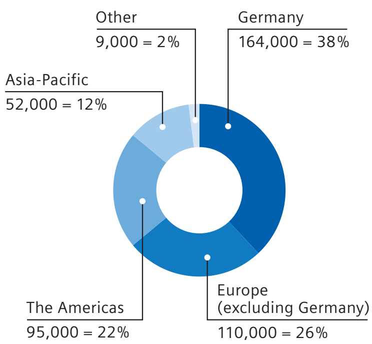



## Strategic patent portfolio

In fiscal 2004, our researchers submitted 8,200 invention reports, 11% more than in fiscal 2003. We filed patent applications for about two-thirds of these inventions. Our power of innovation has given us a leading position in the international patent statistics: We are number one in Germany, number two in Europe and among the top ten in the U.S. market.

Our global patent portfolio boasts more than 48,000 inventions. The creativity of our employees and the strategic management of our patent portfolio provide the foundation for our strong competitive position. A company-wide IP+ intellectual property initiative is driving our efforts to systematically safeguard our innovations and leverage our patents in the face of global competition. A large number of patent exchange and licensing agreements testify to the success of our patent portfolio. These agreements provide unlimited access to all key markets and support the entire innovation process – to the benefit of our customers.

**www.siemens.com/intellectual_property**




## Employees worldwide

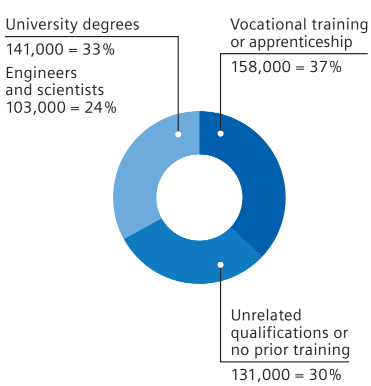
At the end of fiscal 2004, Siemens had 430,000 employees worldwide. Of this total, 62% (266,000) worked outside Germany. Germany accounted for 38% (164,000), the other European countries for 26% (110,000), the Americas for 22% (95,000), Asia-Pacific for 12% (52,000), and Africa, the Middle East and the C.I.S. countries for about 2% (9,000).

## Women at Siemens

Women comprise some 27% (117,000) of our global workforce. Twenty percent of the women employed at Siemens hold university degrees, of which 10,600 are in technical or scientific fields. In fiscal 2004, 34% (15,300) of all new hires worldwide were women. At the end of the fiscal year, women occupied about 10% (5,800) of our managerial positions.

## Developing our people's competencies

With an investment of more than €400 million, our commitment to the education of young people and the training of our employees remained unwavering in fiscal 2004. Some 40% of the total flowed into vocational training and about 60% into business-oriented continuing education. Our vocational training programs span about 30 professions and courses of study. Some 11,000 young people worldwide are currently enrolled in Siemens apprenticeship or work-study programs.




## Employee qualifications

Over two-thirds of our 430,000 employees have professional qualifications. Thirty-three percent (141,000) hold university degrees. Twenty-four percent (103,000) are engineers or scientists. Another 37% (158,000) have earned a vocational school diploma or completed an apprenticeship. Slightly less than one-third (131,000) have qualifications unrelated to their work or are without any prior professional training.

## New hires

In fiscal 2004, we hired 44,700 employees worldwide, 33% of whom hold university degrees. Just over two-thirds (10,300) of our university-trained new hires are engineers or scientists. As these figures attest, we continue to boast a highly qualified workforce.

## Group Presidents*

**Udo Niehage, Dr.-Ing.**
PTD

**Wolfgang Dehen**
SV

**Hans M. Schabert**
TS

**Erich R. Reinhardt, Prof. Dr.-Ing.**
Med

**Johann Löttner**
L&A

**Lothar Pauly**
Com

**Wolf-Dieter Bopst, Dr. oec. publ.**
Osram

**Adrian v. Hammerstein**
SBS

**Helmut Gierse**
A&D

**Joergen Ole Haslestad**
I&S

**Heinrich Hiesinger, Dr.-Ing.**
SBT

**Herbert Lohneiß, Dr. rer. nat.**
SFS

**Klaus Voges**
PG

* As of January 1, 2005
For further information, see back cover foldout.

# Business areas

Siemens' operations are divided into six business areas:

- **Information and Communications**
- **Automation and Control**
- **Power**
- **Transportation**
- **Medical**
- **Lighting**

Other Siemens businesses:

- **Financing and Real Estate**
- **Affiliates**

**Information and Communications** – comprising the Communications Group and Siemens Business Services – provides the entire spectrum of information and communications solutions.

**Automation and Control** – comprising the Groups Automation and Drives, Industrial Solutions and Services, Logistics and Assembly Systems, and Siemens Building Technologies – supplies products, systems, solutions and services for industrial and building automation.

The **Power** business area – comprising the Groups Power Generation and Power Transmission and Distribution – offers a comprehensive spectrum of energy solutions, ranging from electricity generation to the transport of electrical energy from power plant to consumer.

The **Transportation** business area comprises the Groups Transportation Systems (rail systems) and Siemens VDO Automotive (automotive systems). With their wide array of products and services, both Groups are making mobility more efficient and environmentally friendly.

The **Medical** business area, comprising the Medical Solutions Group, is renowned for its innovative products, complete solutions, services and consulting for the healthcare community.

The **Lighting** business area, comprising our subsidiary Osram, specializes in lighting sources, related electronic control gear and light management systems.

Our **Financing and Real Estate** activities are handled by Siemens Financial Services and Siemens Real Estate.

Major affiliates include **BSH Bosch und Siemens Hausgeräte GmbH** and **Fujitsu Siemens Computers (Holding) BV**.

# Information and Communications

### Communications (Com)

www.siemens.com/communications

The merger of ICN and ICM – Siemens' wireline and wireless businesses – on October 1, 2004 to form the Communications Group created one of the world's largest suppliers of telecommunications equipment and services. With a range of products unmatched in the industry – from network infrastructure and applications to communications devices and services – and with the expertise needed to combine these products into integrated communications solutions, the new Group is poised for positive development.

Our customers are on the threshold of a new era in which Internet technology will increasingly permeate telecommunications. Operators are already beginning to integrate mobile and wireline activities. Applications and solutions that were developed specifically for mobile, wireline or enterprise networks are finding increasing application in all three areas. Network operators and enterprise customers are looking for seamless technology solutions from a single source. Bundling our telecommunications know-how will enable us to align our business to these changing market requirements at an early stage.

### Siemens Business Services (SBS)

www.siemens.com/sbs

We are a leading international IT service provider. Our portfolio encompasses all types of IT services and solutions – from consulting and systems integration to the management and operation of IT infrastructures. Working closely with our customers, we develop tailored solutions – such as e-government services for state and local authorities – based on proven applications and systems. Our IT infrastructure services guarantee around-the-clock security and accessibility. We also operate clients' IT systems and business processes.

Our roughly 10,000 customers include public-sector institutions, manufacturers, financial service providers, power utilities, telecoms and media companies like Britain's BBC, which has commissioned us to operate its entire IT infrastructure.

# Automation and Control

www.siemens.com/ad

### Automation and Drives (A&D)

We are a full-range supplier of automation and installation systems, drives and switchgear. Our offerings include standard products for the manufacturing and processing industries, electrical installation technology, and system- and industry-specific solutions. We also supply software tools for integrating production and business administration systems and optimizing production processes.

Leveraging the comprehensive range of products and systems that comprise our Totally Integrated Automation (TIA) and Totally Integrated Power (TIP) platforms, we provide customized solutions that efficiently automate entire production processes and power supply and distribution systems in all segments of industry. The integrated TIA platform helps optimize workflows, shorten time to market and cut production costs while maximizing investment security and minimizing process complexity.

www.industry.siemens.com

### Industrial Solutions and Services (I&S)

We are a systems and solutions integrator for industrial plants and infrastructure projects, combining Siemens' expertise in drives, automation, IT and services to provide comprehensive solutions. As a global service provider for Siemens' major project business, we also supply lifecycle solutions that optimize manufacturing and business processes throughout the entire life span of a production facility.

In the traffic control sector, we offer customers around the world safety, surveillance and control systems and solutions for interurban and urban applications.

In the fourth quarter of fiscal 2004, we acquired USFilter Corporation, a leading supplier of products and solutions for municipal and industrial waste water treatment in North America. We will expand this business to generate additional growth.

**Logistics and Assembly Systems (L&A)**

www.logistics-assembly.siemens.de

We provide integrated automation solutions to optimize our customers' logistics, materials flow and production processes. We are experts in planning, constructing, operating and servicing systems and plants.

Our activities focus on the wholesale, retail and mail-order industries, the food and beverage industry, the electronics industry, logistics for manufacturing and finished goods, the car industry and postal automation, including parcel and freight logistics. We also leverage the high-tech expertise of Siemens' entire network of innovation to develop and implement solutions for airport baggage handling and air cargo processing.

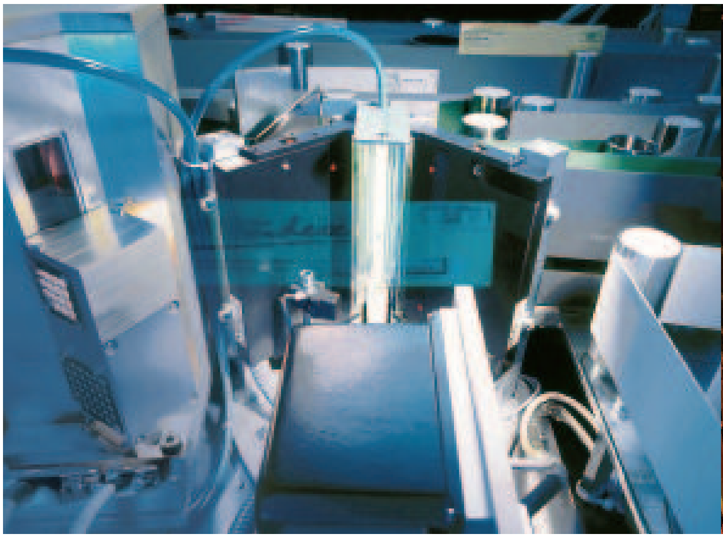
The acquisition of Mannesmann Dematic AG and the subsequent integration of the separate legal unit Siemens Dematic into Siemens AG have given our business unhindered access to the technological prowess and sales expertise of Siemens' global network.

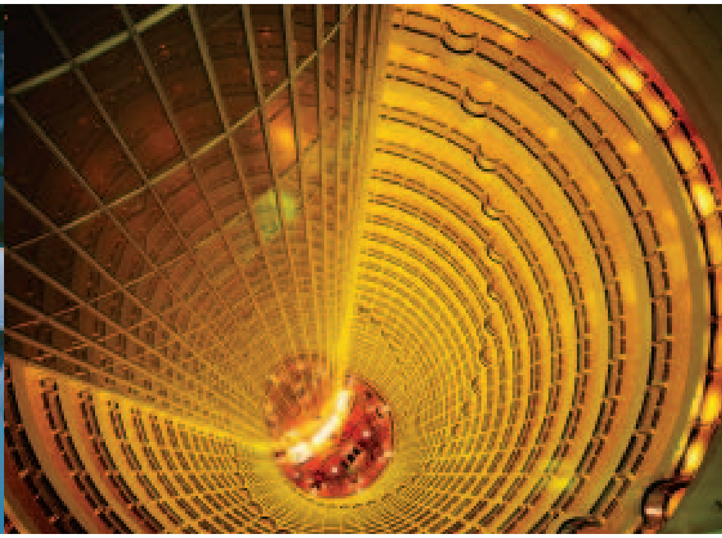
**Siemens Building Technologies (SBT)**

www.sbt.siemens.com

Our comprehensive portfolio of products, systems and services for building security, fire protection and comfort control has made us a world leader in building technologies. We have developed and launched global platforms to meet the growing demand for integrated solutions that can be implemented worldwide.

Our scalable offerings – ranging from complete systems and service packages to customized solutions and components – can be tailored to meet the requirements of medium-sized installers, wholesalers, systems vendors, operators and general contractors. Increasingly important are solutions that cover the entire lifecycle of a building, particularly applications that boost energy efficiency.





# Power

www.pg.siemens.com

**Power Generation (PG)**
Our wide array of products and services includes the planning and construction of power plants, the development, manufacture and installation of components and systems, power plant upgrades, comprehensive plant servicing, control solutions, energy management systems, and fuel cells. We also supply turbines, compressors and complete solutions for industrial plants, particularly for the oil and gas industry. Our acquisition of Denmark’s Bonus Energy has made us a world-leading supplier of wind power plants, particularly in the high-growth offshore wind farm segment.

Framatome ANP S.A.S., our joint venture with majority shareholder AREVA, specializes in the development, planning and turnkey construction of nuclear power plants and research reactors. Framatome’s new European Pressurized Water Reactor in Finland, the first of its kind, is a landmark in this future-oriented technology.

Through our joint venture Voith Siemens Hydro Power Generation GmbH & Co. KG, in which we are also a minority shareholder, we supply equipment and services for hydroelectric power plants.

www.siemens.com/ptd

**Power Transmission and Distribution (PTD)**
As a manufacturer, systems integrator and provider of complete solutions and services, we enable power utilities and industry customers to transport and distribute electricity reliably and economically from the power plant to the consumer. To generate additional growth, we are reinforcing and optimizing our portfolio in selected areas. Recent moves include our acquisition of the Trench Group, a leading manufacturer of high-voltage transmission components.

In addition to switchgear and transformers, our portfolio increasingly comprises products whose integrated communications and automation technologies offer added advantages to network operators. We have developed new controls and instrumentation for high-voltage direct-current transmission systems. Our service offerings include the planning, upkeep and maintenance of entire power grids. We have consolidated and further expanded our position as a world-leading supplier in the area of power transmission and distribution.

# Transportation

### Transportation Systems (TS)

www.siemens.com/transportation

We offer seamless rail solutions for mass transit, regional and main-line services. Our portfolio encompasses railway engineering, project and finance management, locomotive and rolling-stock construction, servicing, maintenance, operational support, signaling and control technologies, automation systems, and rail electrification and telecommunications. We also specialize in turnkey rail systems.

Together with our partner ThyssenKrupp, we developed the innovative Transrapid magnetic levitation train, which made its commercial debut in Shanghai. At our Wegberg-Wildenrath Test Center, customers can conduct extensive testing of their rolling stock and infrastructure systems before putting them into service.

### Siemens VDO Automotive (SV)

www.siemensvdo.com

Ever since Siemens entered the high-growth automotive electronics market in the mid-1980s, we have continuously expanded our business until today we are one of the Company's top performers. Milestones in our development include the purchase and integration of Mannesmann VDO and, most recently, the acquisition of DaimlerChrysler's electronics plant in Huntsville, Alabama – an important step forward in the ongoing globalization of our business. With 130 locations around the world, we are active in the major automobile markets of Asia, Europe and the Americas.

We focus on developing innovative automotive electronics and mechatronics. New orders for products like tire pressure control systems and gasoline direct injection systems, together with the reorganization of our commercial vehicles business, are driving profitable growth.

# Medical

www.siemens.com/medical

**Medical Solutions (Med)**

We are the leading solutions provider in the healthcare field. Our comprehensive portfolio of innovative products and professional services ranges from hearing instruments, diagnostic imaging systems, therapy equipment and entire intensive care units to clinical and administrative IT solutions.

Our operational excellence is summed up in our $P^3$ formula – People, Processes and Products. We bring together innovations and process optimization to help our customers provide higher-quality, patient-centered healthcare services more efficiently and at lower cost.

Our Electronic Patient File is a prime example of our proven outcomes. With our IT systems, we optimize workflows across the entire healthcare enterprise, enabling faster access to all relevant data and continuous monitoring and control of treatment processes – to the benefit of patients and providers alike.

# Lighting

**Osram**

www.osram.com

Osram is one of the world's top two manufacturers of lighting products. We have successfully transformed ourselves from a conventional light-bulb manufacturer into a cutting-edge high-tech company. Innovative lighting sources and systems, which now account for approximately 40 percent of our business, are increasing our sales and generating above-average earnings. We anticipate strong growth in the areas of opto-semiconductors, electronic control gear and electronically controlled lamps.

The most important growth regions for our business are Asia-Pacific and Eastern Europe. In fiscal 2004, we acquired Russia's fluorescent lamp manufacturer Svet, making us the first international lighting company with local content in that country. We have also continued to expand our production activities in Asia. This internationalization strategy, coupled with our power of innovation and efficient production processes, has enabled us to capture a strong position on the global market.

# Financing and Real Estate

www.siemens.com/sfs

**Siemens Financial Services (SFS)**

A Siemens Group with over 1,600 employees, SFS conducts Siemens' financial business worldwide. Our broad array of financial solutions includes sales and investment financing, treasury services, fund management and insurance solutions. We also make equity investments in infrastructure projects and provide consulting services for tailored project and export financing.

Our portfolio is geared to the requirements of Siemens and other industrial enterprises. Today, we support a wide range of customers, primarily in the fields of information and communications, medical technology, transportation systems, power generation and plant engineering and construction.

Our aim now is to push volume as well as earnings growth, particularly in our leasing and factoring business. Already strong in Europe and North America, we are intensifying growth-driving activities in Asia as well.

www.siemens.com/realestate

**Siemens Real Estate (SRE)**

As the real estate arm of Siemens, we manage 20.1 million square meters of land and ten million square meters of commercial real estate. We also offer consulting, portfolio management and real estate development and commercialization services at around 1,300 locations worldwide.

Office concepts that help the Siemens Groups cut costs by optimizing their floor space utilization are a main focus of our activities. One such concept is our Workplace Management solution, developed in 2004, which will give our clients access to fully-furnished office space, complete with such features as LAN connections and conference rooms. A further focus of our activities is the management of construction projects like Siemens' new headquarters complexes in Moscow and Beijing. The cornerstone of the Beijing campus will be laid in January 2005.

# Affiliates

**BSH Bosch und Siemens Hausgeräte GmbH**

www.bsh-group.com

We offer a complete range of household appliances. Leveraging our power of innovation and our strong commitment to quality, we are continually marketing new and improved products. Our innovations provide customers with enhanced performance, convenience and user friendliness and also benefit the environment. Since 1990, we have substantially reduced energy consumption in all our products. Our refrigerators and freezers now consume two-thirds less electricity than earlier models, and our dishwashers and washing machines use about a third less.

Our R&D activities focus on network-capable appliances for the home of the future. We are the first manufacturer to market a home automation system – serve@Home – which allows users to monitor and operate appliances, adjust appliance settings and change programming instructions via cellphone or notebook. The system also integrates applications like lighting controls, security systems and home entertainment features.

**Fujitsu Siemens Computers (Holding) BV**

www.fujitsu-siemens.com

We are the number one IT manufacturer in Europe and the market leader in Germany.

As a trusted IT partner, we give our customers an edge by providing a unique range of information technologies – everything from handheld computers, tablet PCs, notebooks, desktops, workstations and Intel and Unix servers to mainframes, and storage and IT infrastructure solutions. To offer complete best-in-class IT business solutions, we bundle our core competencies with the know-how of our leading technology, software and service partners.

Active in all the major markets of Europe, Africa and the Middle East, we profit from the global cooperation and innovative power of our parent companies Fujitsu Ltd. and Siemens AG. Our strategic focus on the fields of mobility and business critical computing ensures that we will continue to meet the specific needs of large enterprises, small and medium-sized companies and individual users in the years to come.

**Siemens One – Bundling expertise for our customers**

Siemens One is what we call our new company-wide strategy to improve market penetration and drive growth in new fields by enhancing cooperation across our entire organization. Few companies in the world can provide the range of products, systems and services that we do. Focused primarily on large-scale infrastructure projects, Siemens One is enabling us to bundle our comprehensive expertise in order to create complete, customized solutions for selected industries.

Siemens One is a key part of our Customer Focus Program, one of the main pillars of the new Siemens Management System that is driving managerial efficiency everywhere in the Company. There are now Siemens One organizations in over 35 countries. We have also set up a Siemens One Team at corporate headquarters to help our vertically organized businesses further leverage their horizontal synergies, to initiate cross-Group and cross-Region solutions in new and existing market segments, and to engage in sales activities where appropriate. The aim throughout is to optimize customer value by intensifying and expanding our current cross-selling activities.

Siemens One scored its first successes in the United States. In Houston, Texas, for example, several Siemens Groups pooled their know-how to help build the Reliant Park stadium, enabling the city and the National Football League to host the 2004 Super Bowl. Siemens provided the technology that allowed the championship game to happen – supplying building automation, fire safety and security systems, data and telecommunications technology, electronic switchgear, lighting controls and a light rail transit system from downtown Houston to the stadium. Successes like Reliant Park have since spawned a large number of other Siemens One projects all around the world.

## The Athens Olympics 2004

Only the most advanced infrastructure solutions are good enough for the Olympic Games, the world's premier sports event. And that's where Siemens comes in. In Athens in 2004, we were involved in a wide range of key projects, contributing expertise from all across our business areas. In the Greek capital, we collaborated with a consortial partner to implement one of the largest and most demanding security projects the world has ever seen. Siemens' share of the overall project totaled some 75 percent. To ensure security at the Games, we supplied and integrated more than 65,000 different products, systems and solutions – including monitoring systems, computers, personal digital assistants, vehicle location equipment, access controls, LANs and other communications networks – to electronically link police, fire departments, coast guard units and government ministries, for example. ICN installed the official Olympic information call center, one of the organization's most sensitive projects, which was also used to coordinate volunteer workers at the Games.

The construction of Karaiskaki Stadium near Piraeus Harbor was yet another of the many Olympic projects to which Siemens contributed. A&D, I&S, PTD, SBT, Osram and ICN cooperated to supply products and solutions. In addition, SBT equipped the stadium with a building management system to control cold and warm water supplies as well as lighting. SBT also installed security and fire alarm systems. All in all, Siemens participated in more than 20 stadium projects.

In addition, Siemens expanded the Greek telephone network and supplied low- and medium-voltage switchgear, building management systems, telephone exchanges, and fire alarm and lighting systems, serving such customers as the five-star Grande Bretagne Hotel, where many of the Olympic Committee's guests stayed during the Games. We also equipped the Olympic Village with cable TV. PTD furnished four transformer substations for power distribution, while Med supplied medical equipment for local hospitals whose facilities were expanded. We also helped upgrade the transportation network: TS supplied trains for the Athens subway as well as signaling systems, power supplies and telecommunications equipment for Metro lines 1 and 2.

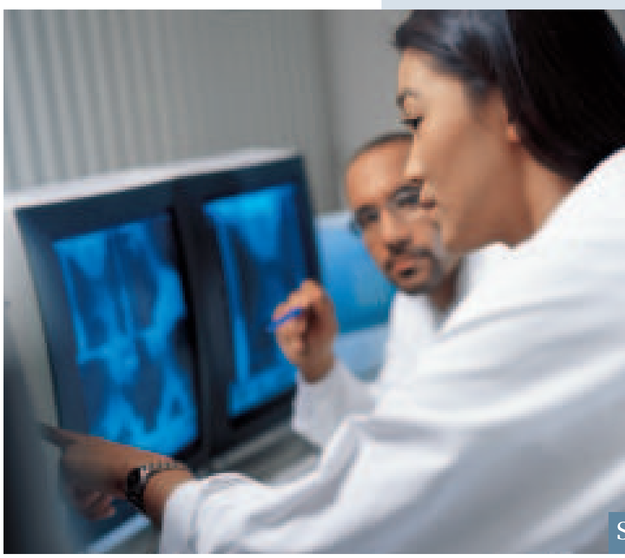
Siemens One

## Bangkok Airport

Thailand's airport authority NBIA turned to Siemens for the power distribution, information management and control systems at Bangkok's new international airport, which is scheduled to open in 2005. A single member of the Siemens One organization, "Mr. Siemens One," is the direct contact for the NBIA and other participating companies. Teams from I&S, A&D, PTD, SBS and L&A are cooperating closely on project implementation.

A solution from SBS expedites the management of organizational and administrative processes, while a system from I&S controls and monitors the aircraft fueling network. With the help of 4,500 electronic meters, the largest number of such devices ever installed, another I&S system monitors the low-voltage distribution network. To ensure the comfort of the 45 million travelers passing through the airport every year, power distribution and control systems from PTD and A&D guarantee power supplies in the terminals. Baggage and air cargo handling systems from L&A enable airport personnel to quickly and efficiently process more than three million tons of freight a year.

Siemens One



## Scott & White Healthcare System

Scott & White's vision of a digital hospital will soon be reality. For the U.S. healthcare provider's new 381-bed hospital – slated to open in Temple, Texas in the fall of 2006 – Siemens is bundling systems and solutions from Med, Com, SBT, A&D and PTD into one innovative, customized package. Aimed at helping Scott & White provide high-quality and efficient clinical, operational and financial performance outcomes, these systems and solutions include advanced medical imaging and diagnostic equipment, comprehensive IT systems like Soarian™, fully integrated voice, data, video and nurse call systems, building control technologies and energy supply systems to integrate the Scott & White network.

Siemens One

## Bahrain Formula One Racing Circuit

April 2004 witnessed the first-ever Formula One Grand Prix race to be held in the Middle East. For the new motorsports venue in the Kingdom of Bahrain, Siemens installed the complete race control management, security, data-exchange and telecommunications infrastructure. The race was a successful premier for both drivers and fans – thanks to the combined efforts of I&S, Com, SBT and Fujitsu Siemens Computers. The 5.4-kilometer track in the middle of the desert boasts a race management system, a GPS synchronized timekeeping and signaling system, and digital video recording and PA systems. Track managers have access to 45 signal lamps and nearly 1,000 loudspeakers. Thirty-six remote-controlled cameras monitor action on the course. Smooth communication is guaranteed by a 550-kilometer fiber-optic network equipped with gigabit Ethernet technology and backed by a digital telecommunications system capable of handling up to 1,700 individual subscribers at a time. Races reach a global audience live via satellite. After successfully planning, installing and commissioning the circuit, Siemens has now been awarded a follow-up contract for its maintenance.


Siemens One

# Report of the Supervisory Board
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Dear shareholders,

The Supervisory Board of Siemens AG focused intensively on the Company's situation and prospects throughout fiscal 2004. The Managing Board provided us with timely and comprehensive information on a regular basis. We were involved in major Company decisions. We also advised the Managing Board and monitored Company management.

At five meetings during the course of fiscal 2004, the Managing Board reported to us on the Company's strategy and plans, on business and financial developments and on key business events. The Managing Board also informed us in writing about important developments that took place between these meetings. As Chairman of the Supervisory Board, I was kept up-to-date on major issues and upcoming management decisions.

In its deliberations, the Supervisory Board focused on the Company's strategic orientation and personnel policies, plans to further optimize our business portfolio, the challenges and opportunities facing us in key regions, progress reports by the individual Siemens Groups and matters relating to corporate governance. This year, generational change in the Company's top management was also on the agenda.

**Business strategy and personnel policies**

At the April 2004 meeting of the Supervisory Board, the President of the Managing Board and the Chief Personnel Officer reported on Company strategy and on changes in our personnel policies. The following issues were discussed in detail:

- Siemens' aim is to be a global leader in electrical engineering and electronics with high profitability. All Company measures and programs are focused on this ultimate goal.

- The Company's business portfolio is being continuously optimized within the framework we have specified. For this reason, we are making targeted acquisitions to strengthen individual segments, particularly in growth markets.
- In our Siemens Management System – which includes the *top*+ programs Innovation, Customer Focus and Global Competitiveness as well as a number of related initiatives – we have defined the key action areas for driving Company growth in the next few years.
- We are bringing personnel management into line with the Company's business strategy and business policies. In the last few years, the Managing Board has revamped our systems and processes for personnel development to take into account the increasing internationalization of our activities.

Siemens has developed a clearly focused, comprehensive and consistent management system to tackle the challenges of ongoing globalization.

**Regional focus**

The Supervisory Board discusses Siemens' position in the global electronics and electrical engineering market at nearly every meeting. In 2004, we focused on the opportunities presented by the European Union's eastward expansion and on the reorganization of our sales and service activities in Germany. The Managing Board explained its reasons for combining previously independent Group activities into one Regional Organization Germany. This new unit, which employs 20,000 people, began operations at the start of fiscal 2005 with the aim of expanding business and improving customer proximity. The Supervisory Board is convinced that this organizational change is a key step toward re-achieving growth in the long-stagnant German market.

Siemens' performance in the United States, the world's largest electrical market, is considered at every meeting of the Supervisory Board. This year, we also received special reports on the Company's position in Asia-Pacific (November 2003) and in Latin America (November 2004). The Company is well-anchored in both regions, and new growth-generating measures have been initiated.

**Group-specific topics**

Traditionally, Supervisory Board meetings are devoted not only to matters affecting the Company as a whole. We also give the individual Groups an opportunity to explain their activities in detail. This enables the members of the Supervisory Board to evaluate the specific challenges facing each of the Company's operating units.

Between November 2003 and November 2004, the following Groups reported to the Supervisory Board: Industrial Solutions and Services, and Osram (November 2003); Siemens Building Technologies, and Power Transmission and Distribution (April 2004); IC Networks, IC Mobile, and Logistics and Assembly Systems (July 2004); Automation and Drives, Siemens Financial Services, Medical Solutions, and Siemens VDO Automotive (November 2004). At these meetings, we discussed the following topics:

- IC Networks and IC Mobile have weathered the structural crisis in their industry. In response to the increasing convergence of mobile and wireline technologies and in order to strengthen their market presence, the two Groups were combined on October 1, 2004 to form the Communications Group.
- Industrial Solutions and Services, Siemens Building Technologies, and Logistics and Assembly Systems – all of which have faced special problems in the last few years – have completed the necessary restructuring measures and process improvements. They are now back on track. The acquisition of USFilter has enabled Industrial Solutions and Services to move into another promising market.
- Automation and Drives, Medical Solutions, Siemens VDO Automotive, Osram, Power Transmission and Distribution, Siemens Financial Services, and Power Generation have all posted outstanding results. These Groups are committed to doing everything they can to ensure the sustainability of their success.
- Siemens Business Services and Transportation Systems are working to achieve lasting improvements in their performance as rapidly as possible.

Taken as a whole, our Groups posted a double-digit increase in earnings compared to fiscal 2003, despite acute project-related problems at Transportation Systems. The Supervisory Board registered its satisfaction with this result.

**Corporate governance**

The Supervisory Board regularly deals with the further development of the Company's corporate governance principles. In this context, we have also concerned ourselves with the Company's compliance organization.

At our meeting on November 26, 2003, we adopted new bylaws for the Supervisory Board and its committees. These bylaws have been revised to take into account the corporate governance provisions of the Sarbanes-Oxley Act (SOA) and the revised version of the German Corporate Governance Code of May 21, 2003.

We have determined that Siemens – in accordance with the Company's Declaration of Conformity of November 12, 2003 – complied with the recommendations of the German Corporate Governance Code in fiscal 2004. Siemens will now disclose the remuneration paid to members of the Supervisory and Managing Boards in fiscal 2004 on an individualized basis. As stated in the new Declaration of Conformity, which we approved at our meeting on November 10, 2004, Siemens now complies with all but one of the Code's recommendations: Our directors and officers liability (D&O) insurance policy has no deductible.

The Supervisory Board met in April and November 2004 without the Managing Board in attendance. At these meetings, we dealt with the operational efficiency of the Supervisory Board and with the division of duties between the full Supervisory Board and its committees.

An overview of our corporate governance rules and practices and a detailed report on the level and structure of remuneration paid to members of the Supervisory and Managing Boards appear on pages 40-47 and 48-53 of this Annual Report and on the Internet.

**Committee meetings**

The Chairman's Committee remained in close contact with the Managing Board between the five regular Supervisory Board meetings held during fiscal 2004. As one of the Supervisory Board's four committees, the Chairman's Committee met five times to address personnel matters relating primarily to the Managing Board and the Group executive managements, the structure and level of Managing Board remuneration, and the determination of variable and stock-based remuneration components. At every meeting, the Chairman's Committee also dealt with the Company's strategy and performance and with matters relating to corporate governance.

Together with the independent auditors, the President of the Managing Board and the Chief Financial Officer, the Audit Committee discussed the annual financial statements of Siemens AG and the consolidated financial statements of Siemens worldwide, the appropriation of net income and the annual report on Form 20-F, which Siemens submits to the SEC. During the year, the Audit Committee also gave in-depth consideration to the Company's quarterly reports, the appointment of the independent auditors, oversight of the auditors' independence and efficiency, and their fee. In addition, the Audit Committee dealt intensively with the Company's risk management system and with the authorization and findings of the internal financial audit and the reports on statutory and regulatory risks. At several meetings, the Audit Committee discussed compliance with the provisions of Section 404 SOA regarding internal control systems and with the rules issued by the U.S. Public Company Accounting Oversight Board (U.S. PCAOB) for implementing those provisions. In addition, the Audit Committee adopted the SOA rules for the approval of non-audit services provided by independent auditors and for the treatment of employee and/or shareholder complaints as well as a Code of Ethics for Financial Officers. The Audit Committee met five times during the year, in some cases without the Managing Board in attendance.

The Mediation Committee, formed pursuant to § 27 (3) of the German Codetermination Act, had no occasion to meet during the year. The Ownership Rights Committee, defined in § 32 of the Act, voted on resolutions using a notational, or written, voting process and notified the Board of the outcome at subsequent meetings. All committees reported to the Supervisory Board on a regular basis.

**Financial statements**

Our independent auditors, KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main (KPMG), audited the annual financial statements of Siemens AG and the consolidated financial statements of Siemens worldwide as well as the related management's discussion and analysis (MD&A) for fiscal 2004, in accordance with the requirements of the German Commercial Code (HGB), and approved them without qualification. The consolidated financial statements, prepared in accordance with U.S. GAAP, were audited by KPMG in accordance with the auditing principles of the U.S. PCAOB. KPMG also confirmed that the consolidated financial statements and MD&A fulfill the conditions for exemption from compliance with reporting rules under German law, and that the Managing Board has implemented an effective risk management system that meets all relevant legal requirements.

The Managing Board provided us with the above-mentioned documents and its proposal for the appropriation of net income in a timely manner. The Audit Committee thoroughly examined these documents, and the Supervisory Board also reviewed them. The KPMG audit reports were presented to all members of the Supervisory Board, and we examined the reports thoroughly at our meeting on November 24, 2004, in the presence of the independent auditors, who reported on the main findings of their audit. The Managing Board explained the annual and consolidated financial statements as well as the risk management system. It also provided a detailed report on the scope, focal points and costs of the audit. As a result of the definitive findings of the examination by the Audit Committee and the full Supervisory Board, we raised no objections. In view of our approval, the financial statements are accepted as submitted.

We endorse the Managing Board's proposal that the net income available for distribution be used to pay out a dividend of €1.25 per share entitled to a dividend. In addition, we approve the proposal that the amount attributable to treasury stock be carried forward.

**Changes in top management**

In fiscal 2004, the Supervisory Board of Siemens AG gave detailed consideration to long-prepared changes in the Company's top management. On July 28, 2004, we made the following decisions:

- We would propose at the Annual Shareholders' Meeting that Karl-Hermann Baumann, Chairman of the Supervisory Board of Siemens AG, who is resigning at the conclusion of the Annual Shareholders' Meeting on January 27, 2005, be succeeded as member of the Supervisory Board by Heinrich v. Pierer. Following the Annual Shareholders' Meeting, Mr. v. Pierer will stand for election as Chairman of the Supervisory Board.
- Klaus Kleinfeld, member of the Corporate Executive Committee since January 1, 2004, would be appointed Vice President of the Managing Board, effective August 1, 2004, and become President of the Managing Board at the conclusion of the Annual Shareholders' Meeting on January 27, 2005.

- Thomas Ganswindt, who was Group President of IC Networks at that time, and Rudi Lamprecht, who was Group President of IC Mobile, would be elected to the Corporate Executive Committee, effective October 1, 2004. Mr. Ganswindt would have special responsibility for the business area Information and Communications. Mr. Lamprecht would have special responsibility for Osram, the Region Africa, Middle East, C.I.S., and the joint ventures BSH Bosch und Siemens Hausgeräte and Fujitsu Siemens Computers.

In this context, changes were also made in the assignment of responsibilities to other Managing Board members. The current breakdown of responsibilities is shown in the organization chart at the end of this Annual Report.

The composition of the Supervisory Board of Siemens AG has also changed. On April 1, 2004, Hildegard Cornudet, Chairwoman of the Central Works Council of Siemens Business Services, succeeded Rolf Dittmar. On July 1, 2004, Berthold Huber, Second Chairman of IG Metall, succeeded Bertin Eichler. We thanked the retiring members for their contributions to the Board.

We have been systematically laying the groundwork for the impending generational change in our governing bodies for a long time. Siemens is committed to achieving a sustainable increase in company value. The Company will stick to its defined strategic goals. To remain an attractive investment and an attractive employer in the years to come, Siemens will maintain an intense focus on adapting to its changing environment. On behalf of the Supervisory Board, I would like to thank Mr. v. Pierer for his outstanding commitment and for the farsightedness with which he has led the Company. I wish Klaus Kleinfeld, the Managing Board and all Siemens employees around the world every success for the future. Thank you for the confidence you have placed in me throughout the course of my long career.

Berlin and Munich, November 24, 2004
For the Supervisory Board

Dr. Karl-Hermann Baumann
Chairman

# Corporate Governance Report

Good corporate governance has traditionally been a high priority at Siemens. We continue to welcome the ongoing corporate governance initiatives within and outside of Germany.

**The German framework**

The German Corporate Governance Code (the Codex), first issued in 2002, was expanded in May 2003. Siemens complies with this expanded version in all but one respect: our directors and officers liability (D&O) insurance policy does not include a deductible for Managing Board and Supervisory Board members. Our senior managers, both in and outside Germany, are covered by a group insurance policy. It is not considered appropriate to differentiate between board members and other high-level personnel. Furthermore, such a deductible is not common outside Germany.

Our Declaration of Conformity, set forth below (on page 47 of this Report), is posted on our website and updated as necessary. Siemens voluntarily complies with all of the Codex's non-obligatory suggestions, with only minor exceptions. Specific details may be found at the Corporate Governance section of our website.

**U.S. capital market rules**

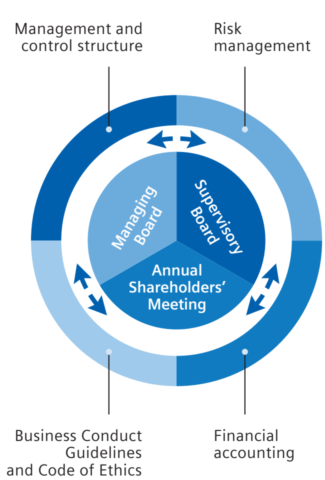
Due to our listing on the New York Stock Exchange (NYSE), we are subject to certain U.S. capital markets laws and regulations of the U.S. Securities and Exchange Commission (SEC) and rules of the NYSE. In July 2002, the Sarbanes-Oxley Act (SOA) became U.S. law. The SOA aims to strengthen investor protection and restore confidence in the U.S. capital markets. To those ends, the SOA – together with associated SEC and NYSE rules – introduced numerous changes in corporate governance regulations for all companies listed in the U.S.

**Disclosure Committee**

To facilitate our compliance with the SOA, we have, among other things, established a Disclosure Committee (comprised of eight central department heads) that is responsible for reviewing and approving certain financial and non-financial information before we make it public. We have also introduced procedures that require the respective managements of our Groups and subsidiaries to certify certain matters, as discussed below. These procedures, and certifications provide a basis on which the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of Siemens AG certify our financial statements to the SEC, as required by the SOA. Pursuant to the requirements of the SOA, Siemens has conformed the Bylaws of the Audit Committee of its Supervisory Board, revised its procedures governing its relationship to the Company's independent auditors, implemented procedures for handling complaints related to accounting practices and introduced a Code of Ethics for Financial Matters.

**Certification procedure**

**www.siemens.com/ corporate_governance**




**Management and control structure – The Supervisory Board**

As a German stock corporation with registered offices in Berlin and Munich, Siemens is subject to German corporate law. Consequently, the Company has a two-tier management and oversight structure consisting of a Managing Board and a Supervisory Board. The Supervisory Board has twenty members. As stipulated by the German Co-determination Act (the Co-determination Act), one-half of the Board's members represent Company shareholders, and one-half represent Company employees. The shareholder representatives are elected by the Annual Shareholders' Meeting. The employee representatives are elected by an assembly representing Siemens' employees in Germany. Seven of the employee representatives must be Siemens group employees, and three must be external representatives nominated by certain German unions. According to the Bylaws of the Supervisory Board, the shareholder representatives must be independent. Some Supervisory Board members hold, or held in the past year, high-ranking positions at other companies. Siemens maintains normal business relationships with almost all of these companies. However, our sales of products and/or services to them are transacted on arm's length bases. Furthermore, the volumes of these respective sales are quite small in relation to each of the companies' total sales. Consequently, we believe that these dealings do not compromise the independence of our Supervisory Board members associated with these companies. (Further information regarding the composition of our Supervisory Board is available on pages 178-79 of this Report.)

The Supervisory Board is elected for five years. It normally meets five times each year and regularly convenes in executive session without the Managing Board in attendance.

**Duties of the Supervisory Board**

The duties, procedures and committees of the Supervisory Board are specified in its bylaws. These bylaws contain rules regarding, among other things, the independence, experience and knowledge required of Supervisory Board members and rules regarding conflicts of interest.

The Supervisory Board oversees and advises the Managing Board in its management of Company business. At regular intervals, it discusses business development, planning, strategy and implementation. It also reviews Siemens' quarterly reports and approves the annual, stand-alone financial statements of Siemens AG as well as the consolidated financial statements of Siemens, taking into account both the audit reports provided by the independent auditors and the results of the review conducted by the Audit Committee. In addition, the Supervisory Board appoints the members of the Managing Board and allocates members' individual duties. Important Managing Board decisions – such as major acquisitions, divestments and financial measures – require Supervisory Board approval.

### Committees of the Supervisory Board

**Committees of the Supervisory Board**

The Supervisory Board's Bylaws establish four committees, whose duties, responsibilities and procedures fulfill the requirements of the Codex, reflect applicable SOA requirements and incorporate applicable NYSE rules, as well as certain NYSE rules not mandatorily applicable to Siemens AG. (Further information regarding the composition of the Supervisory Board committees is available on page 179 of this Report.) Committee bylaws are posted on our website.

**Chairman's Committee**

The **Chairman's Committee**, comprising two shareholder representatives and one employee representative, performs the collective tasks of nominating, compensation and corporate governance committees. It meets at least five times each year without the Managing Board in attendance. The Chairman's Committee determines the conditions of employment of Managing Board members and the level and structure of their remuneration, including what part of the Managing Board's total compensation will take the form of stock-based compensation. In addition, the Chairman's Committee makes proposals regarding the appointment of Managing Board members. Finally, it reviews and ensures the further development of Siemens' corporate governance principles.

**Audit Committee**

The **Audit Committee** consists of three shareholder representatives and two employee representatives. The SOA requires that all members of our Audit Committee must be independent, as provided in the SOA, no later than July 31, 2005. Nevertheless, SEC rules provide a limited exemption from this requirement for the employee representatives, to the extent that they are employees of the Company and elected in accordance with the Co-determination Act. The Audit Committee oversees the appropriateness and the effectiveness of the Company's external and internal accounting processes, meeting at least five times each year. The Audit Committee and the independent auditors also review the Company's financial statements prepared quarterly and annually by management. On the basis of the independent auditors' report on its review of the annual financial statements, the Audit Committee makes a recommendation to the Supervisory Board whether or not it should approve those financial statements. In addition, the Audit Committee oversees the Company's internal control system and its procedures for assessing, monitoring and managing risk. It also monitors statutory and regulatory compliance. The Company's Financial Audit Department reports regularly to the Audit Committee, which determines the scope and focal points of its financial audit. The Audit Committee is also responsible for liaising between the Company and its independent auditors. In particular, it awards the annual audit contract to the independent auditors appointed at the Annual Shareholders' Meeting and initially determines the focal points of their audit, as well as their fee. In addition, the Audit Committee monitors the independence, qualifications, rotation and performance of the independent auditors.

**Financial experts of the Audit Committee**

In accordance with the requirements of the SOA, the Supervisory Board has determined that Dr. Josef Ackermann, Dr. Karl-Hermann Baumann and Dr. Henning Schulte-Noelle qualify to serve as Audit Committee financial experts.

The **Mediation Committee** comprises two shareholder representatives and two employee representatives. In the event that the Supervisory Board cannot reach the two-thirds majority required to appoint a Managing Board member, the Mediation Committee submits proposals for resolution to the Supervisory Board.

The **Ownership Rights Committee** (formerly called the Investment Committee), comprising three shareholder representatives, is responsible for decisions regarding the exercise of Siemens' shareholder rights in other companies.

### The Managing Board

The Managing Board of Siemens AG, which currently has twelve members, is the Company's top management body. It is obligated to promote the interests of the Company at all times and to drive sustainable growth in company value. Since October 2004, its Corporate Executive Committee has ten members (effective January 27, 2005, it will have nine members). The President and CEO defines overall Company policies in cooperation with the Corporate Executive Committee.

**Duties of the Managing Board**

The Managing Board's responsibilities include determining the Company's strategic orientation, planning and finalizing the Company budget, allocating resources, and monitoring the executive management of each Group. Furthermore, the Managing Board is responsible for the preparation of the Company's quarterly reports; the annual, stand-alone financial statements of Siemens AG and the consolidated financial statements of Siemens. It also appoints personnel to fill key Company positions.

The Managing Board cooperates closely with the Supervisory Board. It informs the Supervisory Board regularly, promptly and comprehensively regarding all issues related to Company strategy and strategy implementation, planning, business development, financial position, earnings and risks. Major decisions of the Managing Board require Supervisory Board approval. (Further information regarding the composition of the Managing Board as well as the composition and responsibilities of Managing Board committees is available on pages 180–81 of this Report.)

### Shareholder relations

Four times each year – at dates specified in our financial calendar – Siemens AG reports to its shareholders regarding its business development, financial position and earnings. The CEO and the CFO report to investors, analysts and the press regarding the quarterly and full-year results. Information which may materially affect Siemens' share price is published in press releases throughout the year.

An ordinary Annual Shareholders' Meeting normally takes place within the first four months of each fiscal year, with each share carrying one vote. All shareholders listed in the stock register and from whom notification of attendance has been received by a specified date are entitled to participate. The Managing Board facilitates shareholder participation in the meeting through the use of electronic means of communication – in particular the Internet – and enables shareholders who are unable to attend the meeting to exercise their voting rights by communicating instructions directly to their representatives. In connection with the January 2005 Annual Shareholders' Meeting, for the first time shareholders may receive their notice of the meeting electronically. The meeting is directed by the Chairman of the Supervisory Board.

**Annual Shareholders' Meeting**

The Annual Shareholders' Meeting decides on all matters assigned to it by law. Its decisions are binding on all shareholders and on the Company. They include, in particular, voting on the appropriation of net income, ratification of the acts of the Managing and Supervisory Boards, and the appointment of the independent auditors. Amendments to the Articles of Association and measures which change the Company's capital stock are approved exclusively at the Annual Shareholders' Meeting and implemented by the Managing Board with the approval of the Supervisory Board. Shareholders may submit counterproposals to the proposals of the Managing and Supervisory Boards and may contest decisions of the Annual Shareholders' Meeting. Shareholders owning Siemens stock with an aggregate par value of €1 million or more may also demand a special judicial review of a particular decision.

**Investor relations activities**

As part of our investor relations activities, the CEO, the CFO and individual members of the Group executive managements meet regularly with analysts and institutional investors. We hold a conference for analysts once a year as well as telephone conferences with analysts upon the publication of our quarterly results. Our website provides access to financial data and other business-related information regarding Siemens.

### Risk management

**Monitoring and risk management**

The Company has a system for assessing and monitoring its potential business and financial risks. The components of this risk management system are designed to help enable us to anticipate risks and to manage them carefully in the pursuit of our business goals. The principles, guidelines, processes and responsibilities of our internal control system have been defined and established to help ensure prompt and accurate accounting of all business transactions and to continuously provide reliable information about the Company's financial position for internal and external use.

However, the components of the internal control and risk management system do not eliminate risk entirely and, thus, cannot prevent loss or fraud in all cases. We intend to rapidly adjust the risk management and monitoring procedures of all businesses acquired during the fiscal year, so that they conform to Siemens' standards.

### Financial accounting

**Preparation of financial statements**

The consolidated financial statements of Siemens worldwide are prepared in accordance with the United States Generally Accepted Accounting Principles (U.S. GAAP), as permitted by the German Commercial Code. The annual, stand-alone financial statements of Siemens AG are prepared in accordance with the accounting rules set out in the German Commercial Code. The Managing Board directs the preparation of the financial statements.

**Further development of our internal control system**

The existing internal control system and the Company-wide use of uniform guidelines help to ensure the accuracy of our financial statements. In addition, we have established a system of internal certification by which the executive management of each of our Groups and subsidiaries certifies, among other things, the accuracy of their reports to the Managing Board, including that such reports fairly present in all material respects the financial condition, results of operations and cash flows of the reporting entity. They also certify that such management has reviewed the reporting entity's disclosure controls and procedures and concluded that they were effective as of the end of the period covered by the relevant report.

This system is a basis for the statements of certification that must be signed by the CEO and the CFO and submitted to the SEC with the annual report on Form 20-F, in accordance with the SOA requirements. In those statements, the CEO and the CFO certify the accuracy of the statements in the annual report, including that the financial statements fairly present (in all material respects) the financial condition, results of operations and cash flows of Siemens. They also certify (1) that the effectiveness of Siemens' system of disclosure controls and procedures has been evaluated, (2) that they have presented in this report on Form 20-F their conclusions related to this evaluation and (3) that they have disclosed in this report any change in the Company's internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Additional SOA requirements, which will come into effect for Siemens in fiscal 2005, mandate that we include in our management report on internal controls the conclusions of management about the effectiveness of Siemens' internal controls over financial reporting, based on management's review of those controls. The additional requirements also demand that the independent auditors provide an “attestation” regarding the management's assessment.

### Business Conduct Guidelines and Code of Ethics

Siemens is committed to conducting its business responsibly and in compliance with all relevant statutory and regulatory requirements. The Managing Board has established firm guidelines to help ensure that this goal is achieved. The Business Conduct Guidelines comprise rules regarding compliance with applicable laws, conflicts of interest, the use of Company assets and facilities, and insider trading. These rules are binding for all Siemens employees, the Managing Board and the Supervisory Board. The Guidelines also specify procedures for dealing with complaints.

**Compliance Officer**

A compliance officer, who reports to the Audit Committee, processes all complaints, including those submitted anonymously. In accordance with the requirements of the SOA, procedures for handling potential complaints related to accounting practices, and procedures for handling relevant complaints from specific attorneys (internal and external) have been implemented during fiscal 2004. In addition, the Managing Board and the Supervisory Board have implemented a Code of Ethics for Financial Matters, as required by the SOA rules. Both the Business Conduct Guidelines and the Code of Ethics for Financial Matters are available on our website.

**Significant differences from NYSE Corporate Governance Standards**

Companies listed on the NYSE are subject to the Corporate Governance Standards of Section 303A (the NYSE Standards) of the NYSE Listed Company Manual. Under the NYSE Standards, Siemens AG, as a foreign private issuer, is permitted to follow its home-country corporate governance practices in lieu of the NYSE Standards, except that it is required to comply with the NYSE Standards relating to the having of an audit committee (comprised of members who are "independent" under the SOA) and to certain NYSE notification obligations. In addition, the NYSE Standards require that foreign private issuers disclose any significant ways in which their corporate governance practices differ from those required of U.S. domestic companies under the NYSE Standards.

As a company incorporated in Germany, Siemens AG generally follows German corporate governance principles, particularly those set forth in the German Stock Corporation Act (the Stock Corporation Act), the Co-determination Act and the Codex.

The significant differences between our governance practices and those of domestic NYSE issuers are as follows:

Two-Tier Board

The Stock Corporation Act requires Siemens AG to have a two-tier board structure consisting of a Managing Board and a Supervisory Board which is not comparable to the one-tier (or unitary) board system in the U.S. The two-tier system provides a strict separation of management and supervision. Roles and responsibilities of each of the two boards are clearly defined by law.

The composition of the Supervisory Board is determined in accordance with the Co-determination Act, which requires that one-half of the required 20 Supervisory Board members must be elected by our domestic employees. In the event of a tie vote at the Supervisory Board, the Chairman of the Supervisory Board is entitled to cast a deciding vote.

Independence

Under this two-tier board system, our methods for determining and ensuring the independence of our Supervisory Board differ from those of the NYSE Standards, which generally contemplate a U.S.-style, one-tier system. In contrast to the NYSE Standards, which require the board to affirmatively determine the independence of the individual directors with reference to specific tests of independence, German law does not require the Supervisory Board to make such affirmative findings on an individual basis. At the same time, the Bylaws of our Supervisory Board contain several provisions to help ensure the independence of the Supervisory Board's advice and supervision. Furthermore, the members of the Supervisory and Managing Boards are strictly independent from one another; a member of one board is legally prohibited from being concurrently active on the other. Supervisory Board members have independent decision making authority and are legally prohibited from following the direction or instruction of any affiliated party. Moreover, Supervisory Board members may not enter into advisory, service or certain other contracts with Siemens, unless approved by the Supervisory Board.

### Committees

The NYSE Standards require the creation of several specified board committees composed of independent directors and operating pursuant to written charters that set forth their tasks and responsibilities. The Supervisory Board of Siemens AG has created several committees. In addition, both the Audit Committee and the Chairman's Committee have written bylaws – adopted by the Supervisory Board based on the NYSE Standards – addressing their respective purposes and responsibilities. Nevertheless, German law precludes certain responsibilities from being delegated to a committee, such as the selection of the independent auditors, who are required by German law to be elected at the shareholders' meeting. The independence of the members of our Supervisory Board committees is governed by the independence standards, set forth above, applicable to Supervisory Board members.

Collectively, our Supervisory Board committees are responsible for many of the same functions as the committees required under the NYSE Standards. Yet, while the tasks performed by committees meeting the NYSE Standards and the committees formed by Siemens AG are similar in the aggregate, the specific division of the various tasks among the committees differs.

For example, our Chairman's Committee performs many of the tasks that nominating, corporate governance and compensation committees perform under the NYSE Standards – such as, making recommendations to the Supervisory Board on the appointment and dismissal of members of the Managing Board, determining the Managing Board's employment framework and remuneration, and corporate governance issues.

Our Audit Committee is subject to the standards of the SOA and the Securities Exchange Act of 1934, as applicable to a foreign private issuer, and it performs functions similar to those of an audit committee under the NYSE Standards.

As discussed above, Siemens AG also has an Ownership Rights Committee and a Mediation Committee, the latter of which is required by German law. Neither is required under the NYSE Standards.

### Shareholder Approval of Equity Compensation Plans; Stock Repurchases

The NYSE Standards generally require U.S. domestic companies to obtain shareholder approval of all equity-compensation plans (including stock option plans) and any material revisions to them. Our adoption of stock option plans and any material revisions thereto require the approval by our shareholders in so far as the issuance of shares and/or stock options under authorized or contingent capital authorizations requires shareholder approval (which approval requires consideration of the key elements of the applicable option plan or relevant modifications). The 2001 Siemens Stock Option Plan was so approved in 2001. Similarly, before we may repurchase our shares in the market(s), any such buy-back – as well as our use of such repurchased shares for, among other things, offers to members of the Managing Board and/or our employees – generally requires our shareholders' approval. Such approval was provided during our January 22, 2004 Annual Shareholders' Meeting and such matters will generally be voted upon annually.

### Corporate Governance Guidelines

Various documents pertaining to our corporate governance – including Siemens' Articles of Association, the Bylaws of the Supervisory Board and those of its committees, and the report on our fulfillment of the requirements of the Codex – may be found on our internet website at www.siemens.com/corporate_governance. The information on our website is not incorporated by reference into this Annual Report.

**Declaration of Conformity with the Codex**

Declaration of Conformity

At their meetings on November 9 and 10, 2004, respectively, the Managing Board and the Supervisory Board approved the following Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act:

Siemens AG has fully complied with the recommendations of the German Corporate Governance Code ("Codex") – in the version of May 21, 2003 – except in the respects identified in our declaration of November 12, 2003 (Managing Board compensation not reported on an individualized basis, our D&O insurance without a deductible); and will fully comply with such recommendations of the Codex, except in one respect (our D&O insurance without a deductible).

Berlin and Munich, November 10, 2004

Siemens AG
The Managing Board The Supervisory Board

# Compensation Report

This report outlines the principles used for determining the compensation of the Managing Board of Siemens AG and sets out the level and structure of Managing Board remuneration.

In addition, the report describes the policies and levels of compensation paid to Supervisory Board members and gives details of stock ownership by members of the Managing and Supervisory Boards.

## 1. Managing Board remuneration

The Chairman's Committee of the Supervisory Board is responsible for determining the remuneration of members of the Managing Board. The Committee comprises Dr. Karl-Hermann Baumann (Chairman of the Supervisory Board), and Dr. Josef Ackermann and Mr. Ralf Heckmann (both Deputy Chairmen of the Supervisory Board).

The remuneration of members of the Managing Board of Siemens AG is based on the Company's size and global presence, its economic and financial position, and the level and structure of managing board compensation at comparable companies in and outside Germany. In addition, the compensation for each Board member reflects his or her responsibilities and performance. The level of compensation is designed to be competitive in the international market for highly qualified executives in a high-performance culture.

The Managing Board remuneration is performance-related. In fiscal year 2004 it had three components: a fixed salary, a variable bonus, and stock-based compensation. The fixed salary and the bonus are based on a target compensation that comprises 50 percent fixed and 50 percent variable remuneration. The target compensation is reviewed regularly every two to three years on the basis of an analysis of the compensation paid by international peer companies to their top managers. The last review was conducted on April 1, 2003.

The remuneration of the Managing Board members is composed as follows:

- The fixed compensation is paid as a monthly salary.
- The bonus is based on the Company's attainment of certain EVA targets and other financial goals, if any, that are set at the start of the fiscal year by the Chairman's Committee of the Supervisory Board. One half of the bonus is paid as an annual bonus which is contingent upon achieving the Company-wide EVA target established for the fiscal year. The other half is granted as a long-term bonus (LT bonus) whose amount depends on the average attainment of EVA targets over a three-year period. The annual bonus and the LT bonus may not exceed 250 percent of the base amount applicable to the variable compensation component. One half of the LT bonus is paid in cash. The other half is in the form of a commitment to issue or transfer shares of Siemens AG (stock awards) which will be settled four years after the commitment is made.
  The same principles for determining the bonus apply to Managing Board members who are not members of the Corporate Executive Committee. Their goals, however, depend primarily on the financial performance of the corporate units they lead.
- The third component of Managing Board remuneration for fiscal year 2004 is stock-based compensation determined by the Chairman's Committee of the Supervisory Board, one half of which consists of stock options issued under the terms of the 2001 Siemens Stock Option Plan as authorized by shareholders at the Annual Shareholders' Meeting of Siemens AG on February 22, 2001, and the other half consists of a commitment to issue or transfer shares of Siemens AG (stock awards).

At its meeting on November 10, 2004, the Chairman's Committee of the Supervisory Board determined the bonus amounts and the number of stock awards and stock options to be granted, after assessing the attainment of the goals set at the start of the fiscal year. As a result, cash compensation amounted to €26.7 million (2003: €27.5 million) and total remuneration amounted to €33.4 million (2003: €30.7 million), representing a decrease of 2.9 percent and an increase of 8.8 percent, respectively.

The following compensation was determined for members of the Managing Board for fiscal year 2004:

| (Expressed in €)(1) | Cash compensation | Fair value of stock-based compensation | Total |
|---|---|---|---|
| Dr. Heinrich v. Pierer | 3,560,053 | 1,077,993 | 4,638,046 |
| Dr. Klaus Kleinfeld | 2,679,904 | 641,286 | 3,321,190 |
| Johannes Feldmayer | 2,339,465 | 719,638 | 3,059,103 |
| Prof. Dr. Edward G. Krubasik | 2,278,056 | 719,638 | 2,997,694 |
| Heinz-Joachim Neubürger | 2,260,585 | 719,638 | 2,980,223 |
| Dr. Jürgen Radomski | 2,252,307 | 719,638 | 2,971,945 |
| Dr. Uriel J. Sharef | 2,264,607 | 719,638 | 2,984,245 |
| Prof. Dr. Klaus Wucherer | 2,261,306 | 719,638 | 2,980,944 |
| Thomas Ganswindt(2) | 1,634,261 | 149,990 | 1,784,251 |
| Rudi Lamprecht(2) | 1,741,472 | 149,990 | 1,891,462 |
| Prof. Dr. Erich R. Reinhardt(2) | 1,823,818 | 149,990 | 1,973,808 |
| Prof. Dr. Claus Weyrich(2) | 1,649,402 | 129,989 | 1,779,391 |
| **Total** | **26,745,236** | **6,617,066** | **33,362,302** |

(1) The fair values of stock-based compensation shown in this table relate to stock options and stock awards granted in November 2004 for fiscal year 2004. The values do not correspond to the figures presented in the Notes to Consolidated Financial Statements (pages 162 ff.) because, in accordance with accounting rules, the amounts disclosed for fiscal year 2004 as a component of Managing Board remuneration represent the values of stock options issued during the fiscal year in November 2003. In addition, part of the expense of stock-based compensation is to be recorded over the service period.
(2) Deputy members of the Managing Board.

The following table describes the details of cash compensation.

| | Cash compensation | | | | |
|---|---|---|---|---|---|
| (Expressed in €) | Salary | Annual bonus | LT bonus cash portion | Other(1) | Total |
| Dr. Heinrich v. Pierer | 1,215,000 | 1,581,250 | 738,078 | 25,725 | 3,560,053 |
| Dr. Klaus Kleinfeld | 762,627 | 883,116 | 510,387 | 523,774 | 2,679,904 |
| Johannes Feldmayer | 755,040 | 1,006,200 | 469,639 | 108,586 | 2,339,465 |
| Prof. Dr. Edward G. Krubasik | 755,040 | 1,006,200 | 469,639 | 47,177 | 2,278,056 |
| Heinz-Joachim Neubürger | 755,040 | 1,006,200 | 469,639 | 29,706 | 2,260,585 |
| Dr. Jürgen Radomski | 755,040 | 1,006,200 | 469,639 | 21,428 | 2,252,307 |
| Dr. Uriel J. Sharef | 755,040 | 1,006,200 | 469,639 | 33,728 | 2,264,607 |
| Prof. Dr. Klaus Wucherer | 755,040 | 1,006,200 | 469,639 | 30,427 | 2,261,306 |
| Thomas Ganswindt(2) | 500,040 | 602,617 | 480,380 | 51,224 | 1,634,261 |
| Rudi Lamprecht(2) | 550,020 | 575,240 | 589,982 | 26,230 | 1,741,472 |
| Prof. Dr. Erich R. Reinhardt(2) | 500,040 | 607,153 | 686,692 | 29,933 | 1,823,818 |
| Prof. Dr. Claus Weyrich(2) | 450,000 | 606,250 | 565,922 | 27,230 | 1,649,402 |
| **Total** | **8,507,967** | **10,892,826** | **6,389,275** | **955,168** | **26,745,236** |

(1) Non-cash benefits in the form of company cars, subsidized insurance, accomodation and moving expenses.
(2) Deputy members of the Managing Board.

Both the number and the values of the stock-based compensation component are shown in the following table. The fair value of the stock options was determined using the Black-Scholes option pricing model. Because a cap was placed on stock options granted to Managing Board members, disclosure of stock options in the financial statements depends on their intrinsic value, which was zero on the grant date. Without a cap the fair value would have been €4.54 per option, which amount was taken as a basis in this table. The stock awards were recorded at the market price of the Siemens share on the date of commitment less the present value of dividends expected during the holding period, because awards are not eligible to receive dividends. The resulting value amounted to €55.63.

The members of the Managing Board received a total of 94,769 stock awards and 296,270 stock options, representing 7.8 percent and 10.1 percent, respectively, of the aggregate stock awards and stock options granted for fiscal year 2004. Accordingly, stock-based compensation was as follows:

| | Stock-based compensation | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of units | | | Fair value | | | |
| (Expressed in number of units or €) | Stock awards from LT bonus[1] | Other stock awards[1] | Stock options[2] | Stock awards from LT bonus[1] | Other stock awards[1] | Stock options[2] | Total |
| Dr. Heinrich v. Pierer | 13,266 | 3,056 | 37,445 | 737,988 | 170,005 | 170,000 | 1,077,993 |
| Dr. Klaus Kleinfeld | 6,674 | 2,427 | 29,735 | 371,275 | 135,014 | 134,997 | 641,286 |
| Johannes Feldmayer | 8,442 | 2,247 | 27,535 | 469,628 | 125,001 | 125,009 | 719,638 |
| Prof. Dr. Edward G. Krubasik | 8,442 | 2,247 | 27,535 | 469,628 | 125,001 | 125,009 | 719,638 |
| Heinz-Joachim Neubürger | 8,442 | 2,247 | 27,535 | 469,628 | 125,001 | 125,009 | 719,638 |
| Dr. Jürgen Radomski | 8,442 | 2,247 | 27,535 | 469,628 | 125,001 | 125,009 | 719,638 |
| Dr. Uriel J. Sharef | 8,442 | 2,247 | 27,535 | 469,628 | 125,001 | 125,009 | 719,638 |
| Prof. Dr. Klaus Wucherer | 8,442 | 2,247 | 27,535 | 469,628 | 125,001 | 125,009 | 719,638 |
| Thomas Ganswindt[3] | | 1,348 | 16,520 | | 74,989 | 75,001 | 149,990 |
| Rudi Lamprecht[3] | | 1,348 | 16,520 | | 74,989 | 75,001 | 149,990 |
| Prof. Dr. Erich R. Reinhardt[3] | | 1,348 | 16,520 | | 74,989 | 75,001 | 149,990 |
| Prof. Dr. Claus Weyrich[3] | | 1,168 | 14,320 | | 64,976 | 65,013 | 129,989 |
| **Total** | **70,592** | **24,177** | **296,270** | **3,927,031** | **1,344,968** | **1,345,067** | **6,617,066** |

(1) After a holding period of four years, the stock awards will be settled on November 12, 2008. Under the stock award agreement, the eligible grantees will receive a corresponding number of Siemens shares without additional payment.
(2) After a holding period of two years, the stock options will be exercisable between November 20, 2006 and November 19, 2009 at a price of €72.54 per share at the terms and conditions specified in the 2001 Siemens Stock Option Plan (for details see the Notes to Consolidated Financial Statements, p. 159 ff.).
(3) Deputy members of the Managing Board.

**Pension commitments.** Pension commitments up to and including fiscal year 2004 were made on a defined benefit basis, corresponding to a percentage of 56% to the fixed compensation component.

With the realignment of the German pension plan of Siemens AG into a new plan (BSAV), whose benefits are based largely on contributions made by the Company, the present system of defined benefits for Managing Board members was replaced with effect from October 1, 2004 by a contribution-based system. Benefits earned until September 30, 2004 are not affected. The amount of the contributions for the BSAV is determined by the Chairman’s Committee of the Supervisory Board.

Pension commitments to current members of the Managing Board are covered by Siemens AG. As of September 30, 2004, accruals of €46.3 million have been recorded. Such amounts are included in the amounts disclosed in Note 21.

Former members of the Managing Board and their surviving dependents received pensions and transitional payments of €13.5 million for the year ended September 30, 2004. Members of the Managing Board who were appointed to the Managing Board before October 1, 2002, have the contractually accorded right to receive transitional payments after leaving the Managing Board. The transitional payments generally amount to the fixed salary of the year of resignation and the average of variable bonus paid for the last three fiscal years before resignation. In single cases, the transitional payments equal a one-year target compensation. If a member of the Managing Board resigns early from office, the member has the right to receive a severance payment which amounts to the target compensation for the remaining contractual term of office.

Pension commitments to former members of the Managing Board and their surviving dependents are also covered by Siemens AG. As of September 30, 2004, accruals of €102.2 million have been recorded. Such amounts are included in the amounts disclosed in Note 21.

**Other.** No loans from the Company are provided to members of the Managing Board.

## 2. Supervisory Board remuneration

The remuneration of members of the Supervisory Board was set at the Annual Shareholders' Meeting through shareholder approval of a proposal by the Managing and Supervisory Boards. Details of the remuneration are set forth in the Articles of Association of Siemens AG.

The remuneration of members of the Supervisory Board is based on the Company's size, the assignments, and the responsibilities of Supervisory Board members, and the Company's overall business position and performance. In addition to a fixed payment, the remuneration includes a dividend-related and a stock-based component. The Chairman, the Deputy Chairmen as well as the Chairman and members of the Audit Committee receive additional compensation.

The current remuneration policies for the Supervisory Board were authorized at the Annual Shareholders' Meeting of February 18, 1999. Compensation policies for service as committee chairman were set at the Annual Shareholders' Meeting of January 23, 2003. Details are set out in § 17 of the Articles of Association of Siemens AG.

The compensation of Supervisory Board members for fiscal year 2004 incorporates three components:

- a fixed component,
- a variable component depending on the annual dividend, and
- a long-term component based on the development of the stock market price.

In accordance with these remuneration policies, the fixed compensation of each Supervisory Board member is €6,000, and the dividend-dependent compensation is €3,500 for each €0.05 dividend distributed per share in excess of €0.20. In fiscal year 2004 the dividend rate was €1.25 per share. The Chairman of the Supervisory Board receives twice the standard compensation rate of an ordinary member and each Deputy Chairman receives 1.5 times the standard compensation rate. The Chairman of the Audit Committee receives an additional 100 percent and each remaining member of the Audit Committee an additional 50 percent of the standard compensation rate. The members of the Supervisory Board are reimbursed for any out-of-pocket expenses incurred in connection with their duties and for any sales taxes paid.

In addition, each member of the Supervisory Board receives annually 1,500 stock appreciation rights (SARs) granted and exercisable on the same terms as options issued under the Siemens stock option plan then in effect.

The Managing Board and the Supervisory Board will propose to the Annual Shareholders' Meeting on January 27, 2005 that the remuneration of the Supervisory Board be modified with effect from October 1, 2004. In addition to a fixed remuneration of €50,000, a short- and medium-term compensation component depending on earnings per share is expected to be paid in the future.

| (Expressed in €) | Fixed compensation | Variable compensation | Fair value of stock-based compensation[1] | Total |
|---|---|---|---|---|
| Dr. rer. oec. Karl-Hermann Baumann[2][3] | 18,000 | 220,500 | 6,810 | 245,310 |
| Ralf Heckmann[2] | 12,000 | 147,000 | 6,810 | 165,810 |
| Dr. oec. Josef Ackermann[2] | 12,000 | 147,000 | 6,810 | 165,810 |
| Lothar Adler | 6,000 | 73,500 | 6,810 | 86,310 |
| Gerhard Bieletzki | 6,000 | 73,500 | 6,810 | 86,310 |
| John David Coombe | 6,000 | 73,500 | 6,810 | 86,310 |
| Hildegard Cornudet[4] | 3,000 | 36,750 | 3,405 | 43,155 |
| Dr. jur. Gerhard Cromme | 6,000 | 73,500 | 6,810 | 86,310 |
| Rolf Dittmar[4] | 3,000 | 36,750 | 3,405 | 43,155 |
| Bertin Eichler[5] | 4,500 | 55,125 | 5,108 | 64,733 |
| Birgit Grube | 6,000 | 73,500 | 6,810 | 86,310 |
| Heinz Hawreliuk[2] | 9,000 | 110,250 | 6,810 | 126,060 |
| Berthold Huber[5] | 1,500 | 18,375 | 1,703 | 21,578 |
| Prof. Dr. rer. nat. Walter Kröll | 6,000 | 73,500 | 6,810 | 86,310 |
| Wolfgang Müller | 6,000 | 73,500 | 6,810 | 86,310 |
| Georg Nassauer | 6,000 | 73,500 | 6,810 | 86,310 |
| Dr. jur. Albrecht Schmidt | 6,000 | 73,500 | 6,810 | 86,310 |
| Dr. jur. Henning Schulte-Noelle[2] | 9,000 | 110,250 | 6,810 | 126,060 |
| Peter von Siemens | 6,000 | 73,500 | 6,810 | 86,310 |
| Jerry I. Speyer | 6,000 | 73,500 | 6,810 | 86,310 |
| Lord Iain Vallance of Tummel | 6,000 | 73,500 | 6,810 | 86,310 |
| Klaus Wigand | 6,000 | 73,500 | 6,810 | 86,310 |
| **Total** | **150,000** | **1,837,500** | **136,201** | **2,123,701** |

[1] On the grant date, the stock appreciation rights had a fair value of €4.54 each, as calculated using the Black-Scholes option pricing model.

[2] Dr. Baumann as Chairman of the Supervisory Board and the Audit Committee, Mr. Ralf Heckmann and Dr. Josef Ackermann as Deputy Chairmen of the Supervisory Board and members of the Audit Committee, and Mr. Hawreliuk and Dr. Schulte-Noelle as members of the Audit Committee received a higher standard compensation.

[3] The Chairman of the Supervisory Board is provided an office with secretarial services and a company car.

[4] Ms. Hildegard Cornudet, formerly a substitute member of the Supervisory Board of Siemens AG, became a member of the Supervisory Board as a successor for Mr. Rolf Dittmar with effect from April 1, 2004.

[5] Mr. Berthold Huber's appointment to the Supervisory Board of Siemens AG as a successor for Mr. Bertin Eichler was approved by the registry court with effect from July 1, 2004.

An existing agreement with Mr. Peter von Siemens was renewed after the Annual Shareholders' Meeting 2003 with unchanged terms and conditions under which he, as a member of the founder's family, is entitled to reimbursement of expenses and the provision of a company car and secretarial services for representing the Company at official events in Germany and abroad and in various associations.

No loans from the Company are provided to members of the Supervisory Board.

### 3. Stock ownership by members of the Managing and Supervisory Boards

As of October 15, 2004, members of the Managing Board during the fiscal year held 1,000,014 Siemens shares and stock options on Siemens shares, representing 0.112 percent of the capital stock of Siemens AG. On October 15, 2004, members of the Supervisory Board held 18,824 Siemens shares and stock options on Siemens shares, representing 0.002 percent of the capital stock of Siemens AG. These figures do not include 16,364,977 shares, or 1.8 percent of the capital stock, that are held by the von Siemens-Vermögensverwaltungs GmbH (vSV) – a German limited liability entity that functions much like a trust – and 38,685,250 shares, or some 4.3 percent of the capital stock, over which the vSV has voting control under a power of attorney. Mr. Peter von Siemens is authorized to vote these shares as a representative of the founder's family.

Pursuant to § 15a of the German Securities Trading Act (WpHG) (in effect during the reporting period), members of the Managing and Supervisory Boards were required to disclose significant purchases or sales of shares of Siemens AG. In fiscal 2004, no such transactions were reported.

### 4. Other

The members of the governing bodies of Siemens AG and all board members of its domestic and foreign subsidiaries are indemnified by Siemens AG or its subsidiaries against third-party liability claims to the extent permissible by law. For this purpose, the Company provides a group insurance policy for board and committee members and employees of the Siemens organization which is taken out for one year and renewed annually. The insurance covers the personal liability of the insured in the case of a financial loss associated to employment functions. There is no deductible in terms of Section 3.8, paragraph 2, of the German Corporate Governance Code. It is not considered appropriate in the case of a group insurance policy to differentiate between members of the Supervisory and Managing Boards of Siemens AG and high-level personnel of its subsidiaries. Furthermore, such a deductible is not common practice outside Germany.

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# Financial Information

# Management's discussion and analysis

## Financial highlights

In fiscal 2004, ended September 30, 2004, Siemens achieved its goals of double-digit income growth accompanied by revenue and order growth.

**Siemens reported net income of €3.405 billion, up 39% from €2.445 billion in fiscal 2003.** Basic earnings per share rose to €3.82 compared to €2.75 in the prior year. Net income in fiscal 2004 benefited from a pre-tax gain of €590 million and a reversal of €246 million in deferred tax liabilities related to the sale of shares of Infineon Technologies AG (Infineon), partially offset by a goodwill impairment of €433 million related to Logistics and Assembly Systems (L&A). Excluding these effects, net income was €3.002 billion, up 23% year-over-year.

**Group profit from Operations of €4.998 billion showed strong double-digit growth year-over-year,** as 10 of 13 Groups in Operations increased their profits compared to fiscal 2003. Automation and Drives (A&D), Medical Solutions (Med), and Power Generation contributed the lion's share of Group profit from Operations, followed by Siemens VDO Automotive (SV) and Osram. Siemens' telecommunications and networking Groups also delivered substantially higher profits compared to fiscal 2003.

**Siemens achieved its goal of restoring top-line growth in fiscal 2004, posting sales of €75.167 billion compared to €74.233 billion a year earlier.** Sales were up 3% year-over-year on a comparable basis, excluding currency translation effects and the net effect of acquisitions and dispositions. Orders rose to €80.830 billion from €75.056 billion in the prior fiscal year, a 9% increase on a comparable basis. A majority of the Groups in Operations increased both sales and orders for the year, despite declining business volume in Germany.

**Net cash from operating and investing activities was €3.262 billion in fiscal 2004 compared to €1.773 billion a year earlier.** The difference is due primarily to net proceeds of €1.794 billion from the sale of Infineon shares in fiscal 2004. Net cash from operating activities within Operations was more than €4.0 billion in both fiscal 2004 and fiscal 2003, including supplemental cash contributions to Siemens pension plans in both years, totaling €1.255 billion in fiscal 2004 and €1.192 billion a year earlier. Fiscal 2004 included €1.477 billion used in investing activities for acquisitions, up from €1.055 billion a year earlier.

## Basis of presentation

To help shareholders understand and follow our progress, we present our results in aggregate, for Siemens worldwide, and also break out the major components of our business. The sum of results for the components equals the result for Siemens worldwide.

The majority of our business is devoted to providing products and services to customers based on Siemens' historical expertise in innovative electrical engineering. We call this component of our business Operations. The 13 Groups in Operations design, manufacture, market, sell, and service products and systems, or help customers use and manage those products and systems. A Group is equivalent to a reportable segment as defined by United States Generally Accepted Accounting Principles (U.S. GAAP).

We measure the performance of these Groups using Group profit, which is earnings before centrally managed items including income taxes, financing costs, and certain pension costs. For additional information with respect to Group profit, see "Notes to Consolidated Financial Statements."

Another component of our Company is made up of two Groups involved in non-manufacturing activities such as financing, leasing, investing, and real estate. We call this component of our business Financing and Real Estate. We evaluate the profitability of our Financing and Real Estate Groups using income before income taxes.

In breaking out the Operations and Financing and Real Estate components and in order to show more clearly our external performance, we exclude the business they conduct with each other and with our Corporate Treasury department, which provides cash management services for our Groups and corporate finance activities. These internal transactions are therefore included into a component called Eliminations, reclassifications and Corporate Treasury. This component is the difference between the results for Operations and Financing and Real Estate and the results of Siemens worldwide.

**Siemens worldwide**
(Consists of the following three components which include the thirteen operating Groups and the two Groups in Financing and Real Estate)

**Operations**

- Information and Communication Networks (ICN)*
- Information and Communication Mobile (ICM)*
- Siemens Business Services (SBS)

- Automation and Drives (A&D)
- Industrial Solutions and Services (I&S)
- Logistics and Assembly Systems (L&A)
- Siemens Building Technologies (SBT)

- Power Generation (PG)
- Power Transmission and Distribution (PTD)

- Transportation Systems (TS)
- Siemens VDO Automotive (SV)

- Medical Solutions (Med)

- Osram

Other Operations; Corporate items, pensions and eliminations

**Financing and Real Estate**

- Siemens Financial Services (SFS)
- Siemens Real Estate (SRE)

**Eliminations, reclassifications and Corporate Treasury**

* The Groups ICN and ICM were combined into one Group named Communications (Com) as of October 1, 2004.

## Strategic overview

Siemens success depends on innovation, customer focus, global competitiveness and portfolio optimization.

Our commitment to innovation includes spending more than €5 billion in R&D in fiscal 2004. We bring innovation to market as rapidly and profitably as possible, such as by using common technology platforms across multiple businesses.

Customer focus means meeting our customers' needs rather than simply selling a product or service. We maximize our customers' satisfaction and our market penetration through various initiatives, including cross-selling programs. We also stimulate sales through our growing service businesses.

We secure and enhance our global competitiveness by utilizing and optimizing all parts of our worldwide value chain, which reaches into approximately 190 countries. In addition, we identify and execute on opportunities to expand our presence in our growth regions.

Siemens is a diversified company with businesses in both short-cycle and long-cycle industries. We continually optimize this balance through strategic acquisitions and divestments, including the following transactions during fiscal 2004:

- In July 2004, Siemens entered the U.S. market for municipal and industrial water supply and wastewater treatment through its acquisition of USFilter.
- In September 2004, Siemens sold a 74.9% interest in its Kordoba banking software business.
- In October 2003 (the first quarter of fiscal 2004), Siemens completed the sale of its Life Support Systems (LSS) business to Getinge AB of Sweden, as part of the creation of a joint venture with Drägerwerk AG.

We further optimized our business portfolio in fiscal 2004 through a number of smaller acquisitions and divestments within the Operations component. For additional information with respect to portfolio transactions, see "Notes to Consolidated Financial Statements."

Because of the nature and breadth of our business, Siemens' success depends on anticipating and reacting early to trends in the global economy and major currencies that affect our business. In fiscal 2004, the global economy grew moderately overall with significant regional variations. For example, the economy remained stalled in Germany, Siemens' largest national market, but expanded rapidly in China. Prices for raw materials, commodities and energy moved higher, which put upward pressure on cost of goods sold. The most important currency trend for Siemens in recent years has been the weakening of the U.S. dollar against the euro. This trend moderated in fiscal 2004 compared to fiscal 2003, but still had a significant influence on our reported sales and orders for the fiscal year. For additional information, see "Risk Management."

## Fiscal 2004 – Results of Siemens worldwide

The following discussion presents Siemens worldwide selected information for the fiscal year ended:

| (€ in millions) | 2004 | 2003 |
|---|---|---|
| New orders | 80,830 | 75,056 |
| New orders in Germany | 16,001 | 16,796 |
| International orders | 64,829 | 58,260 |
| Sales | 75,167 | 74,233 |
| Sales in Germany | 17,073 | 17,100 |
| International sales | 58,094 | 57,133 |

Orders for Siemens worldwide increased 8% to €80.830 billion. Sales for Siemens worldwide in fiscal 2004 were €75.167 billion, up from €74.233 billion a year earlier. On a comparable basis, excluding currency translation effects and the net effect of acquisitions and dispositions, orders and sales rose year-over-year 9% and 3%, respectively. Both orders and sales increased primarily on the strength of international business. In Germany, sales of €17.073 billion were level with the prior year and orders of €16.001 billion came in 5% lower. International sales increased 2% year-over-year, to €58.094 billion, and international orders climbed 11%, to €64.829 billion.

Sales in Europe, excluding Germany, were nearly level year-over-year at €25.151 billion and orders rose 12% to €28.745 billion. Sales in the Asia Pacific region increased 7% year-over-year to €9.349 billion and orders rose 10% to €10.028 billion. Sales in China were up 1% at €2.873 billion and orders rose 12% year-over-year to €3.134 billion. Sales in the U.S. were €13.621 billion, 11% lower compared to the same period a year earlier. U.S. orders of €14.043 billion were 4% lower year-over-year. Excluding currency translation effects, sales were level and orders increased 8% in the U.S.

In Operations, the main driver of Siemens worldwide revenues, sales increased to €74.573 billion in fiscal 2004 from €73.744 billion in the prior year. Sales growth was broad-based, including Groups in the automotive, industrial automation, lighting, power and wireless communication businesses. For example, sales at ICM grew 11% year-over-year on strong demand for both mobile networks and mobile phones, while SV benefited from continued strong demand in the automotive sector and was strengthened by the acquisition of an automotive electronics business. These increases were partially offset by revenue declines at SBT and SBS. SBT intentionally reduced its revenue basis by divesting its facility management business, while declining demand for IT solutions, particularly in Germany, resulted in a sales decline at SBS.

| (€ in millions) | 2004 | 2003 |
|---|---|---|
| Gross profit on sales | 21,645 | 20,883 |
| as percentage of sales | 28.8% | 28.1% |

Gross profit as a percentage of sales in fiscal 2004 increased to 28.8% from 28.1% in the prior year. Ten of the 13 Groups in Operations increased their gross profit in fiscal 2004, led by ICM, A&D and PG. Productivity improvement programs were largely responsible for the improvement, particularly when combined with sales growth such as at ICM and A&D. The gross profit increase at PG benefited from full-year inclusion of the industrial turbine businesses acquired from Alstom midway through fiscal 2003 and higher inventory allowances in the prior year. At Med, gross profit declined in fiscal 2004 primarily due to the divestment of its Electromedical Systems business and increased competition. At TS, the Group took significant charges for resolution of technical problems in its rolling stock business.

| (€ in millions) | 2004 | 2003 |
|---|---|---|
| Research and development expenses | 5,063 | 5,067 |
| as percentage of sales | 6.7% | 6.8% |
| Marketing, selling and general administrative expenses | 13,567 | 13,534 |
| as percentage of sales | 18.0% | 18.2% |

Research and development (R&D) expense remained nearly unchanged year-over-year at €5.063 billion. Due to rising sales, R&D spending as a percentage of sales came in at 6.7%, lower than 6.8% in fiscal 2003.

Siemens held marketing, selling and general administrative expenses nearly level at €13.567 billion, even as sales rose. Company-wide cost-control efforts were evident across the Groups, particularly at ICN. As a result, marketing, selling and general administrative expenses fell to 18.0% of sales compared to 18.2% in fiscal 2003.

| (€ in millions) | 2004 | 2003 |
|---|---|---|
| Other operating income (expense), net | (156) | 642 |
| Income from investments in other companies, net | 1,031 | 142 |
| Income (expense) from financial assets and marketable securities, net | 70 | 61 |
| Interest income of Operations, net | 18 | 31 |
| Other interest income (expense), net | 254 | 214 |

Other operating income (expense), net was a negative €156 million compared to a positive €642 million in fiscal 2003. The prior year benefited from €359 million in gains from project cancellations at PG and also included a gain resulting from Med's contribution of assets to a joint venture with Drägerwerk AG. In contrast, fiscal 2004 included the €433 million goodwill impairment related to L&A. The impairment was partially offset by gains from divestments, particularly the sale of Med's LSS business and SBS' sale of a 74.9% interest in its Kordoba banking software business.

Income from investments in other companies, net increased to €1.031 billion, up from €142 million in the prior year. The largest factor in the change is the pre-tax gain of €590 million from the sale of Infineon shares. In addition, Siemens' equity share of Infineon's net income in fiscal 2004 was €14 million compared to a negative €170 million equity share of Infineon's net loss in fiscal 2003. In the second quarter of fiscal 2004, Siemens relinquished its ability to exercise significant influence over the operating and financial policies of Infineon. Consequently, we ceased accounting for our investment in Infineon under the equity method and began accounting for it as a marketable security. For further information with respect to our ownership interest in Infineon, see "Notes to Consolidated Financial Statements."

| (€ in millions) | 2004 | 2003 |
|---|---|---|
| Income before income taxes | 4,232 | 3,372 |
| Income taxes | (661) | (867) |
| as percentage of income before income taxes | 16% | 26% |

Siemens' effective tax rate for fiscal 2004 was 16%, well below the rate of 26% in fiscal 2003. The difference was driven by a €246 million reversal in deferred tax liabilities related to the Infineon share sale, tax-free dispositions of business interests including the sale of Infineon shares, and a number of positive tax effects outside of Germany in the current year. Fiscal 2003 also benefited from effects related to dispositions of business interests.

| (€ in millions) | 2004 | 2003 |
|---|---|---|
| Net income | 3,405 | 2,445 |

Net income was €3.405 billion, up 39% from €2.445 billion a year earlier. Net income in fiscal 2004 benefited from a pre-tax gain of €590 million and a reversal of €246 million in deferred tax liabilities related to the sale of shares of Infineon, partially offset by a goodwill impairment of €433 million related to L&A. Excluding these effects, net income was up 23% year-over-year. Basic and diluted earnings per share were €3.82 and €3.66, respectively, well above basic and diluted earnings per share of €2.75 in the prior year.

| (€ in millions) | 2004 | 2003 |
|---|---|---|
| Net cash provided by operating activities | 5,080 | 5,712 |
| Net cash used in investing activities | (1,818) | (3,939) |
| Net cash provided by operating and investing activities | 3,262 | 1,773 |

Net cash provided by operating activities was €5.080 billion, after Siemens made a supplemental cash contribution of €1.255 billion to its pension plans and Operations used €198 million in cash for net working capital. Net cash used in investing activities of €1.818 billion included €1.794 billion in proceeds from the sale of Infineon shares and €822 million in cash paid for the acquisition of USFilter. For additional information, see "Liquidity and Capital Resources – Cash Flow".

Siemens' Managing and Supervisory Boards propose a dividend of €1.25 per share. The prior-year dividend per share was €1.10.

As a result of the adoption of Statement of Financial Accounting Standards (SFAS) 143, *Accounting for Asset Retirement Obligations*, on October 1, 2002, income of €59 million (€36 million net of income taxes, or €0.04 per share) was recorded in fiscal 2003 as a cumulative effect of a change in accounting principle.

# Segment information analysis

## Operations

### Information and Communications

#### Information and Communication Networks (ICN)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2004 | 2003 | Actual | Com-parable* |
| Group profit | 222 | (366) | | |
| Group profit margin | 3.2% | (5.1)% | | |
| Sales | 6,994 | 7,122 | (2)% | 0% |
| New orders | 7,011 | 7,070 | (1)% | 1% |

* Excluding currency translation effects of (3)%, and portfolio effects of 1% on sales and orders.

ICN posted profits in all four quarters and delivered Group profit of €222 million for the full fiscal year. The loss of €366 million a year earlier included significant charges for severance, as well as write-downs of venture capital and other investments. ICN's Carrier Networks and Services businesses accounted for much of the profit improvement year-over-year. While sales remained virtually unchanged year-over-year, at €3.426 billion, carrier activities delivered €98 million in earnings compared to a loss of €439 million a year earlier. The Enterprise Networks division earned €208 million on sales of €3.578 billion, close to prior-year levels. For ICN overall, sales of just under €7.0 billion for the fiscal year were level with the prior year on a comparable basis. Orders also remained stable year-over-year.

Effective October 1, 2004, our ICN and ICM Groups were combined to form our new Siemens Communications (Com) Group. Com is organized into three businesses around the telecommunications industry with eight divisions. The devices business consists of *Mobile Devices, Customer Premises Equipment Devices* and *Wireless Modules*; the enterprise networks business consists of the two divisions *Enterprise Systems* and *Enterprise Services*; and the carrier networks business consists of the *Mobile Networks, Fixed Networks* and *Carrier Services* divisions.

### Information and Communication Mobile (ICM)

| (€ in millions) | Year ended September 30, 2004 | 2003 | % Change Actual | Com-parable* |
|---|---|---|---|---|
| Group profit | 347 | 180 | 93% | |
| Group profit margin | 3.1% | 1.8% | | |
| Sales | 11,042 | 9,964 | 11% | 13% |
| New orders | 11,459 | 9,960 | 15% | 17% |

* Excluding currency translation effects.

In fiscal 2004, ICM substantially increased its Group profit compared to fiscal 2003 and also achieved double-digit growth in sales and orders. The improvement was due primarily to the Mobile Networks division, which delivered €396 million in earnings on sales of €4.979 billion. Both figures were up strongly from the prior year, when the division earned €116 million on €4.311 billion in sales. The Cordless Products division also contributed increases in both earnings and sales year-over-year. ICM's Mobile Phones division sold 51.1 million handsets during the year, well above the 39.1 million handsets sold a year earlier. Competitive pressures reduced average selling price per unit, however, and quality issues delayed both the rollout and full profitability of the division's new 65 series of mobile handsets. As a result, Mobile Phones posted a loss of €152 million on sales of €4.979 billion compared to earnings of €27 million on sales of €4.474 billion in the prior year.

As mentioned above, effective October 1, 2004, our ICN and ICM Groups were combined to form our new Siemens Communications (Com) Group.

### Siemens Business Services (SBS)

| (€ in millions) | Year ended September 30, 2004 | 2003 | % Change Actual | Com-parable* |
|---|---|---|---|---|
| Group profit | 40 | 13 | 208% | |
| Group profit margin | 0.8% | 0.2% | | |
| Sales | 4,716 | 5,205 | (9)% | (9)% |
| New orders | 6,293 | 5,226 | 20% | 8% |

* Excluding portfolio effects of 12% on orders.

SBS posted Group profit of €40 million compared to €13 million a year earlier. The current year includes a €93 million gain from the sale of 74.9% of SBS' Kordoba unit to its strategic partner Fidelity Information Services (FIS), largely offset by charges for severance. For additional information with respect to the Kordoba disposition, see "Notes to Consolidated Financial Statements." The prior year included significant charges for risks associated with a long-term business process outsourcing contract. Declining demand for IT solutions, particularly in Germany, resulted in sales of €4.716 billion compared to €5.205 billion a year earlier. SBS won two major outsourcing contracts in England, which pushed orders up 20% year-over-year, to €6.293 billion.

## Automation and Control

### Automation and Drives (A&D)

| (€ in millions) | Year ended September 30, 2004 | 2003 | % Change Actual | Com-parable* |
|---|---|---|---|---|
| Group profit | 1,077 | 806 | 34% | |
| Group profit margin | 12.2% | 9.6% | | |
| Sales | 8,829 | 8,375 | 5% | 7% |
| New orders | 8,980 | 8,476 | 6% | 8% |

* Excluding currency translation effects of (3)%, and portfolio effects of 1% on sales and orders.

A&D exemplified the success of Siemens' profit and growth initiative in fiscal 2004, driving Group profit up to €1.077 billion for the year on solid gains in sales and orders. A&D further improved its earnings margin, as a result of increased productivity and higher capacity utilization. Stronger demand in international markets, including 25% growth with external customers in Asia-Pacific, increased sales to €8.829 billion for the year. Orders rose 6% year-over-year, to €8.980 billion.

### Industrial Solutions and Services (I&S)

| (€ in millions) | Year ended September 30, 2004 | 2003 | % Change Actual | Com-parable* |
|---|---|---|---|---|
| Group profit | 95 | (41) | | |
| Group profit margin | 2.2% | (1.0)% | | |
| Sales | 4,290 | 4,012 | 7% | 7% |
| New orders | 4,356 | 3,955 | 10% | 9% |

* Excluding currency translation effects of (3)% on sales and orders, and portfolio effects of 3% and 4% on sales and orders, respectively.

I&S contributed €95 million in Group profit for the year, on broad-based earnings improvement. Group profit also benefited from positive effects related to capacity reduction programs. In contrast, severance charges contributed to a loss a year earlier. Sales at I&S were up 7% year-over-year, to €4.290 billion, and orders rose 10%, to €4.356 billion, benefiting from the USFilter acquisition between the periods under review. For additional information, see "Notes to Consolidated Financial Statements."

### Logistics and Assembly Systems (L&A)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2004 | 2003 | Actual | Com-parable* |
| Group profit | 2 | (218) | | |
| Group profit margin | 0.1% | (8.4)% | | |
| Sales | 2,338 | 2,600 | (10)% | (5)% |
| New orders | 2,687 | 2,599 | 3% | 9% |

* Excluding currency translation effects.

L&A finished in the black following a loss in fiscal 2003. Fiscal 2004 included charges related to excess capacity and cost overruns, while the prior year included substantial loss provisions related to two large contracts. The Electronics Assembly division was the Group's leading earnings contributor, and also increased its sales, orders, and earnings margin year-over-year. Completion of major projects led to lower sales, at €2.338 billion. Orders of €2.687 billion were up 3% year-over-year. Following an extensive internal review of the outlook for the L&A airport logistics activities and distribution and industry logistics activities, during the second quarter, management concluded that goodwill related to L&A was impaired. Because the businesses were acquired at the corporate level as part of the Siemens' Atecs transaction, the resulting goodwill impairment was taken centrally. For additional information, see "Corporate items, pensions and eliminations."

### Siemens Building Technologies (SBT)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2004 | 2003 | Actual | Com-parable* |
| Group profit | 108 | 101 | 7% | |
| Group profit margin | 2.5% | 2.0% | | |
| Sales | 4,247 | 4,990 | (15)% | (4)% |
| New orders | 4,358 | 4,775 | (9)% | 2% |

* Excluding currency translation effects of (4)%, and portfolio effects of (7)% on sales and orders.

SBT increased Group profit to €108 million despite lower sales following the divestment of its facility management business early in the year. Group profit of €101 million a year earlier included substantial severance charges. On a comparable basis, SBT's sales of €4.247 billion for fiscal 2004 were 4% below the prior-year level and orders of €4.358 billion were up 2% year-over-year.

## Power

### Power Generation (PG)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2004 | 2003 | Actual | Com-parable* |
| Group profit | 961 | 1,171 | (18)% | |
| Group profit margin | 12.8% | 16.8% | | |
| Sales | 7,527 | 6,967 | 8% | 0% |
| New orders | 9,243 | 7,302 | 27% | 14% |

* Excluding currency translation effects of (4)% on sales and orders, and portfolio effects of 12% and 17% on sales and orders, respectively.

PG contributed €961 million in Group profit for the year. Fiscal 2004 included gains related to the cancellation of orders of €47 million compared to the prior year, which benefited from gains of €359 million, partly offset by €92 million in allowances on inventories associated with the cancellations. Excluding the net effect of cancellations, Group profit was stable year-over-year. Sales at PG rose 8% year-over-year, to €7.527 billion. Orders climbed 27%, to €9.243 billion, driven in part by full-year inclusion of the industrial turbine businesses PG acquired in the second half of fiscal 2003. For additional information with respect to the Alstom acquisition, see "Notes to Consolidated Financial Statements." Order growth was regionally widespread, as PG won new business in Africa, Asia, Europe, the Near East, and Latin America. PG's service business also continued to grow year-over-year.

### Power Transmission and Distribution (PTD)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2004 | 2003 | Actual | Com-parable* |
| Group profit | 238 | 207 | 15% | |
| Group profit margin | 6.6% | 6.1% | | |
| Sales | 3,611 | 3,399 | 6% | 9% |
| New orders | 3,863 | 3,586 | 8% | 11% |

* Excluding currency translation effects of (4)% and (5)% on sales and orders, respectively, and portfolio effects of 1% and 2% on sales and orders, respectively.

PTD increased Group profit to €238 million for the year on broad-based earnings growth within the Group. PTD also achieved solid sales growth, particularly in Europe and Asia-Pacific. Overall, sales rose 6% year-over-year, to €3.611 billion, and orders were up 8%, at €3.863 billion, particularly as a result of the volume growth in the fourth quarter, which included PTD's acquisition of Trench Electric Holding and new orders in Africa and the Middle East.

## Transportation

### Transportation Systems (TS)

| (€ in millions) | Year ended September 30, 2004 | 2003 | % Change Actual | Comparable* |
|---|---|---|---|---|
| Group profit | (434) | 284 | | |
| Group profit margin | (10.1)% | 6.0% | | |
| Sales | 4,310 | 4,697 | (8)% | (7)% |
| New orders | 4,321 | 4,674 | (8)% | (7)% |

* Excluding currency translation effects.

In fiscal 2004, TS responded decisively to the technical problems and associated issues that affected its rolling stock business, particularly the innovative low-floor light rail vehicle with a modular platform concept, marketed under the name Combino. The Group identified technical solutions during the year and is beginning to implement them. These actions and associated charges, accompanied by a corresponding slow-down in rolling stock sales, led to a loss of €434 million. In addition to these factors, TS also faced generally slower demand for rail transportation systems, particularly in Germany. As a result, sales and orders at TS were €4.310 billion and €4.321 billion, respectively, 8% below fiscal 2003 levels.

### Siemens VDO Automotive (SV)

| (€ in millions) | Year ended September 30, 2004 | 2003 | % Change Actual | Comparable* |
|---|---|---|---|---|
| Group profit | 562 | 418 | 34% | |
| Group profit margin | 6.2% | 5.0% | | |
| Sales | 9,001 | 8,375 | 7% | 9% |
| New orders | 9,029 | 8,375 | 8% | 10% |

* Excluding currency translation effects of (3)%, and portfolio effects of 1% on sales and orders.

Group profit of €562 million at SV enabled the Group to break even relative to its full-year cost of capital for the first time. Earnings improved at all divisions within SV, with the fastest growth coming at the Interior & Infotainment division. Revenue growth was also broad-based, as sales rose 7% compared to the prior year, to €9.001 billion. Orders rose 8%, to €9.029 billion. The development also includes SV's acquisition of a United States automotive electronics business from DaimlerChrysler during the second quarter of fiscal 2004.

## Medical

### Medical Solutions (Med)

| (€ in millions) | Year ended September 30, 2004 | 2003 | % Change Actual | Comparable* |
|---|---|---|---|---|
| Group profit | 1,046 | 1,118 | (6)% | |
| Group profit margin | 14.8% | 15.1% | | |
| Sales | 7,072 | 7,422 | (5)% | 6% |
| New orders | 8,123 | 7,835 | 4% | 15% |

* Excluding currency translation effects of (6)% and (7)% on sales and orders, respectively, and portfolio effects of (5)% and (4)% on sales and orders, respectively.

Med again delivered more than €1 billion in full-year Group profit. Fiscal 2004 included €118 million in gains from portfolio transactions, primarily the sale of Med's Life Support Systems (LSS) business. For comparison, fiscal 2003 included a €63 million gain related to the contribution of a portion of Med's electromedical systems business to a joint venture with Drägerwerk AG. While these transactions reduced Med's revenue base compared to the prior year, sales of €7.072 billion were up 6% year-over-year, excluding currency translation and portfolio effects. Orders climbed to €8.123 billion, up 15% on a comparable basis. For additional information with respect to the disposition of LSS, see "Notes to Consolidated Financial Statements."

## Lighting

### Osram

| (€ in millions) | Year ended September 30, 2004 | 2003 | % Change Actual | Comparable* |
|---|---|---|---|---|
| Group profit | 445 | 410 | 9% | |
| Group profit margin | 10.5% | 9.8% | | |
| Sales | 4,240 | 4,172 | 2% | 8% |
| New orders | 4,240 | 4,172 | 2% | 8% |

* Excluding currency translation effects.

Osram increased its Group profit 9% for the year, to €445 million, leveraging higher manufacturing productivity to achieve a double-digit earnings margin for the year. Sales increased to €4.240 billion, up 8% year-over-year on a comparable basis. Higher revenue year-over-year was highlighted by particularly strong growth in Asia-Pacific and Latin America.

### Other Operations

Other Operations consist of centrally held equity investments and other operating businesses not related to a Group, such as Siemens' joint ventures for household appliances (BSH Bosch und Siemens Hausgeräte GmbH) and computers (Fujitsu Siemens Computers). Equity earnings from these joint ventures again were the primary contributor to earnings from Other Operations, which totaled €289 million in fiscal 2004 compared to €212 million in fiscal 2003.

### Corporate items, pensions and eliminations

Corporate items, pensions and eliminations were a negative €1.207 billion in fiscal 2004 compared to a negative €1.576 billion in the same period a year earlier. Corporate items totaled a negative €450 million for the year compared to a negative €747 million in fiscal 2003. Corporate items in fiscal 2004 included the pre-tax gain of €590 million from the sale of Infineon shares, partly offset by the €433 million goodwill impairment related to L&A. This impairment is taken centrally because the relevant businesses were acquired at the corporate level as part of Siemens' Atecs Mannesmann transaction. Corporate items a year earlier benefited from the positive resolution of an arbitration proceeding. Siemens' equity share of Infineon's net result was a positive €14 million, compared to a negative €170 million in fiscal 2003. In the second quarter of fiscal 2004, Siemens relinquished its ability to exercise significant influence over the operating and financial policies of Infineon. Consequently, we ceased accounting for our investment in Infineon under the equity method and began accounting for it as a marketable security. Centrally carried pension expense was €730 million in fiscal 2004, compared to €828 million a year earlier. Domestic pension service costs were carried centrally in fiscal 2003 but are allocated to the Groups beginning in fiscal 2004. The effect of this change was partly offset by higher amortization of unrealized pension plan losses in fiscal 2004. For additional information with respect to the Atecs Mannesmann transaction, ownership in Infineon and pension plans, see "Notes to Consolidated Financial Statements."

## Financing and Real Estate

### Siemens Financial Services (SFS)

| | Year ended September 30, | | |
|---|---|---|---|
| | | | % Change |
| (€ in millions) | 2004 | 2003 | Actual |
| Income before income taxes | 250 | 269 | (7)% |
| Total assets | 9,055 | 8,445 | 7% |

Income before income taxes at SFS in fiscal 2004 was €250 million compared to €269 million a year earlier. The difference is due in part to higher write-downs of receivables in the Equipment & Sales Financing (ESF) division compared to the prior year. Income at SFS for the year also reflects an expansion of the ESF division in Europe and North America, resulting in a corresponding increase in total assets compared to fiscal 2003.

### Siemens Real Estate (SRE)

| | Year ended September 30, | | |
|---|---|---|---|
| | | | % Change |
| (€ in millions) | 2004 | 2003 | Actual |
| Income before income taxes | 108 | 206 | (48)% |
| Sales | 1,584 | 1,592 | (1)% |

Income before income taxes at SRE in fiscal 2004 was €108 million compared to €206 million a year earlier. While sales were level with the prior year, weakness in the market for commercial real estate reduced returns. Market conditions also led the Group to terminate a major development project in Frankfurt during fiscal 2004, and the associated charges contributed to the decline in income for the year.

### Eliminations, reclassifications and Corporate Treasury

Income before taxes from Eliminations, reclassifications and Corporate Treasury of €224 million for fiscal year 2004 included higher interest income. In comparison, the prior year amount of €266 million included higher positive effects from hedging activities not qualifying for hedge accounting, as well as a €35 million gain related to the buyback of a note exchangeable into Infineon shares.

## EVA performance

During fiscal 2004, Siemens continued its enterprise-wide focus on economic value added (EVA). We tie a significant portion of our executive incentive compensation to achieving EVA targets.

EVA is a financial performance measure of the value created or destroyed by a business. In simple terms, it compares the earnings of a business (using Group profit for the Operations Groups and income before income taxes for the Financing and Real Estate businesses as a base) against the cost of capital employed to run that business. A positive EVA means that a business has earned more than its cost of capital, whereas a negative EVA means that a business has earned less than its cost of capital. Depending on the change of EVA between comparable fiscal periods, a business is defined as value-creating or value-destroying. Consequently, the increase or decrease of EVA is an important measure of financial performance.

We use this measure of performance in addition to Group profit and income before income taxes because those measures focus on results without taking into consideration the cost of capital employed in the business. In this manner, EVA complements Group profit and income before income taxes. For EVA calculation purposes, data from the consolidated financial statements is used and to a limited extent adjusted. The most important financial adjustment, representing the major part of the total EVA adjustment amount within our Operations component, results from operating lease commitments. We believe that including such financial adjustment in the EVA measure enhances our business decision-making processes.

Because the two major business components of Siemens – Operations and Financing and Real Estate – are fundamentally different from each other, we use two types of EVA calculations. In the case of Operations Groups, we use Group profit as the base measure and apply a flat tax rate of 35% for calculating operating profit after taxes. The cost of capital for each Group is determined by taking the weighted average of the after-tax cost of debt and equity of Siemens and applying a risk-based factor, which takes into account the specific risks associated with the particular business. In fiscal 2004, this determination of the cost of capital within Operations Groups ranged from 8% to 10%, unchanged compared to the prior year. This percentage is applied against average net operating assets in order to determine the capital charge. Average net operating assets were determined on a monthly basis.

In the case of Financing and Real Estate, we take income before income taxes as the base measure and also apply a flat tax rate of 35% to arrive at net operating profit after taxes. From this result, we deduct the capital charge, which is calculated by multiplying the cost of capital expressed as a percentage by the risk-adjusted equity allocated to this component. In fiscal 2004, the determination of the risk-based cost of capital within the Financing and Real Estate component ranged from 8.0% to 9.75%, unchanged compared to the prior year. EVA for Corporate Treasury is calculated similarly to Financing and Real Estate.

Other organizations that use EVA as a measure of financial performance may define and calculate EVA differently.

EVA for Siemens worldwide was €1.364 billion in fiscal 2004, up from €449 million a year earlier. EVA benefited from significantly higher Group profit, and also included the gain on the sale of Infineon shares and the goodwill impairment mentioned above. Excluding Infineon and the goodwill impairment, EVA improved from €822 million in fiscal 2003 to €1.188 billion in fiscal 2004.

**Economic Valued Added (EVA) calculation**
For the fiscal years ended September 30, 2004 and 2003

| | Siemens worldwide | | Eliminations, reclassifications and Corporate Treasury | | Operations | | Financing and Real Estate | |
|---|---|---|---|---|---|---|---|---|
| (€ in millions) | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| **Net income** | **3,405** | **2,445** | **189** | **198** | **2,914** | **1,897** | **302** | **350** |
| Cumulative effect of change in accounting principle, net of income taxes | – | (36) | – | – | – | (39) | – | 3 |
| Minority interest | 166 | 96 | – | – | 166 | 96 | – | – |
| Income taxes(1) | 661 | 867 | 35 | 68 | 570 | 677 | 56 | 122 |
| **Income before income taxes** | **4,232** | **3,372** | **224** | **266** | **3,650** | **2,631** | **358** | **475** |
| Other interest income of Operations, net | 141 | 88 | – | – | 141 | 88 | – | – |
| Taxes and financial adjustments | (1,125) | (1,098) | (78) | (93) | (937) | (865) | (110) | (140) |
| **Net operating profit after taxes** | **3,248** | **2,362** | **146** | **173** | **2,854** | **1,854** | **248** | **335** |
| | Sept. 30, 2004 | Sept. 30, 2003 | Sept. 30, 2004 | Sept. 30, 2003 | Sept. 30, 2004 | Sept. 30, 2003 | Sept. 30, 2004 | Sept. 30, 2003 |
| **Total assets** | **79,518** | **77,605** | **(343)** | **1,543** | **67,927** | **64,475** | **11,934** | **11,587** |
| Other asset and liability related reconciling items (see table segment information) | – | – | – | – | (49,821) | (48,533) | – | – |
| Financial adjustments | – | – | – | – | 1,118 | 1,334 | – | – |
| Average calculation(2) | – | – | – | – | (346) | 1,883 | – | – |
| Liabilities(3) | – | – | – | – | – | – | (9,999) | (9,587) |
| **Average net operating assets for Operations / allocated equity for Financing and Real Estate** | **–** | **–** | **–** | **–** | **18,878** | **19,159** | **1,935** | **2,000** |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Net operating profit after taxes | 3,248 | 2,362 | 146 | 173 | 2,854 | 1,854 | 248 | 335 |
| Capital charge(4) | (1,884) | (1,913) | (16) | (15) | (1,696) | (1,719) | (172) | (179) |
| **EVA** | **1,364** | **449** | **130** | **158** | **1,158** | **135** | **76** | **156** |

(1) The income taxes of **Eliminations, reclassifications and Corporate Treasury**, **Operations**, and **Financing and Real Estate** are based on the consolidated effective corporate tax rate applied to income before income taxes.
(2) The term "Net operating assets" is the same as Net capital employed except the effects of financial adjustments and the fact that Average net operating assets are calculated on a monthly basis.
(3) As a result of allocated equity, liabilities are also partly allocated.
(4) Capital charge for **Eliminations, reclassifications and Corporate Treasury** is risk-determined.

## Dividend

Siemens AG, the parent company of all businesses discussed in this report, recorded net income under German accounting principles (HGB) of €2.181 billion for fiscal 2004 compared to €1.018 billion in the previous year.

At the Annual Shareholders' Meeting scheduled for January 27, 2005, the Managing Board, in agreement with the Supervisory Board, will submit the following proposal: to pay €1.25 per share as a dividend, which aggregates to an expected total payout of €1.114 billion. The prior-year dividend was €1.10 per share.

## Liquidity and capital resources

### Cash flow

| | Year ended September 30, | |
|---|---|---|
| (€ in millions) | 2004 | 2003 |
| Cash and cash equivalents at end of period | 12,190 | 12,149 |
| Cash and cash equivalents at beginning of period | 12,149 | 11,196 |
| **Net increase in cash and cash equivalents** | **41** | **953** |

| | Operations | | Other* | | Siemens worldwide | |
|---|---|---|---|---|---|---|
| | Year ended September 30, | | | | | |
| (€ in millions) | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Net cash provided by/(used in): | | | | | | |
| Operating activities | 4,008 | 4,123 | 1,072 | 1,589 | 5,080 | 5,712 |
| Investing activities | (1,523) | (3,655) | (295) | (284) | (1,818) | (3,939) |
| Financing activities | | | | | (3,108) | (487) |
| Effect of exchange rates on cash and cash equivalents | | | | | (113) | (333) |
| **Net increase in cash and cash equivalents** | | | | | **41** | **953** |

* incl. SFS, SRE and Corporate Treasury

In fiscal 2004, Siemens again generated more than €5.0 billion of net cash from operating activities, maintaining a high level of liquidity and flexibility for ongoing operating, investing and financing activities.

Net cash provided by operating activities in fiscal 2004 was €5.080 billion compared to €5.712 billion in fiscal 2003. Net working capital within Operations used cash of €198 million in fiscal 2004 compared to €482 million a year earlier, primarily due to business growth, as well as a shift in customer payment patterns in project-oriented markets such as transportation and energy. For example, ICM had double-digit sales and order growth in fiscal 2004, which is reflected in turn in expanded inventories but also in significantly higher accounts payable compared to fiscal 2003. In the current year, higher inventories at TS were due mainly to the use of advance project payments not being replenished with current payments from orders. Lower sales resulted in accounts receivable decreases at ICN and PG in the prior year. In fiscal 2003 at PG, a decrease in other current liabilities was due to lower advance payments on large orders. Both years included cash used to reduce the underfunding of Siemens' pension plans, including supplemental contributions of €1.255 billion and €1.192 billion in fiscal 2004 and 2003, respectively. In fiscal 2003, when exchange rate fluctuations included a major change in the euro relative to the U.S. dollar, Corporate Treasury activities undertaken to manage Siemens' exchange rate exposure provided more than €1 billion to net cash from operating activities, primarily related to intercompany financing. In fiscal 2004, effects from exchange rate fluctuations for Siemens were far more moderate.

Net cash used in investing activities in fiscal 2004 was €1.818 billion compared to €3.939 billion in fiscal 2003. The change year-over-year is primarily due to €1.794 billion in proceeds from the sale of Infineon shares in fiscal 2004. Cash used for acquisitions and purchases of investments totaled €1.851 billion, near the level of €1.791 billion a year earlier but weighted toward acquisitions of businesses within Operations in fiscal 2004. For example, the current year included €822 million for the acquisition of USFilter, representing a strategic entry into the U.S. water systems and service market by I&S. Other acquisitions included BBC Technology in the U.K. (SBS), Trench Electric Holding B.V. (PTD) and a U.S. automotive electronics business (SV). Fiscal 2003 included PG's acquisition of Alstom's industrial turbine businesses for €929 million, along with higher purchases of investments and marketable securities. The higher level of cash used in investing activities in the Financing and Real Estate component reflects asset growth in the financing business at SFS in fiscal 2004.

Net cash used in financing activities in fiscal 2004 was €3.108 billion compared to €487 million in fiscal 2003. The primary difference between the periods was €2.5 billion in proceeds from the issuance of notes convertible into Siemens shares in fiscal 2003. Both periods included repurchases of notes exchangeable into Infineon shares, contributing to repayments of debt totaling €1.564 billion in fiscal 2004 and €1.742 billion in fiscal 2003. Dividend payments of €978 million in fiscal 2004 were higher than in fiscal 2003.

**Capital resources and capital requirements**

Siemens is committed to a strong financial profile, characterized by a conservative capital structure that gives us excellent financial flexibility.

**Ratings**

Our current corporate credit ratings from Moody's Investors Service and Standard & Poor's are noted below:

| | Moody's Investors Service | Standard & Poor's |
|---|---|---|
| Long-term debt | Aa3 | AA – |
| Short-term debt | P-1 | A-1+ |

Moody's Investor Service rates our long-term corporate credit Aa3 (stable outlook). The rating classification of Aa is the second highest rating within the agency's debt ratings category. The numerical modifier 3 indicates that our long-term debt ranks in the lower end of the Aa category. The Moody's rating outlook is an opinion regarding the likely direction of an issuer's rating over the medium-term. Rating outlooks fall into the following six categories: Positive, Negative, Stable, Developing, Ratings Under Review and No Outlook. Our outlook was changed from negative to stable in January 2004.

Moody's Investors Service's rating for our short-term corporate credit and commercial paper is P-1, the highest available rating in the prime rating system, which assesses issuers' ability to honor senior financial obligations and contracts generally with a maturity not exceeding one year.

Standard & Poor's rates our long-term corporate credit AA— (stable outlook). Within Standard & Poor's long-term issue and issuer credit ratings, an obligation rated AA has the second highest rating category assigned. The modifier "—" indicates that our long-term debt ranks in the lower end of the AA category. The Standard & Poor's rating outlook is an opinion regarding the likely direction of an issuer's rating over the intermediate to longer term. Rating outlooks fall into the following four categories: Positive, Negative, Stable and Developing.

Our short-term debt and commercial paper is rated A-1+ within Standard & Poor's short-term issue credit ratings, giving Siemens the highest-ranking short-term rating.

Siemens has no other agreements with nationally recognized statistical rating organizations to provide long-term and short-term credit ratings.

The rating agencies have focused more specifically on an assessment of liquidity risk. Moody's most recent liquidity risk assessment for Siemens as of August 11, 2004 classified the liquidity profile of the Company as "very healthy."

**Capital resources**

Capital resources at September 30, 2004 included €12.190 billion in cash and cash equivalents held in various currencies. Corporate Treasury generally manages cash and cash equivalents for the entire Company, except in countries where local capital controls require otherwise. At September 30, 2004, Corporate Treasury managed approximately 92% of Siemens' worldwide cash and cash equivalents. Corporate Treasury carefully manages investments of cash and cash equivalents subject to strict credit requirements and counterparty limits. Another €1.386 billion is held in marketable securities, including shares in Infineon and Epcos.

Our shareholders' equity at September 30, 2004 was €26.855 billion, an increase of €3.140 billion since September 30, 2003. See also the discussion of pension plan funding below, as well as the Consolidated Statements of Changes in Shareholders' Equity. We have authorization from our shareholders to repurchase up to 10% of our outstanding shares at any time until July 21, 2005. Such stock may be (i) retired with the approval of the Supervisory Board, (ii) used to satisfy the Company's obligations under the 1999 and the 2001 Siemens Stock Option Plans, (iii) offered for purchase by employees of the Company and (iv) used to service the conversion or option rights granted by the Company in connection with the issuance of bonds. In addition, the Supervisory Board is authorized to transfer treasury stock repurchased by the Company to members of the Managing Board of Siemens AG as stock-based compensation with a holding period of at least two years.

Our principal source of Company financing is cash flow from operating and investing activities, totaling €3.262 billion in fiscal 2004 after supplemental cash contributions of €1.255 billion to Siemens' pension trusts and €1.794 billion proceeds from the sale of Infineon shares. We further strengthened our financial flexibility through a set of backstop facilities, commercial paper programs and a medium-term note program described below:

Our backstop facilities at September 30, 2004 consisted of €3.2 billion in unused committed lines of credit which are available in the unlikely event that we are unable to access commercial paper or medium-term notes markets. The backstop facilities at our disposal include a U.S.$3.0 billion multi-currency revolving loan facility expiring May 2007 provided by a syndicate of international banks and a revolving loan facility with a domestic bank for an aggregate amount of €750 million expiring in June 2008. During the third quarter of fiscal 2004, we terminated our €400 million backstop facility, expiring in July 2006, with a domestic bank. None of our backstop facilities contain a material adverse change clause of the type typically included in low-risk backstop facility agreements.

We also have two commercial paper programs, under which we typically issue instruments with a maturity of less than 90 days, for an aggregate of U.S.$3.0 billion in the U.S. domestic market and an aggregate €3.0 billion in the euro market. The amount outstanding under these commercial paper programs was €242 million at September 30, 2004.

In addition, the Company has a medium-term note program, under which we may issue up to €5.0 billion in medium-term notes. The amount outstanding under this program was €947 million at September 30, 2004.

Neither our commercial paper and medium-term note programs nor our backstop facilities have specific financial covenants such as rating triggers or interest coverage, leverage or capitalization ratios that could trigger remedies, such as acceleration of repayment or additional collateral support, except in the case of nonpayment of amounts when due.

In addition to the above-described sources of liquidity, we constantly monitor funding options available in the capital markets, as well as trends in the availability and cost of such funding, with a view to maintaining excellent financial flexibility and limiting undue repayment risks.

**Capital requirements**

Capital requirements include normal debt service and regular capital spending and cash requirements. Other commercial commitments, including primarily guarantees, are contingent upon the occurrence of specific events. Approximately €1.4 billion of debt, including €242 million of commercial paper, is scheduled to become due in fiscal 2005. We plan capital expenditures for property, plant and equipment for the coming fiscal year to approximate current depreciation expense of approximately €2.2 billion for fiscal 2004.

In June 2003, the Company issued €2.5 billion of convertible notes through its wholly owned Dutch subsidiary, Siemens Finance B.V., which are fully and unconditionally guaranteed by Siemens AG. The convertible notes have a 1.375% coupon and are convertible into approximately 44.5 million shares of Siemens AG at a conversion price of €56.1681 per share, which is subject to change under certain circumstances. The conversion right is contingently exercisable by the holders upon the occurrence of one of several conditions, including, upon the Company's share price having exceeded 110% of the conversion price on at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of any calendar quarter. The Company may, at any time from June 18, 2007, redeem the notes outstanding at their principal amount together with interest accrued thereon, if Siemens' share price exceeds 130% of the conversion price on any 15 of 30 consecutive trading days before notice of early redemption. Unless previously redeemed, converted or repurchased and cancelled, the notes mature on June 4, 2010. The conversion condition described above was met at the end of the first quarter. Accordingly, the convertible shares have been included in the diluted earnings per share.

**Contractual obligations**

In the ordinary course of business, Siemens' primary contractual obligations regarding cash involve debt service, purchase obligations, as well as operating lease commitments.

The following table summarizes contractual obligations for future cash outflows as of September 30, 2004:

| | | Payments due by period | | | |
|---|---|---|---|---|---|
| (€ in millions) | Total | Less than 1 year | 1 – 3 years | 4 – 5 years | After 5 years |
| Debt | 11,219 | 1,434 | 3,602 | 989 | 5,194 |
| Purchase obligations | 8,996 | 7,847 | 747 | 376 | 26 |
| Operating leases | 2,863 | 628 | 893 | 569 | 773 |
| **Total contractual cash obligations** | **23,078** | **9,909** | **5,242** | **1,934** | **5,993** |

**Debt** – At September 30, 2004, Siemens worldwide had €11.219 billion of short- and long-term debt, of which €1.434 billion will become due within the next 12 months. Included in short-term debt is €242 million of commercial paper, reflecting all amounts outstanding under our commercial paper programs, therefore limiting refinancing risk. The remainder is represented by bonds and other loans from banks coming due within the next 12 months. At September 30, 2004, the weighted average maturity of our bonds and notes due after one year was 4.5 years. At September 30, 2003, total debt was €13.178 billion. Further information about the components of debt is given in "Notes to Consolidated Financial Statements."

Debt for Siemens worldwide at September 30, 2004 consisted of the following:

| (€ in millions) | Short-Term | Long-Term | Total |
|---|---|---|---|
| Notes and bonds | 621 | 8,345 | 8,966 |
| Loans from banks | 478 | 266 | 744 |
| Other financial indebtedness | 295 | 971 | 1,266 |
| Obligations under capital leases | 40 | 203 | 243 |
| **Total debt** | **1,434** | **9,785** | **11,219** |

Our notes and bonds contain no specific financial covenants such as rating triggers or interest coverage, leverage or capitalization ratios that could trigger a requirement for early payment or additional collateral support, except in the case of nonpayment of interest or principal.

Our Corporate Treasury has primary responsibility for raising funds in the capital markets for the entire Company, including the Financing and Real Estate component, except in countries with conflicting capital market controls. In these countries, the Siemens subsidiary companies obtain financing primarily from local banks. Corporate Treasury lends funds via intracompany financing to the Operations and Financing and Real Estate components. This intracompany financing together with intracompany liabilities between the components is shown under intracompany liabilities in the balance sheets. Under this approach, at September 30, 2004, €7.677 billion of such intracompany financing was directly attributable to the Financing and Real Estate component and the remainder to the Operations component. At September 30, 2004, the Financing and Real Estate component additionally held €133 million in short-term and €497 million in long-term debt from external sources.

In fiscal 2000, Siemens Nederland N.V., as the owner of the underlying shares of stock of Infineon Technologies AG, issued €2.5 billion of 1% exchangeable notes due in 2005. In fiscal 2004, Siemens repurchased and retired a notional amount of €465 million of the notes, which resulted in a gain of €1.8 million. In fiscal 2003, Siemens repurchased and retired a notional amount of €1.440 billion of exchangeable notes, which resulted in a gain of €35 million. As of September 30, 2004, of the issued €2.5 billion, notional €596 million is still outstanding.

In fiscal 2004, Siemens redeemed 1.11% U.S.$200 million and 1.22% U.S.$50 million LIBOR linked notes, as well as a 3% Swiss francs 178 million bond. In addition, we repurchased notional €405 million of a 5% €2 billion bond.

The capital structure of the Financing and Real Estate component at September 30, 2004 and 2003 consisted of the following:

| | September 30, 2004 | | September 30, 2003 | |
|---|---|---|---|---|
| (€ in millions) | SFS | SRE | SFS | SRE |
| Assets | 9,055 | 3,455 | 8,445 | 3,607 |
| Allocated equity | 1,015 | 920 | 1,080 | 920 |
| Total debt | 7,245 | 1,061 | 6,821 | 1,469 |
| *Therein intracompany financing* | 6,975 | 702 | 6,571 | 1,088 |
| *Therein debt from external sources* | 270 | 359 | 250 | 381 |
| Debt to equity ratio | 7.14 | 1.15 | 6.32 | 1.60 |

Both Moody's and Standard & Poor's view SFS as a captive finance company. These ratings agencies generally recognize and accept higher levels of debt attributable to captive finance subsidiaries in determining long-term and short-term credit ratings.

The allocated equity for SFS is determined and influenced by the respective credit ratings of the rating agencies and by the expected size and quality of its portfolio of leasing and factoring assets and equity investments and is determined annually. This allocation is designed to cover the risks of the underlying business and is in line with common credit risk management standards in banking. The actual risk profile of the SFS portfolio is monitored and controlled monthly and is evaluated against the allocated equity.

**Purchase obligations** – At September 30, 2004, the Company had €8.996 billion in purchase obligations. Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and which specify at least all of the following items: (i) fixed or minimum quantities, (ii) fixed, minimum or variable price provisions and (iii) approximate timing of the transaction.

**Operating leases** – At September 30, 2004, the Company had a total of €2.863 billion in total future payment obligations under non-cancelable operating leases.

Furthermore, we are subject to asset retirement obligations related to certain tangible long-lived assets. Such asset retirement obligations are primarily attributable to environmental clean-up costs, which amounted to €513 million as of September 30, 2004 and to costs associated with the removal of leasehold improvements at the end of the lease term amounting to €39 million as of September 30, 2004. For additional information with respect to asset retirement obligations see "Notes to Consolidated Financial Statements."

### Off-balance sheet arrangements

**Guarantees** – Guarantees are principally represented by credit guarantees and guarantees of third-party performance. As of September 30, 2004, the undiscounted amount of maximum potential future payments for guarantees was €1.236 billion. Credit guarantees cover the financial obligation of third-parties in cases where Siemens is the vendor and/or contractual partner. In addition, Siemens provides credit line guarantees with variable utilization to associated and related companies. The total amount for credit guarantees was €341 million as of September 30, 2004. Performance bonds and guarantees of advanced payments guarantee the fulfillment of contractual commitments of partners in a consortium where Siemens may be the general or subsidiary partner. In the event of non-performance under the contract by the consortium partner(s), Siemens will be required to pay up to an agreed-upon maximum amount. Guarantees of third-party performance amounted to €370 million as of September 30, 2004. Furthermore, the Company has provided indemnifications in connection with dispositions of business entities, which protect the buyer from tax, legal, and other risks related to the purchased business entity. These other guarantees were €525 million as of September 30, 2004. In the event that it becomes probable that Siemens will be required to satisfy these guarantees, provisions are established. Such provisions are established in addition to the liabilities recognized for the non-contingent component of the guarantees. Most of the guarantees have fixed or scheduled expiration dates, and in practice such guarantees are rarely drawn. For additional information with respect to our guarantees, see "Notes to Consolidated Financial Statements."

**Variable Interest Entities** – The Company holds variable interests in various Variable Interest Entities (VIE's), which are not significant either individually or in the aggregate. The impact of consolidating certain of these VIE's on the Company's financial statements was not material. For additional information on VIE's, see "Notes to Consolidated Financial Statements."

**Customer financing**

Siemens' strong financial profile enables us to selectively provide customers with financing. We also selectively assist customers in arranging financing from various third-party sources, including export credit agencies. This has historically been an important competitive advantage in such long-cycle businesses as power generation, transportation and telecommunications. We also provide direct vendor financing and grant guarantees to banks in support of loans to Siemens customers and we may enter into a combination of the above arrangements. Financing requirements are entered into on a very selective basis; we have forgone, and will continue to forgo, new business contracts if the financing risks are not justifiable relative to the rewards. Due to the continued weak level of capital expenditures at most major telecommunications operators, however, requests for such financing have decreased. As a result, customer financing commitments requiring the approval of Siemens' Corporate Executive Committee of the Managing Board have decreased significantly. The total loans and guarantees relating to such customer financing as of September 30, 2004 amounted to €724 million, including loans and guarantees of €488 million for approved and utilized commitments and €236 million for approved but not utilized commitments. As of September 30, 2003, total loans and guarantees relating to this customer financing amounted to €1.378 billion, including loans and guarantees of €756 million for approved and utilized commitments and €622 million for approved but not utilized commitments.

**Pension plan funding**

Siemens' projected benefit obligation (PBO), which considers future compensation increases, amounted to €20.8 billion on September 30, 2004 compared to €20.9 billion on September 30, 2003. The fair value of plan assets as of September 30, 2004 was €17.7 billion compared to €15.9 billion on September 30, 2003. The measurement dates for the valuation of certain Siemens pension funds, particularly our funds in the U.S. and U.K., do not coincide with the end of our fiscal year. While the return over the last twelve months amounted to 6.6% or €1.128 billion, the aggregate return on plan assets between the last measurement dates amounted to 7.0% or €1.202 billion. On September 30, 2004, the combined funding status of Siemens principal pension plans showed an underfunding of €3.1 billion, substantially improved from the end of fiscal 2003 due primarily to supplemental contributions at the beginning of fiscal 2004. At the beginning of fiscal 2005, a further supplemental contribution in the amount of €1.5 billion was made to our pension funds in Germany and the U.S.

Siemens' funding policy for its pension funds is part of its overall commitment to a sound financial management, which also includes an ongoing analysis of the structure of its pension liabilities, particularly the duration by class of beneficiaries. We constantly review the asset allocation of each plan in light of the duration of the related pension liabilities and analyze trends and events that may affect asset values in order to initiate appropriate measures at a very early stage.

The Company also regularly reviews the design of its pension plans. Historically, the majority of Siemens pension plans have included significant defined benefits. However, in order to reduce the Company's exposure to certain risks associated with defined benefit plans, such as longevity, inflation, effects of compensation increases and other factors, Siemens AG and the majority of our domestic affiliates implemented a new pension plan in fiscal 2004, covering essentially all active employees in Germany, BSAV (Beitragsorientierte Siemens Altersversorgung). The benefits of this new plan are based predominantly on contributions made by the Company and are to be funded by the assets of a new trust. Under the BSAV, Siemens will establish a benefit account for each employee reflecting the contributions by the employer and interest earned on the balance in the account. Conceptually, the contributions are determined as a percentage of the target annual compensation; however the Company has the option to review the contribution level every year. The Company will credit interest annually on the balance in the beneficiary's account until retirement, at the applicable guaranteed interest rate, currently 2.75%. At the time of retirement a one-time surplus credit will be awarded, depending on how the invested capital has performed. The funds in the benefit account will be paid at retirement, at the employee's election, either in installments or in the form of a life annuity. Contrary to the defined benefit model used by the plans funded via our existing domestic pension trust - Siemens German Pension Trust, benefit payments under the BSAV are based predominantly on the accumulated contributions in the employee's benefit account and, to a minor extent, the effects of mortality, inflation adjustments and interest rates. Although this plan, from an economic perspective, is essentially a defined contribution plan, it currently has to be accounted for as a defined benefit plan.

Some of our major international subsidiaries, including the U.S. and the U.K., also implemented new plans in recent years whose benefits are based predominantly on contributions made by the Company. We expect to continue to review the need for the implementation of similar plan designs outside Germany in the coming years to better control future benefit obligations and related costs.

For more information on Siemens pension plans, see "Notes to Consolidated Financial Statements."

## Critical accounting estimates

The preparation of financial statements requires management estimates and assumptions that affect reported amounts and related disclosures. All estimates and assumptions are made to the best of management's knowledge and belief in order to fairly present our position and the results of our operations. The following of our accounting policies are significantly impacted by such management judgment and estimates.

**Revenue recognition on long-term construction contracts**
Our Groups, particularly ICN, ICM, I&S, L&A, PG, PTD and TS conduct a significant portion of their business under long-term construction contracts with customers. We generally account for long-term construction projects using the percentage-of-completion method, recognizing revenue as performance on a contract progresses. This method places considerable importance on accurate estimates of the extent of progress towards completion. Depending on the methodology to determine contract progress, the significant estimates include total contract costs, remaining costs to completion, total contract revenues, contract risks and other judgments. The managements of the operating Groups continually review all estimates involved in such long-term contracts and adjust them as necessary. We also use the percentage-of-completion method for projects financed directly or indirectly by Siemens. In order to qualify for such accounting, the credit quality of the customer must meet certain minimum parameters as evidenced by the customer's credit rating or by a credit analysis performed by SFS, which performs such reviews in support of the Corporate Executive Committee. At a minimum, a customer's credit rating must be single B from the rating agencies, or an equivalent SFS-determined rating. In cases where the credit quality does not meet such standards, we recognize revenue for long-term contracts and financed projects based on the lower of cash if irrevocably received, or contract completion. We believe the credit factors that we use provide a reasonable basis for assessing credit quality.

**Accounts receivable**
The allowance for doubtful accounts involves significant management judgment and review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts on a portfolio basis. For the determination of the country-specific component of the individual allowance, we also consider country credit ratings, which are centrally determined based on information from external rating agencies. Regarding the determination of the valuation allowance derived from a portfolio-based analysis of historical bad debts, a decline of receivables in volume results in a corresponding reduction of such provisions. As of September 30, 2004 and 2003, Siemens recorded a total valuation allowance for accounts receivable of €918 million and €1.122 billion, respectively. Siemens also selectively assists customers, particularly in the telecommunication equipment area, through arranging financing from various third-party sources, including export credit agencies, in order to be awarded supply contracts. In addition, the Company provides direct vendor financing and grants guarantees to banks in support of loans to Siemens customers when necessary and deemed appropriate. Due to the previous high levels of capital spending and associated debt at most major telecommunications operators, however, requests for such financing continued to decrease.

**Goodwill**

SFAS 142 requires that goodwill be tested for impairment at least annually using a two-step approach at the division level. In the first step, the fair value of the division is compared to its carrying amount including goodwill. In order to determine the fair value of the division, significant management judgment is applied in order to estimate the underlying discounted future free cash flows. In the case that the fair value of the division is less than its carrying amount, a second step is performed which compares the fair value of the division's goodwill to the carrying amount of its goodwill. The fair value of goodwill is determined based upon the difference between the fair value of the division and the net of the fair values of the identifiable assets and liabilities of the division. If the fair value of goodwill is less than the carrying amount, the difference is recorded as an impairment. As of September 30, 2004 and 2003, Siemens had total goodwill of €6.476 billion and €6.501 billion, respectively. For more information, see "Notes to Consolidated Financial Statements."

**Pension and postretirement benefit accounting**

Our pension benefit costs and credits are determined in accordance with actuarial valuations, which rely on key assumptions including discount rates and expected return on plan assets. We determine the market-related value of plan assets for the majority of our domestic pension plans based on the average of the historical market values of plan assets over the four quarters of the preceding fiscal year. This value is the basis for the determination of the return on plan assets and amortization of unrecognized losses in the fiscal year following the actuarial valuation. For all other pension plans, asset values are based upon the fair value of plan assets at the measurement date. Due to the underfunded status of certain pension plans at their respective measurement dates, an additional minimum liability is recorded net of deferred tax assets in other comprehensive income. Our postretirement benefit costs and credits are determined in accordance with actuarial valuations, which rely on key assumptions including discount rates, and increase or decrease in health care trend rates. The discount rate assumptions reflect the rates available on high-quality fixed-income investments of appropriate duration at the measurement dates of each plan. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation, and future estimates of long-term investment returns. Other key assumptions for our pension and postretirement benefit costs and credits are based in part on current market conditions. Pension and related postretirement benefit costs or credits could change due to variations in these underlying key assumptions.

The assumptions used for the calculation of net periodic pension cost in fiscal 2005 have already been determined. A one percentage point increase (decrease) in the discount rate assumption would result in a decrease (increase) in net periodic pension cost of €196 (€248) million. A one percentage point change in the assumption for expected return on plan assets would result in a decrease (increase) of €191 million. A one percentage point increase (decrease) in the rates of compensation increase and pension progression would result in a combined increase (decrease) of €357 (€301) million. If more than one of these assumptions were changed simultaneously, the impact would not necessarily be the same as if only one assumption was changed in isolation. For a discussion of our current funding status and the impact of these critical assumptions, see "Notes to Consolidated Financial Statements, Pension plans and similar commitments."

**Accruals**

Significant estimates are involved in the determination of provisions related to contract losses and warranty costs. A significant portion of the business of certain of our operating Groups is performed pursuant to long-term contracts, often for large projects, in Germany and abroad, awarded on a competitive bidding basis. Siemens records an accrual for contract losses when current estimates of total contract costs exceed contract revenue. Such estimates are subject to change based on new information as projects progress toward completion. Loss contracts are identified by monitoring the progress of the project and updating the estimate of total contract costs which also requires significant judgment relating to achieving certain performance standards, for example in the IT service business, and estimates involving warranty costs.

## Risk management

Siemens' risk management policy stems from a philosophy of pursuing sustainable growth and creating economic value while avoiding and managing inappropriate risks. Because risk management is an integral part of how we plan and execute our business strategies, our risk management policy is set by the Corporate Executive Committee (a committee of the Managing Board that includes both the CEO and CFO). Siemens' organizational and accountability structure requires each of the respective Group managements to execute risk management programs that are tailored to their specific industries, yet consistent with the overall policy established by the Corporate Executive Committee.

Moreover, Siemens has implemented a coordinated set of risk management and control systems to help anticipate, measure, monitor and manage its exposure to risk. The most important of these systems include our well-established, enterprise-wide processes for strategic planning and management reporting. The former allows us to consider potential risks well in advance of major business decisions, while the latter enables us to monitor such risks more closely as our business progresses. Our internal auditors also regularly review the adequacy and effectiveness of our risk management and control systems and appropriate modifications are adopted. This coordination of processes and procedures is intended to help ensure that the Managing Board and the Supervisory Board are fully and timely informed about significant risks, as described further in the section "Corporate Governance."

Below we describe the major categories of risks that could materially affect our business, our financial condition or our results of operations. The risks we describe here are not necessarily the only ones we face. Additional risks not known to us, or others that we now consider to be less significant, could also adversely affect our business.

**Business risks**

Siemens is affected by the uncertainties of economic and political conditions. For example, our ICN and ICM Groups are particularly affected by the market conditions in the telecommunication industry. Our SV and Osram Groups are suppliers to the automotive industry and their sales and profitability could be negatively impacted by the financial condition of their automotive customers. In light of these economic conditions, in fiscal 2004, we continued our cost-cutting measures. The contribution of these measures to our profitability will be influenced by the actual savings achieved and by our ability to sustain these ongoing efforts.

The worldwide markets for our products are highly competitive in terms of pricing, product and service quality, development and introduction time, customer service and financing terms. We face strong competitors, some of which are larger and may have greater resources in a given business area. Siemens faces downward price pressure and is exposed to market downturns or slower growth.

Siemens businesses experience rapid and significant changes due to the introduction of innovative technologies. To meet our customers' needs, we must continuously design new, and update existing, products and services and invest in and develop new technologies. This is especially true for our Groups ICN, ICM, SBS, Med and SV. Introducing such new offerings requires a significant commitment to research and development, which may not always result in success. Our sales may suffer if we invest in technologies that do not function as expected or are not accepted in the marketplace or if our products or systems are not brought to market in a timely manner or become obsolete.

Our strategy involves divesting our interests in some business areas and strengthening others through acquisitions, strategic alliances, joint ventures and mergers. Transactions such as these are inherently risky because of the difficulties of integrating people, operations, technologies and products that may arise.

**Operational risks**

A majority of our operating Groups, including ICN, ICM, SBS, I&S, L&A, PG, PTD and TS, perform a significant portion of their business, especially large projects, under long-term contracts that are awarded on a competitive bidding basis. The risks associated with these projects include unexpected technological problems, unforeseen developments at project sites, problems with our partners and subcontractors companies, and logistic difficulties. Any of these factors could lead to significant cost over-runs or project penalties.

We also have production facilities worldwide with a high degree of organizational and technological complexity. We therefore face risks within our value chain processes such as operational failures, quality issues and potential safety risks involving our products, our workers, or the environment. To manage these risks, we have established a comprehensive set of policies and procedures relating to project and quality management, product safety, workplace safety, and environmental protection. We also continuously develop and refine our production processes and technologies and our administrative processes. In addition, we rigorously maintain our facilities and train our employees.

Our operating Groups are exposed to fluctuations in energy and raw material prices. In the recent past, oil, steel and copper prices in particular have increased on a worldwide basis. If we are not able to compensate or pass on our increased costs to customers, this could have an adverse impact on our results of operations.

**Supplier risks**

We rely on third parties to supply us with parts, components and services. This reliance creates risks that our businesses could be affected by unexpected shortages on the part of suppliers, or by unexpected price increases due to market forces or currency fluctuations. Using third parties to manufacture, assemble and test parts and components also limits our direct control over manufacturing yields, quality assurance, and delivery schedules. We manage these supplier-related risks by closely monitoring our supply markets, carefully evaluating supplier performance, and using long-term agreements to ensure favorable supply, pricing and delivery of key parts, components, and services.

**Human resource risks**

In many of the fields in which we operate intense competition exists for highly qualified managers, professionals, and technicians who possess the necessary scientific, technical or industry-specific skills we require. Therefore, we face risks related to our continued ability to recruit, assimilate and retain qualified people in all these areas. To manage these risks, we maintain intensive contact with trade schools, universities, and professional associations that educate and train the people we are likely to need. We also provide abundant opportunities for existing employees to acquire new skills and knowledge related to our business; attractive remuneration systems aimed at retaining qualified employees; and programs designed to successfully integrate new employees into the Company.

**Credit risks**

Siemens provides various forms of direct or indirect financing to customers in connection with large projects such as those undertaken by ICN, ICM, PG and TS. Because we have the capability to engage in large infrastructure projects throughout the world, such financing could expose us to specific risks associated with a particular country or its currency. Because some of our infrastructure customers are newly formed companies, particularly in the wireless telecommunications area, we could also face infrastructure financing risks associated with a particular company. Additionally, vendor financing of projects such as GSM or UMTS wireless network equipment exposes us to credit risks. We also face a number of general risks in providing financing to our customers, including delayed payments from customers or difficulties in the collection of receivables, especially when we conduct business in emerging markets, in markets with economic difficulties, or in markets with a high number of start-up companies. We manage these risks through our enterprise-wide management emphasis on collecting receivables fully and timely. We further manage these credit risks using defined processes for assessing customer creditworthiness.

**Market risk**

Prudent financial market risk management is a key priority for Siemens. Our international operations, financing activities and investments expose us to financial market risks from changes in foreign currency exchange rates, interest rates and equity prices from our available-for sale securities in the ordinary course of business. Our objective for managing such risks is to capitalize on the opportunities available in the global market for our products and services while proactively managing the associated financial market risk. We seek to manage and control these risks primarily through our regular operating and financing activities, but when we deem it appropriate, to use derivative instruments.

Siemens has no material commodity price risk resulting from derivative instruments and the foreign exchange trading portfolio held by SFS is subject to tight limits and thus, as of September 30, 2004 was not material. In addition, SFS uses credit default swaps to protect against credit risks stemming from its receivable purchase business, which are reflected in our credit risk described above. Any market sensitive instruments, including equity and interest bearing securities, that our pension plan hold are not included in this quantitative and qualitative disclosure. For additional information, see "Notes to Consolidated Financial Statements."

The managing of financial market risk is part of Siemens' overall risk management system, which at the highest level involves our Managing Board and its oversight over all of our operations. Our Chief Financial Officer is a member of the Managing Board and has the specific responsibility for our financial market risk management. The Managing Board retains ultimate accountability but for practical business purposes delegates responsibilities to central functions and to the business Groups.

Siemens uses the "sensitivity analysis" method to present our financial market risk. Sensitivity analysis is a widely used risk measurement tool that allows management to make judgments regarding the risk positioning of the company as a whole. Sensitivity analysis provides an approximate answer to the question of how much could be lost if certain specified parameters were to be met under a specific set of assumptions. The risk estimates provided here assume:

- a 20% decrease in equity prices of all our investments in marketable securities;
- a simultaneous, parallel foreign exchange rates shift in which the euro appreciates against all currencies by 10%; and
- a parallel shift of 100 basis points of the interest rate yield curves in all currencies.

These potential economic impacts are based on the occurrence of adverse market conditions and reflect estimated changes resulting from our sensitivity analysis. Actual results that are included in our statement of income may differ materially from these estimates due to actual developments in the global financial market.

**Equity price risk**
We have direct and indirect investments in publicly traded companies, which are held for purposes other than trading. The market value of these investments as of September 30, 2004 was €2.221 billion, with our 18.2% interest in Infineon, our 12.5% interest in Epcos and our 9.7% interest in Juniper Networks representing a large share. An adverse move in equity prices of 20% would reduce the value of these investments by negative €444 million. This decrease from negative €824 million as of September 30, 2003 is primarily due to a reduction of our interest in Infineon.

**Foreign currency exchange rate risk**

**Transaction risk and currency management**
As a company doing business around the world, Siemens is exposed to foreign currency cash-flows from the sale of products and services which may not be denominated in the functional currency of the respective Siemens unit. The operative foreign currency exposure arising from our operating units is partly offset through our production facilities abroad, as well as through procurement activities conducted in foreign currencies. In addition a financial foreign currency exposure arises from investments and financing activities of Siemens as a whole in foreign currencies.

We define generally foreign currency exposure as balance sheet items, firm commitments and foreign currency denominated cash in-flows and cash out-flows from anticipated transactions for the next three months. This foreign currency exposure is determined based on the respective functional currencies of the exposed Siemens' entity. Operating units are prohibited from borrowing or investing in foreign currencies on a speculative basis. Intercompany financing or investments of operating units are preferably done in their functional currency or on a hedged basis.

The following table shows the break-down by currency of the underlying net foreign exchange transaction exposure as of September 30, 2004 (in some of the currencies, especially in the U.S. dollar, Siemens has both substantial sales, as well as costs, which have been netted in the table):

| | USD | GBP | CHF | Other |
|---|---|---|---|---|
| Net foreign exchange transaction exposure as a percentage of the total | 73% | 17% | 2% | 8% |

Our group-wide guidelines require each entity to monitor their foreign currency transaction exposure. Based on a guideline developed by our Corporate Finance department, the entities are required to hedge operative foreign currency transaction exposure of at least 75% of the total net currency position. The values presented in the foreign currency exchange risk disclosure made in this document are the unhedged positions multiplied by an assumed 10% appreciation of the euro against all currencies. In determining our foreign exchange rate sensitivity, we aggregate the net foreign exchange rate exposure of the Operations and Financing and Real Estate Groups and Corporate Treasury. At September 30, 2004, a parallel 10% negative alteration of all foreign currencies would have resulted in a decline in euro value of €61 million in future cash flows whereas such 10% alteration at September 30, 2003 would have resulted in a decline in euro value of €8 million in future cash flows. Such decline in euro values of future cash flows might reduce the unhedged portion of revenues but would decrease the unhedged portion of cost of materials. Because our foreign currency inflows exceed our outflows, an appreciation of the euro against foreign currencies, particularly the U.S. dollar would have a negative financial impact to the extent that future sales are not already hedged. Future changes in the foreign exchange rates can impact sales prices and may lead to margin impacts, the extent of which is determined by the matching of foreign currency revenues and expenses.

**Effects of currency translation**

Many of our subsidiaries are located outside the euro zone. Since our financial reporting currency is the euro, we translate the income statements of these subsidiaries into euros so that we can include their financial results in our consolidated financial statements. To address the effects of foreign exchange *translation risk* in our risk management, our working assumption is that investments in our foreign-based operations are permanent and that reinvestment is continual. Whenever a divestment of a particular asset or entity is made, we incorporate the value of this *transaction risk* into our sensitivity analyses. Effects from currency fluctuations on the translation of net asset amounts into euro are reflected in the Siemens consolidated equity position.

**Interest rate exposure**

Our interest rate exposure results mainly from debt obligations and interest bearing investments. We measure interest rate risk using either a fair value sensitivity or a cash flow sensitivity depending on whether the instrument has a fixed or variable interest rate. We use the fair value sensitivity calculation for fixed interest instruments to show the change in the fair value (defined as net present value) caused by a hypothetical 100-basis point shift in the yield curve. The first step in this calculation is to use the yield curve to discount the gross cash flows, meaning the net present value of future interest and principal payments of financial instruments with fixed interest rates. A second calculation discounts the gross cash flows using a 100-basis point shift of the yield curve. In all cases, we use the generally accepted and published yield curves on the relevant balance sheet date. The cash flow sensitivity shows the change in future cash flows of financial instruments with a variable interest rate also assuming a 100-basis point shift of the yield curves. The total fair value sensitivity, as well as the total cash flow sensitivity is generated by aggregating the sensitivities of the exposure denominated in various currencies. Depending if we have a long or short interest position in fixed or variable interest rates, interest rate risk can arise on increasing or decreasing market moves in the yield curve.

Our fair value interest risk results primarily from our long-term fixed rate debt obligations and interest bearing investments. We seek to limit this risk through the use of derivative instruments which allow us to hedge fair value changes by swapping fixed rates of interest into variable rates of interest. Assuming a 100-basis point decrease in interest rates, this risk was €106 million at September 30, 2004, increasing from €22 million at September 30, 2003, assuming a 100 basis point increase. This change in position was primarily due to adjusting the maturity periods of liquidity invested from a short term basis to predominately matching the intended maturity periods in our interest overlay management program.

Our cash flow interest rate risk on our variable rate portfolio was €47 million at September 30, 2004 and €85 million at September 30, 2003 assuming a 100-basis point increase in interest rates. Such risk is largely related to variable interest rates resulting from the aforementioned hedges of fixed rate debt obligations. Higher interest payments would result in a higher interest expense.

In order to minimize our overall financial interest rate risk, Treasury performs corporate wide interest overlay management to match interest periods of our hedges with intended maturities of assets and liabilities.

## Accounting under International Financial Reporting Standards (IFRS)

**EU regulation regarding IFRS**

In compliance with the European Parliament and Council Regulation on the application of International Financial Reporting Standards (IFRS) adopted in July 2002, all listed European Union companies, including banks and insurance companies, are required to prepare their consolidated financial statements in accordance with IFRS for fiscal years commencing on or after January 1, 2005. However, Member States may defer mandatory application of IFRS until 2007, for companies that either have listed debt securities only or already use other internationally accepted standards for purposes of a listing outside the European Union. The latter particularly applies to companies, such as Siemens, listed on the New York Stock Exchange and, therefore, currently preparing its consolidated financial statements in accordance with U.S. GAAP. In Germany, the option to defer IFRS-adoption was implemented in October 2004, via the Bilanzrechtsreformgesetz (BilReG). Accordingly, Siemens will not be required to prepare consolidated financial statements in accordance with IFRS until fiscal year commencing on October 1, 2007.

However, according to our current plans, Siemens expects to prepare and publish IFRS financial statements with a reconciliation to U.S. GAAP for fiscal 2006 which will be provided as supplemental information serving as basis for full IFRS reporting beginning with the first quarter in fiscal 2007 (i.e. the quarter ending December 31, 2006).

**Convergence of IFRS and U.S. GAAP**

In preparation for our adoption of IFRS, we closely track developments and activities at both standard setting bodies, the IASB and the U.S. Financial Accounting Standards Board – FASB, and expressly welcome the joint initiatives that have already and will further significantly increase the speed and extent of convergence of IFRS and U.S. GAAP. Following a formal commitment to the common goal of convergence in September 2002, both Boards have added a joint short-term convergence project to their agendas which is aimed at removing a number of individual differences in the short-term. That is in consideration of the 2005 IFRS adoption date in Europe, usually by selecting current practice either under existing IFRS or U.S. GAAP. A long-term objective for the IASB and the FASB is to work together to reduce or eliminate remaining differences on an ongoing basis, through a series of joint projects and through coordination of future work programs. In addition, the Boards have agreed to work together through their respective interpretive bodies in converging interpretation and application issues.

Siemens strongly supports further alignments between IFRS and U.S. GAAP to increase international comparability and transparency in financial reporting. Thus, we are actively taking part in the due process of the IASB and the joint convergence project with the FASB through submission of comments to Exposure Drafts, recommendations for urgent accounting issues and participation in field visits. Although progress has been and is being made in considerably reducing differences between the two sets of standards, a large number of differences remain at present, for example, pertaining to the treatment of research and development costs, pension accounting, reversal of impairment losses, hedge accounting or goodwill impairment tests. The effects of such differences may vary depending on the entities or industries affected.

Siemens expects the adoption of IFRS to have a limited impact on the comparability or consistency of its financial reporting. Based on current U.S. GAAP and IFRS standards, we consider differences with a significant impact on our consolidated financial statements to be limited. They will primarily relate to the following:

**Research and development costs**

U.S. GAAP generally requires research and development costs to be expensed as incurred. Separate rules apply to software development costs, which may qualify for capitalization under certain circumstances. Under IFRS, a distinction is to be made between research and development. All costs identified as research costs are to be expensed as incurred, whereas development costs are to be capitalized and amortized if specified criteria are met.

**Compound financial instruments**

Under U.S. GAAP, compound financial instruments are treated as a unit and recorded as a liability, with no separate recognition of the equity component. IFRS requires to split a compound financial instrument into separate liability and equity components at inception. Accordingly, the equity component, representing an equity conversion right, has to be recognized in equity. The liability component is classified as a liability and measured at fair value, which represents the present value based on a discount rate equal to the market rate for non-convertible debt. The liability component will accrete subsequently due to the recognition of imputed discount calculated on the carrying amount of the liability component at the beginning of each year.

**Pension accounting – Fresh start**

Besides further divergences between U.S. GAAP and IFRS, for example, pertaining to the measurement date of plan assets and obligations or the recognition of an additional minimum liability, pension accounting under U.S. GAAP and IFRS will differ due to the application of IFRS 1, *First-time Adoption of International Financial Reporting Standards*. This standard provides, among other exemptions, an exemption from calculating the net cumulative unrecognized actuarial gains and losses under IFRS, which would generally be required at the date of transition by applying IAS 19 retrospectively for each year since inception of the respective pension plans. According to this exemption, cumulative unrecognized actuarial gains and losses that had previously not been recognized through application of the corridor approach under U.S. GAAP could be recognized by adjusting retained earnings. Therefore, the corridor will be set to zero in the IFRS opening balance sheet (exemption for "fresh start"), thus resulting in a difference between U.S. GAAP and IFRS, which, from today's perspective, has the most significant impact on net income and shareholders' equity of our consolidated financial statements.

## Annual Report / Form 20-F disclosure differences

In addition to this Annual Report, Siemens prepares and files an "Annual Report on Form 20-F" with the U.S. Securities and Exchange Commission (SEC) as a foreign private issuer. The Form 20-F and this Annual Report are not identical.

In particular, this Annual Report includes a quantification of our economic value added (EVA) measure, because a significant portion of our management's incentive compensation is tied to EVA targets. We provide disclosure of how the measure is calculated and how investors should use this information. Form 20-F does not include this information.

Our Annual Report on Form 20-F is available on our website at **www.siemens.com/investor_relations**.

## Outlook

We successfully implemented our 'Go for Profit and Growth' initiative in fiscal 2004. We are continuing this initiative in fiscal 2005. We are also pursuing further operational improvements at our Groups, given that factors such as a weakening U.S. dollar and rising commodity prices may make the macroeconomic environment more challenging. In addition we will deal with the particular issues at Transportation Systems (TS), Siemens Business Services (SBS) and Communications (Com).

## Subsequent events

After the close of the fiscal year, Siemens made a supplemental cash contribution to its pension plans of €1.5 billion.

Siemens AG Österreich has signed on November 7, 2004 an agreement to acquire Victory Industriebeteiligung AG, Austria (Victory), which directly and indirectly holds an equity share of approximately 16% in VA Technologie AG (VA Tech). As a result of the Victory acquisition, Siemens has informed the Boards of VA Tech, the Boards of Österreichische Industrie Holding AG (ÖIAG) and the Austrian Government that it is prepared to participate in VA Tech's capital increase. In addition, Siemens has informed the Austrian takeover panel about its plans to shortly submit a voluntary takeover bid for all of VA Tech outstanding shares. Siemens will offer €55 per share to VA Tech shareholders.

*This Annual Report contains forward-looking statements and information – that is, statements related to future, not past, events. These statements may be identified by words as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "will" or words of similar meaning. Such statements are based on our current expectations and certain assumptions, and are, therefore, subject to certain risks and uncertainties. A variety of factors, many of which are beyond Siemens' control, affect its operations, performance, business strategy and results and could cause the actual results, performance or achievements of Siemens worldwide to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For us, particular uncertainties arise, among others, from changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products or technologies by other companies, lack of acceptance of new products or services by customers targeted by Siemens worldwide, changes in business strategy and various other factors. More detailed information about certain of these factors is contained in Siemens' filings with the SEC, which are available on the Siemens website, www.siemens.com and on the SEC's website, www.sec.gov. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as anticipated, believed, estimated, expected, intended, planned or projected. Siemens does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.*

# Consolidated Statements of Income

For the fiscal years ended September 30, 2004 and 2003 (in millions of €, per share amounts in €)

| | | Siemens worldwide | |
|---|---|---|---|
| | Note | 2004 | 2003 |
| Net sales | | 75,167 | 74,233 |
| Cost of sales | | (53,522) | (53,350) |
| Gross profit on sales | | 21,645 | 20,883 |
| Research and development expenses | | (5,063) | (5,067) |
| Marketing, selling and general administrative expenses | | (13,567) | (13,534) |
| Other operating income (expense), net (therein gain on issuance of subsidiary and associated company stock €— and €3, respectively) | **3, 4** | (156) | 642 |
| Income from investments in other companies, net | **5** | 1,031 | 142 |
| Income (expense) from financial assets and marketable securities, net | **6** | 70 | 61 |
| Interest income of Operations, net | **7** | 18 | 31 |
| Other interest income (expense), net | **7** | 254 | 214 |
| Income before income taxes | | 4,232 | 3,372 |
| Income taxes(1) | **8** | (661) | (867) |
| Minority interest | | (166) | (96) |
| Income before cumulative effect of change in accounting principle | | 3,405 | 2,409 |
| Cumulative effect of change in accounting principle, net of income taxes | | – | 36 |
| Net income | | 3,405 | 2,445 |
| Basic earnings per share | **30** | | |
| Income before cumulative effect of change in accounting principle | | 3.82 | 2.71 |
| Cumulative effect of change in accounting principle, net of income taxes | | – | 0.04 |
| Net income | | 3.82 | 2.75 |
| Diluted earnings per share | **30** | | |
| Income before cumulative effect of change in accounting principle | | 3.66 | 2.71 |
| Cumulative effect of change in accounting principle, net of income taxes | | – | 0.04 |
| Net income | | 3.66 | 2.75 |

(1) The income taxes of **Eliminations, reclassifications and Corporate Treasury**, **Operations**, and **Financing and Real Estate** are based on the consolidated effective corporate tax rate applied to income before income taxes.

The accompanying notes are an integral part of these consolidated financial statements.

| Eliminations, reclassifications and Corporate Treasury | | Operations | | Financing and Real Estate | |
|---|---|---|---|---|---|
| 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| (1,539) | (1,623) | 74,573 | 73,744 | 2,133 | 2,112 |
| 1,539 | 1,625 | (53,320) | (53,298) | (1,741) | (1,677) |
| – | 2 | 21,253 | 20,446 | 392 | 435 |
| – | – | (5,063) | (5,067) | – | – |
| (1) | – | (13,284) | (13,243) | (282) | (291) |
| (76) | (77) | (176) | 555 | 96 | 164 |
| – | – | 972 | 66 | 59 | 76 |
| 24 | 135 | 71 | (69) | (25) | (5) |
| – | – | 18 | 31 | – | – |
| 277 | 206 | (141) | (88) | 118 | 96 |
| 224 | 266 | 3,650 | 2,631 | 358 | 475 |
| (35) | (68) | (570) | (677) | (56) | (122) |
| – | – | (166) | (96) | – | – |
| 189 | 198 | 2,914 | 1,858 | 302 | 353 |
| – | – | – | 39 | – | (3) |
| 189 | 198 | 2,914 | 1,897 | 302 | 350 |

# Consolidated Balance Sheets

As of September 30, 2004 and 2003 (in millions of €)

| | | Siemens worldwide | |
|---|---|---|---|
| | Note | 9/30/04 | 9/30/03 |
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | 12,190 | 12,149 |
| Marketable securities | **9** | 1,386 | 650 |
| Accounts receivable, net | **10** | 15,470 | 14,511 |
| Intracompany receivables | | – | – |
| Inventories, net | **11** | 11,358 | 10,366 |
| Deferred income taxes | **8** | 1,144 | 1,063 |
| Other current assets | **12** | 4,398 | 4,750 |
| Total current assets | | 45,946 | 43,489 |
| Long-term investments | **13** | 4,122 | 5,992 |
| Goodwill | **14** | 6,476 | 6,501 |
| Other intangible assets, net | **15** | 2,514 | 2,358 |
| Property, plant and equipment, net | **16** | 10,683 | 10,756 |
| Deferred income taxes | **8** | 4,811 | 4,359 |
| Other assets | **17** | 4,966 | 4,150 |
| Other intracompany receivables | | – | – |
| Total assets | | 79,518 | 77,605 |
| **Liabilities and shareholders' equity** | | | |
| Current liabilities | | | |
| Short-term debt and current maturities of long-term debt | **20** | 1,434 | 1,745 |
| Accounts payable | | 9,326 | 8,404 |
| Intracompany liabilities | | – | – |
| Accrued liabilities | **18** | 9,240 | 8,884 |
| Deferred income taxes | **8** | 1,522 | 870 |
| Other current liabilities | **19** | 11,850 | 12,125 |
| Total current liabilities | | 33,372 | 32,028 |
| Long-term debt | **20** | 9,785 | 11,433 |
| Pension plans and similar commitments | **21** | 4,392 | 5,843 |
| Deferred income taxes | **8** | 569 | 534 |
| Other accruals and provisions | **22** | 4,016 | 3,418 |
| Other intracompany liabilities | | – | – |
| | | 52,134 | 53,256 |
| Minority interests | | 529 | 634 |
| Shareholders' equity | **23** | | |
| Common stock, no par value<br>Authorized: 1,113,285,711 and 1,129,742,969 shares, respectively<br>Issued: 891,075,711 and 890,866,301 shares, respectively | | 2,673 | 2,673 |
| Additional paid-in capital | | 5,121 | 5,073 |
| Retained earnings | | 25,447 | 23,020 |
| Accumulated other comprehensive income (loss) | | (6,386) | (7,051) |
| Treasury stock, at cost 250 and 1,184 shares, respectively | | – | – |
| Total shareholders' equity | | 26,855 | 23,715 |
| Total liabilities and shareholders' equity | | 79,518 | 77,605 |

The accompanying notes are an integral part of these consolidated financial statements.

| | Eliminations, reclassifications and Corporate Treasury | | Operations | | Financing and Real Estate | |
|---|---|---|---|---|---|---|
| | 9/30/04 | 9/30/03 | 9/30/04 | 9/30/03 | 9/30/04 | 9/30/03 |
| | | | | | | |
| | | | | | | |
| | 11,251 | 11,345 | 908 | 725 | 31 | 79 |
| | 8 | 101 | 1,361 | 529 | 17 | 20 |
| | (8) | (9) | 11,275 | 10,894 | 4,203 | 3,626 |
| | (12,257) | (10,777) | 12,251 | 10,742 | 6 | 35 |
| | (2) | (4) | 11,295 | 10,284 | 65 | 86 |
| | 61 | 77 | 1,018 | 909 | 65 | 77 |
| | 710 | 736 | 2,793 | 3,143 | 895 | 871 |
| | (237) | 1,469 | 40,901 | 37,226 | 5,282 | 4,794 |
| | – | 19 | 3,790 | 5,636 | 332 | 337 |
| | – | – | 6,394 | 6,421 | 82 | 80 |
| | – | – | 2,501 | 2,338 | 13 | 20 |
| | 1 | 1 | 7,242 | 7,114 | 3,440 | 3,641 |
| | 1,133 | 1,127 | 3,598 | 3,165 | 80 | 67 |
| | 44 | 131 | 2,217 | 1,371 | 2,705 | 2,648 |
| | (1,284) | (1,204) | 1,284 | 1,204 | – | – |
| | (343) | 1,543 | 67,927 | 64,475 | 11,934 | 11,587 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | 850 | 977 | 451 | 646 | 133 | 122 |
| | (3) | 4 | 9,109 | 8,216 | 220 | 184 |
| | (7,449) | (7,426) | 1,703 | 1,771 | 5,746 | 5,655 |
| | 6 | 6 | 9,055 | 8,748 | 179 | 130 |
| | (282) | (271) | 1,528 | 877 | 276 | 264 |
| | 452 | 284 | 11,173 | 11,578 | 225 | 263 |
| | (6,426) | (6,426) | 33,019 | 31,836 | 6,779 | 6,618 |
| | 8,538 | 10,176 | 750 | 748 | 497 | 509 |
| | – | – | 4,392 | 5,813 | – | 30 |
| | 184 | 182 | 274 | 250 | 111 | 102 |
| | 25 | 21 | 3,586 | 3,101 | 405 | 296 |
| | (2,664) | (2,410) | 457 | 378 | 2,207 | 2,032 |
| | (343) | 1,543 | 42,478 | 42,126 | 9,999 | 9,587 |
| | – | – | 529 | 634 | – | – |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | – | – | 24,920 | 21,715 | 1,935 | 2,000 |
| | (343) | 1,543 | 67,927 | 64,475 | 11,934 | 11,587 |

# Consolidated Statements of Cash Flow

For the fiscal years ended September 30, 2004 and 2003 (in millions of €)

| | Siemens worldwide | |
|---|---|---|
| | 2004 | 2003 |
| Cash flows from operating activities | | |
| Net income | 3,405 | 2,445 |
| Adjustments to reconcile net income to cash provided | | |
| Minority interest | 166 | 96 |
| Amortization, depreciation and impairments | 3,344 | 3,334 |
| Deferred taxes | (309) | 262 |
| Gains on sales and disposals of businesses and property, plant and equipment, net, and gain from issuance of subsidiary and associated company stock | (246) | (232) |
| Losses (gains) on sales of investments, net | (612) | 2 |
| Losses (gains) on sales and impairments of marketable securities, net | (47) | 23 |
| Loss (income) from equity investees, net of dividends received | (287) | 10 |
| Change in current assets and liabilities | | |
| (Increase) decrease in inventories, net | (941) | 8 |
| (Increase) decrease in accounts receivable, net | (866) | 623 |
| Increase (decrease) in outstanding balance of receivables sold | 133 | (291) |
| (Increase) decrease in other current assets | 661 | 1,416 |
| Increase (decrease) in accounts payable | 857 | (396) |
| Increase (decrease) in accrued liabilities | 302 | (621) |
| Increase (decrease) in other current liabilities | (323) | (668) |
| Supplemental contributions to pension trusts | (1,255) | (1,192) |
| Change in other assets and liabilities | 1,098 | 893 |
| Net cash provided by (used in) operating activities | 5,080 | 5,712 |
| Cash flows from investing activities | | |
| Additions to intangible assets and property, plant and equipment | (2,764) | (2,852) |
| Acquisitions, net of cash acquired | (1,477) | (1,055) |
| Purchases of investments | (374) | (736) |
| Purchases of marketable securities | (106) | (221) |
| (Increase) decrease in receivables from financing activities | (247) | (94) |
| Increase (decrease) in outstanding balance of receivables sold by SFS | – | – |
| Proceeds from sales of long-term investments, intangibles and property, plant and equipment | 2,639 | 839 |
| Proceeds from sales and dispositions of businesses | 325 | 119 |
| Proceeds from sales of marketable securities | 186 | 61 |
| Net cash provided by (used in) investing activities | (1,818) | (3,939) |
| Cash flows from financing activities | | |
| Proceeds from issuance of common stock | 4 | – |
| Proceeds from issuance of treasury shares | – | 4 |
| Proceeds from issuance of debt | – | 2,702 |
| Repayment of debt | (1,564) | (1,742) |
| Change in short-term debt | (469) | (445) |
| Dividends paid | (978) | (896) |
| Dividends paid to minority shareholders | (101) | (110) |
| Intracompany financing | – | – |
| Net cash provided by (used in) financing activities | (3,108) | (487) |
| Effect of exchange rates on cash and cash equivalents | (113) | (333) |
| Net increase (decrease) in cash and cash equivalents | 41 | 953 |
| Cash and cash equivalents at beginning of period | 12,149 | 11,196 |
| Cash and cash equivalents at end of period | 12,190 | 12,149 |
| Supplemental disclosure of cash paid for: | | |
| Interest | 385 | 545 |
| Income taxes | 746 | 795 |

The accompanying notes are an integral part of these consolidated financial statements.

| | Eliminations, reclassifications and Corporate Treasury | | Operations | | Financing and Real Estate | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | | | | | | |
| | 189 | 198 | 2,914 | 1,897 | 302 | 350 |
| | | | | | | |
| | – | – | 166 | 96 | – | – |
| | – | – | 2,951 | 2,894 | 393 | 440 |
| | (16) | 20 | (267) | 206 | (26) | 36 |
| | – | – | (222) | (145) | (24) | (87) |
| | – | – | (612) | 2 | – | – |
| | (12) | 9 | (33) | 13 | (2) | 1 |
| | – | – | (293) | 70 | 6 | (60) |
| | | | | | | |
| | – | – | (962) | 14 | 21 | (6) |
| | (658) | (527) | (208) | 1,141 | – | 9 |
| | 65 | (21) | 68 | (270) | – | – |
| | 566 | 835 | (183) | 561 | 278 | 20 |
| | (6) | 3 | 827 | (396) | 36 | (3) |
| | – | – | 210 | (571) | 92 | (50) |
| | (330) | 466 | 50 | (961) | (43) | (173) |
| | – | – | (1,255) | (1,192) | – | – |
| | 156 | 137 | 857 | 764 | 85 | (8) |
| | (46) | 1,120 | 4,008 | 4,123 | 1,118 | 469 |
| | | | | | | |
| | – | – | (2,328) | (2,468) | (436) | (384) |
| | – | – | (1,472) | (1,055) | (5) | – |
| | – | – | (367) | (714) | (7) | (22) |
| | (20) | (92) | (86) | (127) | – | (2) |
| | 569 | 276 | – | – | (816) | (370) |
| | (65) | 21 | – | – | 65 | (21) |
| | 19 | – | 2,357 | 556 | 263 | 283 |
| | – | – | 306 | 119 | 19 | – |
| | 104 | 26 | 67 | 34 | 15 | 1 |
| | 607 | 231 | (1,523) | (3,655) | (902) | (515) |
| | | | | | | |
| | – | – | 4 | – | – | – |
| | – | – | – | 4 | – | – |
| | – | 2,702 | – | – | – | – |
| | (1,270) | (1,700) | (266) | (12) | (28) | (30) |
| | (414) | (106) | (170) | (323) | 115 | (16) |
| | – | – | (978) | (896) | – | – |
| | – | – | (101) | (110) | – | – |
| | 1,115 | (907) | (765) | 787 | (350) | 120 |
| | (569) | (11) | (2,276) | (550) | (263) | 74 |
| | (86) | (264) | (26) | (66) | (1) | (3) |
| | (94) | 1,076 | 183 | (148) | (48) | 25 |
| | 11,345 | 10,269 | 725 | 873 | 79 | 54 |
| | 11,251 | 11,345 | 908 | 725 | 31 | 79 |

# Consolidated Statements of Changes in Shareholders' Equity

For the fiscal years ended September 30, 2004 and 2003 (in millions of €)

| | Common stock | Additional paid-in capital | Retained earnings |
|---|---|---|---|
| Balance at October 1, 2002 | 2,671 | 5,053 | 21,471 |
| Net income | – | – | 2,445 |
| Change in currency translation adjustment | – | – | – |
| Change in unrealized gains and losses | – | – | – |
| Total comprehensive income | – | – | 2,445 |
| Dividends paid | – | – | (896) |
| Issuance of common stock and stock-based compensation | 2 | 20 | – |
| Purchase of common stock | – | – | – |
| Re-issuance of treasury stock | – | – | – |
| Balance at September 30, 2003 | 2,673 | 5,073 | 23,020 |
| Net income | – | – | 3,405 |
| Change in currency translation adjustment | – | – | – |
| Change in unrealized gains and losses | – | – | – |
| Total comprehensive income | – | – | 3,405 |
| Dividends paid | – | – | (978) |
| Issuance of common stock and stock-based compensation | – | 50 | – |
| Purchase of common stock | – | – | – |
| Re-issuance of treasury stock | – | (2) | – |
| Balance at September 30, 2004 | 2,673 | 5,121 | 25,447 |

The accompanying notes are an integral part of these consolidated financial statements.

| Accumulated other comprehensive income (loss) | | | | | |
|---|---|---|---|---|---|
| Cumulative translation adjustment | Available-for-sale securities | Derivative instruments | Minimum pension liability | Treasury shares at cost | Total |
| (132) | (185) | 59 | (5,412) | (4) | 23,521 |
| – | – | – | – | – | 2,445 |
| (695) | – | – | – | – | (695) |
| – | 268 | 24 | (978) | – | (686) |
| (695) | 268 | 24 | (978) | – | 1,064 |
| – | – | – | – | – | (896) |
| – | – | – | – | – | 22 |
| – | – | – | – | (127) | (127) |
| – | – | – | – | 131 | 131 |
| (827) | 83 | 83 | (6,390) | – | 23,715 |
| – | – | – | – | – | 3,405 |
| (249) | – | – | – | – | (249) |
| – | 77 | (28) | 865 | – | 914 |
| (249) | 77 | (28) | 865 | – | 4,070 |
| – | – | – | – | – | (978) |
| – | – | – | – | – | 50 |
| – | – | – | – | (106) | (106) |
| – | – | – | – | 106 | 104 |
| (1,076) | 160 | 55 | (5,525) | – | 26,855 |

# Segment Information

As of and for the fiscal years ended September 30, 2004 and 2003 (in millions of €)

| | New orders (unaudited) | | External sales | | Intersegment sales | | Total sales | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Operations Groups | | | | | | | | |
| Information and Communication Networks (ICN) | 7,011 | 7,070 | 6,323 | 6,592 | 671 | 530 | 6,994 | 7,122 |
| Information and Communication Mobile (ICM) | 11,459 | 9,960 | 10,881 | 9,811 | 161 | 153 | 11,042 | 9,964 |
| Siemens Business Services (SBS) | 6,293 | 5,226 | 3,598 | 3,964 | 1,118 | 1,241 | 4,716 | 5,205 |
| Automation and Drives (A&D) | 8,980 | 8,476 | 7,569 | 7,159 | 1,260 | 1,216 | 8,829 | 8,375 |
| Industrial Solutions and Services (I&S) | 4,356 | 3,955 | 3,147 | 2,907 | 1,143 | 1,105 | 4,290 | 4,012 |
| Logistics and Assembly Systems (L&A) | 2,687 | 2,599 | 2,173 | 2,444 | 165 | 156 | 2,338 | 2,600 |
| Siemens Building Technologies (SBT) | 4,358 | 4,775 | 4,174 | 4,706 | 73 | 284 | 4,247 | 4,990 |
| Power Generation (PG) | 9,243 | 7,302 | 7,505 | 6,949 | 22 | 18 | 7,527 | 6,967 |
| Power Transmission and Distribution (PTD) | 3,863 | 3,586 | 3,292 | 3,188 | 319 | 211 | 3,611 | 3,399 |
| Transportation Systems (TS) | 4,321 | 4,674 | 4,284 | 4,668 | 26 | 29 | 4,310 | 4,697 |
| Siemens VDO Automotive (SV) | 9,029 | 8,375 | 8,987 | 8,365 | 14 | 10 | 9,001 | 8,375 |
| Medical Solutions (Med) | 8,123 | 7,835 | 6,969 | 7,345 | 103 | 77 | 7,072 | 7,422 |
| Osram | 4,240 | 4,172 | 4,143 | 4,113 | 97 | 59 | 4,240 | 4,172 |
| Other Operations[5] | 2,102 | 1,840 | 1,174 | 1,129 | 976 | 728 | 2,150 | 1,857 |
| **Total Operations Groups** | **86,065** | **79,845** | **74,219** | **73,340** | **6,148** | **5,817** | **80,367** | **79,157** |
| Reconciliation to financial statements | | | | | | | | |
| Corporate items, pensions and eliminations | (7,381) | (6,916) | 208 | 192 | (6,002) | (5,605) | (5,794) | (5,413) |
| Other interest expense | – | – | – | – | – | – | – | – |
| Other assets related reconciling items | – | – | – | – | – | – | – | – |
| **Total Operations (for columns Group profit/Net capitalemployed, i.e. Income before income taxes/Total assets)** | **78,684** | **72,929** | **74,427** | **73,532** | **146** | **212** | **74,573** | **73,744** |
| Financing and Real Estate Groups | | | | | | | | |
| Siemens Financial Services (SFS) | 562 | 532 | 453 | 433 | 109 | 99 | 562 | 532 |
| Siemens Real Estate (SRE) | 1,584 | 1,592 | 287 | 265 | 1,297 | 1,327 | 1,584 | 1,592 |
| Eliminations | – | – | – | – | (13) | (12) | (13) | (12) |
| **Total Financing and Real Estate** | **2,146** | **2,124** | **740** | **698** | **1,393** | **1,414** | **2,133** | **2,112** |
| **Eliminations, reclassifications and Corporate Treasury** | **–** | **3** | **–** | **3** | **(1,539)** | **(1,626)** | **(1,539)** | **(1,623)** |
| **Siemens worldwide** | **80,830** | **75,056** | **75,167** | **74,233** | **–** | **–** | **75,167** | **74,233** |

(1) Group profit of the **Operations** Groups is earnings before financing interest, certain pension costs and income taxes.
(2) Net capital employed of the **Operations** Groups represents total assets less tax assets, certain accruals and non-interest bearing liabilities other than tax liabilities.
(3) Intangible assets, property, plant and equipment, acquisitions, and investments.
(4) Includes amortization and impairments of intangible assets, depreciation of property, plant and equipment, and write-downs of investments.
(5) *Other Operations* primarily refer to certain centrally-held equity investments and other operating activities not associated with a Group.
(6) Includes (for *Eliminations* within **Financing and Real Estate** consists of) cash paid for income taxes according to the allocation of income taxes to **Operations, Financing and Real Estate**, and **Eliminations, reclassifications and Corporate Treasury** in the Consolidated Statements of Income.

| | Group profit[1] | | Net capital employed[2] | | Net cash from operating and investing activities | | Capital spending[3] | | Amortization, depreciation and impairments[4] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 9/30/04 | 9/30/03 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | | | | | | | | | | |
| | 222 | (366) | 1,261 | 722 | (212) | 106 | 278 | 219 | 255 | 447 |
| | 347 | 180 | 873 | 1,367 | 847 | 692 | 299 | 347 | 325 | 326 |
| | 40 | 13 | 632 | 294 | (263) | (62) | 428 | 193 | 213 | 255 |
| | 1,077 | 806 | 1,951 | 1,925 | 1,026 | 1,060 | 312 | 281 | 209 | 231 |
| | 95 | (41) | 1,003 | 167 | (725) | 54 | 892 | 45 | 47 | 52 |
| | 2 | (218) | 537 | 877 | (115) | (170) | 31 | 42 | 36 | 55 |
| | 108 | 101 | 1,359 | 1,447 | 195 | 375 | 75 | 82 | 127 | 144 |
| | 961 | 1,171 | 1,997 | 1,712 | 687 | (448) | 214 | 1,120 | 181 | 163 |
| | 238 | 207 | 1,162 | 798 | 102 | 387 | 228 | 65 | 73 | 65 |
| | (434) | 284 | 49 | (252) | (495) | (217) | 83 | 120 | 65 | 65 |
| | 562 | 418 | 3,542 | 3,949 | 1,030 | 184 | 515 | 569 | 394 | 400 |
| | 1,046 | 1,118 | 3,173 | 3,128 | 762 | 845 | 449 | 321 | 202 | 227 |
| | 445 | 410 | 2,011 | 2,074 | 453 | 528 | 256 | 280 | 264 | 268 |
| | 289 | 212 | 1,672 | 1,515 | 311 | (362) | 79 | 520 | 73 | 64 |
| | **4,998** | **4,295** | **21,222** | **19,723** | **3,603** | **2,972** | **4,139** | **4,204** | **2,464** | **2,762** |
| | | | | | | | | | | |
| | (1,207) | (1,576) | (3,116) | (3,781) | (1,118)[6] | (2,504)[6] | 28 | 33 | 487 | 132 |
| | (141) | (88) | – | – | – | – | – | – | – | – |
| | – | – | 49,821 | 48,533 | – | – | – | – | – | – |
| | **3,650** | **2,631** | **67,927** | **64,475** | **2,485** | **468** | **4,167** | **4,237** | **2,951** | **2,894** |

| | Income before income taxes | | Total assets | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | |
| | 250 | 269 | 9,055 | 8,445 | (159) | (312) | 311 | 237 | 194 | 220 |
| | 108 | 206 | 3,455 | 3,607 | 457 | 351 | 137 | 169 | 199 | 220 |
| | – | – | (576) | (465) | (82)[6] | (85)[6] | – | – | – | – |
| | **358** | **475** | **11,934** | **11,587** | **216** | **(46)** | **448** | **406** | **393** | **440** |
| | **224** | **266** | **(343)** | **1,543** | **561**[6] | **1,351**[6] | **–** | **–** | **–** | **–** |
| | **4,232** | **3,372** | **79,518** | **77,605** | **3,262** | **1,773** | **4,615** | **4,643** | **3,344** | **3,334** |

Notes to consolidated financial statements

# Notes

### 1 Basis of presentation

The accompanying Consolidated Financial Statements present the operations of Siemens AG and its subsidiaries, (the Company or Siemens). The Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP). Siemens has prepared and reported its Consolidated Financial Statements in euros (€).

Siemens is a German based multinational corporation with a balanced business portfolio of activities predominantly in the field of electronics and electrical engineering (for further information see Note 31).

In order to comply with §292a of the German Commercial Code (HGB), the Consolidated Financial Statements were supplemented with Management's Discussion and Analysis on a consolidated basis and additional explanations. Therefore, the Consolidated Financial Statements, which have to be filed with the Commercial Registry and published in the German Federal Gazette (Bundesanzeiger), comply with the Fourth and Seventh Directives of the European Community. For the interpretation of these directives, the Company relied on the German Accounting Standard No. 1 of the German Accounting Standards Committee.

The Consolidated Financial Statements and Management's Discussion and Analysis as of September 30, 2004, prepared in accordance with §292a of the HGB, are being filed with the Commercial Registries of the Berlin-Charlottenburg and Munich District Courts under the numbers HRB 12300 and HRB 6684, respectively.

### Financial statement presentation

The presentation of the Company's worldwide financial data is accompanied by a component model presentation breaking down Siemens' financial position, results of operations and cash flows into three components (see below). These components contain the Company's reportable segments (also referred to as "Groups").

- **Siemens worldwide** – Represents the Consolidated Financial Statements of the Company.
- **Operations** – Defined as Siemens' thirteen operating Groups including certain operating activities not associated with these Groups and centrally managed items including corporate headquarters, but excluding the activities of the **Financing and Real Estate** Groups and the Corporate Treasury.
- **Financing and Real Estate** – Siemens' **Financing and Real Estate** Groups are responsible for the Company's international leasing, finance, credit and real estate management activities.
- **Eliminations, reclassifications and Corporate Treasury** – Captures separately the consolidation of transactions among **Operations** and **Financing and Real Estate**, as well as certain reclassifications. This component also includes the Company's Corporate Treasury activities.

(in millions of €, except where otherwise stated and per share amounts)

The Company's presentation of **Operations, Financing and Real Estate** and **Corporate Treasury** reflects the management of these components as distinctly different business activities, with different goals and requirements. Management believes that this presentation provides a clearer understanding of the components of the Company's financial position, results of operations and cash flows. The accounting principles applied to these components are generally the same as those used for **Siemens worldwide**. The Company has allocated shareholders' equity to the **Financing and Real Estate** business based on a management approach which takes into consideration the inherent risk evident in the underlying assets. The remaining amount of total shareholders' equity is shown under **Operations**. Income taxes are allocated to **Eliminations, reclassifications and Corporate Treasury, Operations** and **Financing and Real Estate** by applying the effective tax rate of Siemens worldwide to the income before income taxes of each respective component. Deferred income tax assets and liabilities are allocated to these components based on available component specific information and applicable proportions of such amounts to total assets and liabilities of **Siemens worldwide**. The financial data presented for the **Operations** and **Financing and Real Estate** components are not intended to purport the financial position, results of operations and cash flows as if they were separate entities under U.S. GAAP.

The information disclosed in these Notes relates to **Siemens worldwide** unless otherwise stated.



## 2 Summary of significant accounting policies

**Basis of consolidation** – The Consolidated Financial Statements include the accounts of Siemens AG and subsidiaries which are directly or indirectly controlled. Additionally, the Company consolidates variable interest entities (VIE's) for which it is deemed to be the primary beneficiary. Results of associated companies – companies in which Siemens has the ability to exercise significant influence over operating and financial policies (generally through direct or indirect ownership of 20% to 50% of the voting rights) – are recorded in the Consolidated Financial Statements using the equity method of accounting.

A complete list of Siemens' subsidiaries and associated companies is being filed with the Commercial Registries of the Berlin-Charlottenburg and Munich District Courts.

**Foreign currency translation** – The assets and liabilities of foreign subsidiaries, where the functional currency is other than the euro, are translated using period-end exchange rates, while the statements of operations are translated using average exchange rates during the period. Differences arising from such translations are included as a separate component of shareholders' equity.

The exchange rates of the significant currencies of non-euro countries used in the preparation of the Consolidated Financial Statements were as follows:

| | | Year-end exchange rate 1 € quoted into currencies specified below September 30, | | Annual average rate 1 € quoted into currencies specified below Fiscal year | |
|---|---|---|---|---|---|
| Currency | ISO Code | 2004 | 2003 | 2004 | 2003 |
| Swiss francs | CHF | 1.554 | 1.538 | 1.549 | 1.498 |
| British pound | GBP | 0.686 | 0.699 | 0.680 | 0.676 |
| U.S. dollar | USD | 1.233 | 1.169 | 1.215 | 1.085 |

**Revenue recognition** – Revenue is recognized for product sales when title passes, the risks and rewards of ownership have been transferred to the customer, the fee is fixed or determinable, and collection of the related receivable is probable. If product sales are subject to customer acceptance, revenues are not recognized until customer acceptance occurs. Revenues from long-term construction-type projects are generally recognized under the percentage-of-completion method, based on the percentage of costs to date compared to the total estimated contract costs, contractual milestones or performance. Revenues from service transactions are recognized as services are performed. For long-term service contracts, revenues are recognized on a straight-line basis over the term of the contract or, if the performance pattern is other than straight-line, as the services are provided. Revenue from software arrangements is recognized at the time persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable. Revenue from maintenance, unspecified upgrades or enhancements and technical support is allocated using the residual value method and recognized over the period such items are delivered. If an arrangement to deliver software requires significant production, modification, or customization of software, the entire arrangement is accounted for under the percentage-of-completion method. Operating lease income for equipment rentals is recognized on a straight-line basis over the lease term. Interest income from capital leases is recognized using the interest method.

Sales of goods or services sometimes involves the provision of multiple elements. In these cases, the Company applies the guidance in Emerging Issues Task Force (EITF) 00-21 *Revenue Arrangements with Multiple Deliverables* to determine whether the contract or arrangement contains more than one unit of accounting. An arrangement is separated if (1) the delivered element(s) has value to the customer on a stand-alone basis, (2) there is objective and reliable evidence of the fair value of the undelivered element(s) and (3), if the arrangement includes a general right of return relative to the delivered element(s), delivery or performance of the undelivered element(s) is considered probable and substantially in the control of the Company. If all three criteria are fulfilled, the appropriate revenue recognition convention is then applied to each separate unit of accounting. The total arrangement consideration is allocated to the separate units of accounting based on each component's objectively determined fair value, such as sales prices for the component when it is regularly sold on a stand-alone basis or third-party prices for similar components. If the three criteria are not met, revenue is deferred until such criteria are met or until the period(s) in which the last undelivered element is delivered. The amount allocable to the delivered elements is limited to the amount that is not contingent upon delivery of additional elements or meeting other specified performance conditions.

**Product-related expenses and contract loss provisions** – Provisions for estimated costs related to product warranties are recorded in cost of sales at the time the related sale is recognized, and are established on an individual basis, except for consumer products. The estimates reflect historic trends of warranty costs as well as information regarding product failure experienced during construction, installation or testing of products. In the case of new products, expert opinions and industry data are also taken into consideration in estimating product warranty accruals. Research and development costs are expensed as incurred. Contract loss provisions are established in the period when the current estimate of total contract costs exceeds contract revenue.

**Earnings per share** – Basic earnings per share is computed by dividing net income by the weighted average shares outstanding during the year. Diluted earnings per share is calculated by adjusting outstanding shares assuming conversion or exercise of all potentially dilutive securities or stock options.

**Cash and cash equivalents** – The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Marketable securities and investments** – The Company's marketable securities are accounted for at fair value if readily determinable. Securities are classified as either available-for-sale or trading securities. Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. Marketable securities classified as available-for-sale are reported at fair value, with unrealized gains and losses included in *AOCI*, net of applicable deferred taxes. Realized gains and losses for individual investments are accounted for using the average cost method. Investments for which there is no readily determinable market value are recorded at cost.

Available-for-sale marketable securities and investments which incur a decline in value below cost that is judged to be other than temporary are considered impaired. The Company considers all available evidence such as market conditions and prices, investee-specific factors and the duration and extent to which fair value is less than cost in evaluating potential impairment of its marketable securities and investments. Impairments are recognized in earnings in the period in which the decline in value is judged to be other than temporary and a new cost basis in the marketable security or investment is established.

**Inventories** – Inventory is valued at the lower of acquisition or production cost or market, cost being generally determined on the basis of an average or first-in, first-out method (FIFO). Production costs comprise direct material and labor and applicable manufacturing overheads, including depreciation charges.

**Goodwill and Other intangible assets** – Intangible assets consist of goodwill and patents, software, licenses and similar rights. Since October 1, 2001, the Company amortizes intangible assets with finite useful lives on a straight-line basis over their respective estimated useful lives to their estimated residual values. Estimated useful lives for software, patents, licenses and other similar rights generally range from three to five years, except for intangible assets with finite useful lives acquired in business combinations. Goodwill and intangible assets other than goodwill which are determined to have indefinite useful lives are not amortized, but instead tested for impairment at least annually. The Company evaluates the recoverability of goodwill using a two-step impairment test approach at the division level (reporting unit). In the first step, the fair value of the division is compared to its carrying amount including goodwill. In the case that the fair value of the division is less than its carrying amount, a second step is performed which compares the fair value of the division's goodwill to the carrying amount of its goodwill. The fair value of goodwill is determined based upon the difference between the fair value of the division and the net of the fair values of all the assets and liabilities of the division (including any unrecognized intangible assets). If the fair value of goodwill is less than the carrying amount, the difference is recorded as an impairment. See Note 14 and 15 for further information.

**Property, plant and equipment** – Property, plant and equipment is valued at acquisition or manufacturing cost less accumulated depreciation. Depreciation expense is recognized either using the declining balance method until the straight-line method yields larger expenses or the straight-line method. Costs of construction of certain long-term assets include capitalized interest, which is amortized over the estimated useful life of the related asset. The following useful lives are assumed:

| | |
|---|---|
| Factory and office buildings | 20 to 50 years |
| Other buildings | 5 to 10 years |
| Technical machinery & equipment | 5 to 10 years |
| Furniture & office equipment | generally 5 years |
| Equipment leased to others | generally 3 to 5 years |

**Impairment of long-lived assets** – The Company reviews long-lived assets held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by the comparison of the carrying amount of the asset to the undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Estimated fair value is generally based on either appraised value or measured by discounted estimated future cash flows. Long-lived assets to be disposed of by sale are recorded at the lower of carrying amount or fair value less costs to sell and depreciation is ceased (see below *Accounting changes* for information regarding the adoption of SFAS 144).

**Derivative instruments and hedging activities** – In accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, derivative instruments, such as interest rate swap contracts and foreign-currency exchange contracts, are recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are recognized periodically either in income or, in the case of a cash flow hedge, in shareholders' equity (as a component of other comprehensive income). Certain derivative instruments embedded in host contracts are also accounted for separately as derivatives. See Note 25, *Derivative instruments and hedging activities*, for a description of the Company's risk management strategies and the effect these strategies have on the Consolidated Financial Statements.

**Taxes** – The Company applies SFAS 109, Accounting for Income Taxes. Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the results of operations in the period the new laws are enacted. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

**Asset retirement obligations** – On October 1, 2002, Siemens adopted SFAS 143, *Accounting for Asset Retirement Obligations*, (see *Accounting changes* below). Legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the asset are recognized at fair value in the period in which the liability is incurred if a reasonable estimate of fair value can be made. Such estimates are generally determined based upon estimated future cash flows discounted using a credit-adjusted risk-free interest rate. The fair value of the liability is added to the carrying amount of the associated asset. The additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement.

**Issuance of shares by subsidiaries or associated companies** – Gains or losses arising from the issuances of shares by subsidiaries or associated companies, due to changes in the Company's proportionate share of the value of the issuer's equity, are recorded as income or expense pursuant to U.S. Securities and Exchange Commission Staff Accounting Bulletin Topic 5H, *Accounting for Sales of Stock by a Subsidiary*.

*Use of estimates* – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassification** – The presentation of certain prior year information has been reclassified to conform to the current year presentation.

(in millions of €, except where otherwise stated and per share amounts)

**Accounting changes** – As of October 1, 2003, the Company adopted the fair value recognition provisions of SFAS 123, *Accounting for Stock-Based Compensation* using the prospective method set forth in SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* for all awards granted, modified or settled on or after October 1, 2003. Stock-based compensation cost is measured at the grant date at the fair value of the award based on the Black-Scholes option pricing model and is recognized as expense over the vesting period. Awards granted before October 1, 2003, continue to be accounted for under the intrinsic value based recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Under APB Opinion No. 25, compensation cost, if any, is measured based on the excess of the quoted market price at grant date over the amount an employee must pay to acquire the stock. The following table illustrates the effect on net income and earnings per share if the fair value based method of SFAS 123 had been applied to all awards:

| | Year ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Net income | | |
| As reported | 3,405 | 2,445 |
| Plus: Stock-based employee compensation expense included in reported net income, net of taxes | 63 | 28 |
| Less: Stock-based employee compensation expense determined under fair value based accounting method, net of taxes | (115) | (147) |
| **Pro forma** | **3,353** | **2,326** |
| Basic earnings per share | | |
| As reported | 3.82 | 2.75 |
| Pro forma | 3.76 | 2.61 |
| Diluted earnings per share | | |
| As reported | 3.66 | 2.75 |
| Pro forma | 3.60 | 2.61 |

See Note 27 for further information on stock-based compensation.

In December 2003, the FASB issued SFAS 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Plans* (SFAS 132R), which amends the disclosure provisions of SFAS 132 and requires additional disclosures to those in the original SFAS 132 about the assets, obligations, cash flows, and net periodic benefit costs of defined benefit pension plans and other defined benefit postretirement plans. It does not change the measurement or recognition provisions of those plans. SFAS 132R is effective for fiscal years ending after December 15, 2003. The Company adopted SFAS 132R for the interim period ending December 31, 2003.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law in the U.S. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In accordance with FASB Staff Position (FSP) FAS 106-1, management elected to defer any accounting for the effects of the Act on the plan in interim periods preceding the fourth quarter. In May 2004, FSP FAS 106-2 was issued being effective for interim periods beginning after June 15, 2004. FSP FAS 106-2 supersedes FSP FAS 106-1 and provides authoritative guidance on accounting for the federal subsidy prescribed by the Act. Pursuant to FSP FAS 106-2 and the issuance of further guidance from the Center of Medicare and Medicaid on July 26, 2004, management has concluded that Siemens' U.S. health care plans are at least actuarially equivalent to Medicare Part D. Following the prospective application method prescribed by FSP FAS 106-2, Siemens has remeasured Siemens' U.S. postretirement obligation as of July 1, 2004. This remeasurement reduced Siemens' Accumulated Postretirement Benefit Obligation (APBO) by €49 and increased the unrecognized gain component by the same amount. The impact of this remeasurement will be amortized over the average working life of Siemens' U.S. employees eligible for postretirement benefits beginning October 1, 2004. The effect of the Act on the foreign net periodic benefit costs as of September 30, 2004 is not significant.

In January 2003, the FASB issued FASB Interpretation (FIN) 46, *Consolidation of Variable Interest Entities*, which interprets Accounting Research Bulletin (ARB) 51, *Consolidated Financial Statements*. FIN 46 clarifies the application of ARB 51 with respect to the consolidation of certain entities (variable interest entities – "VIE's") to which the usual condition for consolidation described in ARB 51 does not apply because the controlling financial interest in VIE's may be achieved through arrangements that do not involve voting interests. In addition, FIN 46 requires the primary beneficiary of VIE's and the holder of a significant variable interest in VIE's to disclose certain information relating to their involvement with the VIE's. The provisions of FIN 46 apply immediately to VIE's created after January 31, 2003, and to VIE's in which an enterprise obtains an interest after that date. On October 9, 2003, the FASB issued FASB Staff Position (FSP) FIN 46-6, *Effective Date of FASB's Interpretation No. 46, Consolidation of Variable Interest Entities*, which deferred the effective date for initial application of FIN 46 for VIE's created before February 1, 2003 to December 31, 2003. Following FSP FIN 46-6, the Company originally decided to adopt FIN 46 as of December 31, 2003 for those VIE's created before February 1, 2003. In December 2003, the FASB issued a revised version of FIN 46, FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46R), which requires public companies that did not apply FIN 46 prior to the issuance of FIN 46R to apply FIN 46R (or FIN 46) to those VIE's commonly referred to as special-purpose entities for periods ending after December 15, 2003, and to apply FIN 46R to all other VIE's for periods ending after March 15, 2004. Differences between FIN 46R and FIN 46 include new scope exceptions, revised requirements on how to evaluate sufficiency of equity at risk, and quantification and allocation of an entity's economic risks and rewards. Additionally, requirements on evaluating a controlling financial interest, reconsidering whether an entity is a VIE and whether to consolidate were clarified. The Company holds variable interests in various VIE's, which are not significant either individually or in the aggregate. In accordance with the effective date provisions of FIN 46R, the Company applied FIN 46R as of March 31, 2004. The adoption of FIN 46R did not have a material impact on the Company's Consolidated Financial Statements.

In November 2002, the EITF reached a final consensus on EITF Issue 00-21, *Revenue Arrangements with Multiple Deliverables*. This Issue addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities, specifically how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The Issue also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. This issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF Issue 00-21 did not have a material impact on the Company's financial statements.

In November 2002, the FASB issued FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligation under guarantees. FIN 45 also requires the guarantor to recognize a liability for the non-contingent component of the guarantee, that is, the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The Company has adopted the disclosure requirements of FIN 45 (see Note 24 for information about guarantees and for information related to product warranties, see above *Product-related expenses and contract loss provisions* and Note 18) and has applied the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002.

On October 1, 2002, Siemens adopted SFAS 143, *Accounting for Asset Retirement Obligations*, as described above (see *Asset retirement obligations*). As a result of adopting SFAS 143, income of €59 (€36 net of income taxes) has been recorded as a *cumulative effect of a change in accounting principle*, primarily in connection with the Company's remediation and environmental accrual related to the decommissioning of the facilities for the production of uranium and mixed-oxide fuel elements in Hanau, Germany (Hanau facilities) as well as the facilities in Karlstein, Germany (Karlstein facilities). See Note 22 for further information.

On October 1, 2002, the Company adopted SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and the accounting and reporting provisions of APB Opinion 30, *Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business. This statement establishes a single accounting model based on SFAS 121 for long-lived assets to be disposed of by sale, including discontinued operations. Major changes include additional criteria for long-lived assets to qualify as "held for sale" and the requirement that long-lived assets to be disposed of other than by sale be classified as held and used until the disposal transaction occurs. SFAS 144 retains the current requirement to separately report discontinued operations but expands that reporting to include a component of an entity (rather than only a segment of a business) that either has been disposed of or is classified as held for sale. SFAS 144 requires long-lived assets to be disposed of by sale to be recorded at the lower of carrying amount or fair value less costs to sell and to cease depreciation. Siemens applied the provisions of SFAS 144 prospectively and the adoption of SFAS 144 did not have a material impact on the Company's financial statements.

## 3 Acquisitions and dispositions

**Acquisitions**

During the years ended September 30, 2004 and 2003 the Company completed a number of acquisitions. These acquisitions have been accounted for under the purchase method and have been included in the Company's Consolidated Financial Statements since the date of acquisition. None of these acquisitions are considered material individually or in the aggregate.

Effective in the fourth quarter of fiscal 2004, the Company acquired USFilter Corporation (USFilter), a group offering products and services in the municipal and industrial water and waste water treatment and supply market. The primary reason for the acquisition was to enter the water treatment and supply business in the North American market. The business is integrated into I&S and was consolidated as of August 1, 2004. Preliminary acquisition costs amount to €822, net of cash acquired. The Company has not yet finalized the purchase price allocation for this acquisition. Based on the preliminary purchase price allocation, approximately €219 was allocated to intangible assets and €179 to goodwill. Goodwill is expected to be largely deductible for tax purposes.

In fiscal 2004, the Company acquired three entities – Trench Electric Holdings BV, Netherlands, a power engineering company and designer of specialized electrical products, BBC Technology Holdings Ltd., UK, an IT services business for the media industry primarily serving BBC, and the Huntsville, Alabama, USA business group of an automotive electronics manufacturer. The combined preliminary purchase price of the three entities amounts to €359.

In July 2003, Siemens completed the acquisition of the industrial turbine business of Alstom S.A., Paris (Alstom), which was structured in two transactions. In the first transaction in April 2003, PG acquired the small gas turbine business of Alstom. In the second transaction in July 2003, PG acquired the medium-sized gas and steam turbine businesses of Alstom. Both transactions resulted in an aggregate net purchase price of €942, net of cash acquired (thereof €510 for the first transaction and €432 for the second transaction). In April 2004 and July 2004, the Company finalized the purchase price allocation for the first and second transaction, respectively. Based on the final purchase price allocation of both transactions, €345 was allocated to intangible assets subject to amortization and €476 was recorded as PG goodwill. Of the €345, €190 was allocated to intellectual property rights and €155 to customer relationships. Both the intellectual property rights and the customer relationships are amortized on a straight line basis over weighted-average useful lives of 18 years and 22 years, respectively.

The Company made certain other acquisitions during the years ended September 30, 2004 and 2003, which did not have a significant effect on the Consolidated Financial Statements.

**Dispositions**

In September 2004, SBS sold a 74.9% interest in its banking software company KORDOBA Gesellschaft für Bankensoftware mbH & Co. KG, Munich to Fidelity Information Systems, Inc. The transaction resulted in a preliminary pre-tax gain of €93 reported in *Other operating income (expense), net*. The remaining interest of 25.1% is accounted for using the equity method.

In June 2003, Med contributed its Patient Care System and Electro Cardiography System businesses into a joint venture with Drägerwerk AG in exchange for a 35 percent interest in the joint venture Dräger Medical AG & Co. KGaA (Dräger Medical), headquartered in Luebeck, Germany. In connection with the contribution, Siemens realized a pretax gain of €63. The contribution agreement obligates Siemens to contribute to Dräger Medical the net proceeds from the sale of its Life Support Systems (LSS) business. By consenting to this sale, Siemens and Drägerwerk AG received approval for the joint venture transaction by antitrust authorities. In October 2003, Siemens completed the sale of its LSS business to Getinge AB, Sweden and realized a pre-tax gain of €105 in connection with the LSS sale. Net proceeds from the LSS sale totaled €176. As stipulated by the contribution agreement for the joint venture Dräger Medical, Siemens contributed to Dräger Medical these net proceeds less expected taxes on the sale. The Company's investment in Dräger Medical is accounted for using the equity method.

**Infineon-Transactions**

As of December 5, 2001, Siemens deconsolidated Infineon and applied the equity method of accounting. Under the equity method of accounting, the Company's net investment in Infineon is included within *Long-term investments* in the Consolidated Balance Sheets, and its share of the net income or losses of Infineon is included as part of *Income (loss) from investments in other companies, net* in the Consolidated Statements of Income. The deconsolidation followed a series of other transactions. The Company reduced its total ownership interest and its voting interest in Infineon from approximately 39.7% and 16.6%, respectively, at the beginning of fiscal 2003, to 18.2% and – % , respectively, at September 30, 2004.

In January 2004, the Company sold 150 million shares of Infineon, representing approximately 20.8% of the outstanding shares of Infineon for cash consideration of €1,794. Of the 150 million shares sold, 86,292,363 shares represented all of the Company's 16.6%* voting interest as of the time of the sale and 63,707,637 shares came from the non-voting trust (for a description of the non-voting trust see below). Due to the sale, the Company's ownership interest in Infineon declined to 18.9% (as of the effective date of the sale). Effective as of the date of the sale of the Infineon shares in January 2004 until the date of the dissolution of the non-voting trust in the first quarter of fiscal 2005, the Company has no voting interests in Infineon. In the second quarter of fiscal 2004, the Company relinquished its ability to exercise significant influence over the operating and financial policies of Infineon. Consequently, the Company ceased accounting for its interest in Infineon under the equity method and began accounting for its interest as an available-for-sale marketable security at fair market value (see Note 5, 9 and 13).

Siemens' net income for the fiscal years ended September 30, 2004 and 2003 includes the Company's at-equity share of the income (loss) of Infineon of €14 and €(170), respectively.

* Based upon total Infineon shares outstanding at the time of the sale less shares in the non-voting trust.

**Non-voting trust**
On December 5, 2001, the Company transferred 200 million Infineon shares or approximately 28.9% of Infineon's share capital to an irrevocable, non-voting trust under a trust agreement. In January 2004, 63,707,637 Infineon-shares of the non-voting trust were sold to third parties (as described above). The trustee is not related to the Company or any of its affiliates. Under the terms of the trust agreement, the trustee has legal title to the shares held in trust and the Company has irrevocably relinquished all voting rights in the shares. However, the trustee is not permitted to vote any Infineon shares it holds in trust under the agreement. The Company continues to be entitled to all the benefits of economic ownership of the shares held in trust, including the right to receive cash dividends and other cash distributions, which the trustee has agreed to pay to the Company promptly upon receipt. The trustee is not entitled to sell or encumber the shares held in trust except at the Company's direction, but the Company has agreed not to direct the sale of any such shares to itself, any affiliate, any vehicle established by the Company or any of its affiliates, or to Infineon. The trustee has agreed to pay to the Company any proceeds resulting from a permitted sale. Under the arrangement, the trustee holds the shares in trust for the benefit of the beneficiaries under the trust agreement, which include the Company as trustor and third party shareholders of Infineon. The trust agreement will terminate only when the Company and its affiliates, on a consolidated basis, have held, directly or indirectly, less than 50% of the voting share capital of Infineon, including the shares held in trust by the trustee, for a period of two consecutive years. We have notified the trustee that the trust will terminate in accordance with the terms of the trust agreement on November 28, 2004. Upon termination, any shares held by the trustee revert to the Company and the Company is again entitled to vote these shares. Certain provisions of the trust agreement, including those relating to voting and transfer of the shares held in trust, may not be amended without the approval of Infineon's shareholders.

Under the terms of a related standstill agreement, the Company has agreed with the trustee that it will not, and it will not permit its affiliates to, directly or indirectly, acquire or offer to acquire ownership of Infineon shares, or securities convertible into Infineon shares, or any other Infineon voting securities or securities convertible into Infineon voting securities. The Company has also agreed that neither it nor any of its affiliates will procure for itself any third party's voting rights in respect of Infineon shares. These provisions terminate on the termination of the trust agreement.

The effect of the transfer of Infineon shares into the non-voting trust resulted in shareholders in Infineon other than the Company and the pension trust having a disproportionate voting interest (see Note 13). Upon termination of the non-voting trust, voting interest in Infineon will again equal our ownership interest.

(in millions of €, except where otherwise stated and per share amounts)

## 4 Other operating income (expense), net

| | Year ended September 30, 2004 | 2003 |
|---|---|---|
| Impairment of goodwill | (433) | – |
| Gains on sales and disposals of businesses, net | 182 | 101 |
| Gains on sales of real estate, net | 64 | 131 |
| Other, net | 31 | 410 |
| | **(156)** | **642** |

In fiscal 2004, *Impairment of goodwill* of €433 relates to two of L&A's reporting units, Distribution and Industry Logistics and Airport Logistics (see Note 14).

In fiscal 2004, *Gains on sales and disposals of businesses, net* includes a pre-tax gain of €105 from the Company's sale of its Life Support Systems business to Getinge AB, Sweden and €93 from the sale of its banking software company KORDOBA Gesellschaft für Bankensoftware mbH & Co. KG, Munich. In fiscal 2003, *Gains on sales and disposals of businesses, net* was comprised of a gain of €63 relating to the Company's contribution into the joint venture Dräger Medical. For a description of further significant items included in *Gains on sales and disposals of businesses, net*, see Note 3.

In fiscal 2003, *Other, net* included gains of €359 in connection with the cancellation of orders at PG.

## 5 Income (loss) from investments in other companies, net

| | Year ended September 30, 2004 | 2003 |
|---|---|---|
| Gains on sales of investments | 617 | 21 |
| Share in earnings (losses) from equity investees, net | 460 | 236 |
| Income from investments | 35 | 42 |
| Write-downs on investments | (84) | (159) |
| Losses on sales of investments | (5) | (23) |
| Other | 8 | 25 |
| | **1,031** | **142** |

*Share in earnings (losses) from equity investees, net* for fiscal 2004 and 2003 includes the Company's at-equity-share in Infineon's net income (loss) of €14 and €(170), respectively. As discussed in Note 3, the Company commenced accounting for its investment in Infineon as a marketable security at fair market value during fiscal 2004. Unrealized gains and losses determined based on the difference of the fair market value over the prior carrying value of the investment are recorded in *AOCI*, net of applicable deferred taxes. The sale of Infineon shares in fiscal 2004 resulted in a pre-tax gain of €590, which is included in *Gains on sales of investments*. In connection with the sale of the Infineon shares, an income tax benefit of €246 was recognized upon the reversal of deferred tax liabilities accrued in connection with intercompany sales of Infineon shares in prior periods. For further information on the Infineon sale see Note 3, 9 and 13.

(in millions of €, except where otherwise stated and per share amounts)

### 6 Income from financial assets and marketable securities, net

| | Year ended September 30, 2004 | Year ended September 30, 2003 |
|---|---|---|
| Gains (losses) on sales of available-for-sale securities, net | 54 | (6) |
| Other financial gains (losses), net | 16 | 67 |
| | **70** | **61** |

In fiscal 2004 and 2003, *Other financial gains (losses), net* contained impairments of certain marketable securities totaling €7 and €17, respectively, where the decline in value was determined to be other than temporary.

### 7 Interest income, net

| | Year ended September 30, 2004 | Year ended September 30, 2003 |
|---|---|---|
| Other interest income, net | 254 | 214 |
| Interest income of Operations, net | 18 | 31 |
| **Total interest income, net** | **272** | **245** |
| Thereof: Interest and similar income | 723 | 789 |
| Thereof: Interest and similar expense | (451) | (544) |

*Interest income of Operations, net* includes interest income and expense related to receivables from customers and payables to suppliers, interest on advances from customers and advanced financing of customer contracts. *Other interest income, net* includes all other interest amounts primarily consisting of interest relating to debt and related hedging activities as well as interest income on corporate assets.

### 8 Income taxes

Income before income taxes is attributable to the following geographic regions:

| | Year ended September 30, 2004 | Year ended September 30, 2003 |
|---|---|---|
| Germany | 867 | 477 |
| Foreign | 3,365 | 2,895 |
| | **4,232** | **3,372** |

(in millions of €, except where otherwise stated and per share amounts)

Income tax expense (benefit) consists of the following:

| | Year ended September 30, 2004 | 2003 |
|---|---|---|
| Current: | | |
| German corporation and trade taxes | 315 | 149 |
| Foreign income taxes | 655 | 457 |
| | **970** | **606** |
| Deferred: | | |
| Germany | (315) | 16 |
| Foreign | 6 | 245 |
| | **(309)** | **261** |
| **Income tax expense, net** | **661** | **867** |

For fiscal year ended September 30, 2004, the Company was subject to German federal corporation tax at a base rate of 25% plus solidarity surcharge of 5.5% on federal corporation taxes payable. As a result, the statutory rate for the year ended September 30, 2004 consists of the federal corporate tax rate, including solidarity surcharge of 26.4%, and trade tax net of federal benefit of 12.6%, for a combined rate of 39%.

For the fiscal year ended September 30, 2003, the Company was subject to German federal corporation income tax at a base rate of 26.5% (including a 2003 surcharge of 1.5% attributed to the Flood Victim Solidarity Act) plus a solidarity surcharge of 5.5% on federal corporation taxes payable. As a result, the statutory rate for the year ended September 30, 2003 consisted of the federal corporate tax rate, including solidarity surcharge, of 28% and trade tax net of federal benefit of 13% for a combined rate of 41%.

Income tax expense differs from the amounts computed by applying statutory German income tax rates (39% and 41%, respectively, for fiscal years ended September 30, 2004 and 2003) as follows:

| | Year ended September 30, 2004 | 2003 |
|---|---|---|
| Expected income tax expense | 1,650 | 1,383 |
| Increase (decrease) in income taxes resulting from: | | |
| Non-deductible losses and expenses | 101 | 88 |
| Goodwill and acquired in-process research and development | 142 | 26 |
| Tax-free income | (110) | (158) |
| Change in tax base of investments | 78 | 148 |
| Tax-free gains from sales of business interests | (476) | (66) |
| Taxes for prior years | 55 | – |
| Effect of change in German tax rates | 6 | – |
| Foreign tax rate differential | (705) | (419) |
| Tax effect of equity method investments | (109) | (153) |
| Other | 29 | 18 |
| **Actual income tax expense** | **661** | **867** |

(in millions of €, except where otherwise stated and per share amounts)

Deferred income tax assets and liabilities on a gross basis are summarized as follows:

| | September 30, 2004 | 2003 |
|---|---|---|
| Current assets: | | |
| Inventories | 514 | 505 |
| Receivables | 284 | 256 |
| Accrued liabilities | 736 | 682 |
| Liabilities | 400 | 324 |
| Tax loss and credit carryforward | 197 | 615 |
| Other | 283 | 406 |
| Total current deferred tax assets, before valuation allowances | 2,414 | 2,788 |
| Valuation allowances | (42) | (82) |
| Current deferred tax assets | 2,372 | 2,706 |
| Current liabilities: | | |
| Inventories | 1,751 | 1,482 |
| Receivables | 341 | 281 |
| Accrued liabilities | 303 | 423 |
| Liabilities | 164 | 156 |
| Other | 191 | 171 |
| Current deferred tax liabilities | 2,750 | 2,513 |
| Current deferred tax (liabilities) assets, net | (378) | 193 |
| Non-current assets: | | |
| Intangibles | 235 | 269 |
| Property, plant and equipment | 205 | 140 |
| Retirement plans | 2,122 | 1,993 |
| Accrued liabilities | 672 | 576 |
| Liabilities | 406 | 363 |
| Tax loss and credit carryforward | 1,770 | 1,605 |
| Other | 626 | 881 |
| Total non-current deferred tax assets, before valuation allowances | 6,036 | 5,827 |
| Valuation allowances | (417) | (559) |
| Non-current deferred tax assets | 5,619 | 5,268 |
| Non-current liabilities: | | |
| Intangibles | 300 | 252 |
| Property, plant and equipment | 503 | 572 |
| Accrued liabilities | 141 | 259 |
| Liabilities | 11 | 21 |
| Other | 422 | 339 |
| Non-current deferred tax liabilities | 1,377 | 1,443 |
| Non-current deferred tax assets, net | 4,242 | 3,825 |
| **Total deferred tax assets, net** | **3,864** | **4,018** |

(in millions of €, except where otherwise stated and per share amounts)

As of September 30, 2004, the Company had approximately €4,698 of gross tax loss carryforwards. Of the total, €4,050 tax loss carryforwards have unlimited carryforward periods and €648 expire over the periods to 2022.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax loss carryforwards become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, after giving effect to related valuation allowances.

The Company provides for income taxes or foreign withholding taxes on the cumulative earnings of foreign subsidiaries when it is determined that such earnings either will be subject to taxes or are intended to be repatriated. During the year ended September 30, 2003, the Company provided for €44 of deferred tax liabilities associated with declared, but unpaid, foreign dividends. Income taxes on cumulative earnings of €6,433 of foreign subsidiaries have not been provided for because such earnings will either not be subject to any such taxes or are intended to be indefinitely reinvested in those operations. It is not practicable to estimate the amount of the unrecognized deferred tax liabilities for these undistributed foreign earnings.

Including the items charged or credited directly to related components of *AOCI* and the benefit from changes in accounting principles, the provision (benefit) for income taxes consists of the following:

| | Year ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Provision for income taxes | 661 | 867 |
| Cumulative effect of change in accounting principle | – | 23 |
| Shareholders' equity for other comprehensive income | 588 | (394) |
| | **1,249** | **496** |

(in millions of €, except where otherwise stated and per share amounts)

### 9 Marketable securities

As of September 30, 2004 and 2003, the Company's portfolio of marketable securities consisted solely of securities classified as available-for-sale.

The following tables summarize the current portion of the Company's investment in available-for-sale securities (for information regarding the non-current available-for-sale securities, see Note 13):

| | September 30, 2004 | | | | September 30, 2003 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Fair | Unrealized | | | Fair | Unrealized | |
| | Cost | Value | Gain | Loss | Cost | Value | Gain | Loss |
| Equity securities | 1,219 | 1,301 | 85 | 3 | 118 | 194 | 78 | 2 |
| Debt securities | 77 | 77 | – | – | 424 | 436 | 12 | – |
| Fund securities | 8 | 8 | – | – | 20 | 20 | 1 | 1 |
| | **1,304** | **1,386** | **85** | **3** | **562** | **650** | **91** | **3** |

Unrealized gains (losses) on available-for-sale securities included in *Accumulated other comprehensive income (AOCI)* are shown net of applicable deferred income taxes, as well as tax effects which were previously provided but were reversed into earnings upon the changes in enacted tax laws in prior periods. The tax effects resulting from such changes total €134 and will remain in *AOCI* until such time as the entire portfolio of available-for-sale securities is liquidated.

In the second quarter of fiscal 2004, the Company sold 150 million Infineon shares and relinquished its ability to exercise significant influence over the operating and financial policies of Infineon (see Note 3, 5 and 13). As a result, the Company began reporting its interest in Infineon as an available-for-sale marketable equity security. As of September 30, 2004, cost, fair value and unrealized gains for the investment in Infineon amounted to €1,094, €1,120, and €26, respectively.

Proceeds from sales of available-for-sale securities for the years ended September 30, 2004 and 2003, were €186 and €61, respectively. Gross realized gains on sales of available-for-sale securities for the years ended September 30, 2004, and 2003 were €58 and €8, respectively. Gross realized losses on sales of available-for-sale securities for the years ended September 30, 2004 and 2003 were €4 and €14, respectively.

(in millions of €, except where otherwise stated and per share amounts)

## 10 Accounts receivable, net

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| Trade receivables from the sale of goods and services, net | 13,978 | 13,094 |
| Receivables from sales and direct finance leases, net | 1,365 | 1,289 |
| Receivables from associated and related companies, net | 127 | 128 |
| | **15,470** | **14,511** |

Related companies are those in which Siemens has an ownership interest of less than 20% and exercises no significant influence over their operating and financial policies.

The valuation allowance for accounts receivable changed as follows:

| | Year ended September 30, 2004 | Year ended September 30, 2003 |
|---|---|---|
| Valuation allowance as of beginning of fiscal year | 1,122 | 1,585 |
| Increase (decrease) in valuation allowances recorded in the income statement in the current period | 59 | (50) |
| Write-offs charged against the allowance | (280) | (383) |
| Recoveries of amounts previously written-off | 32 | 23 |
| Foreign exchange translation adjustment | (15) | (53) |
| **Valuation allowance as of fiscal year-end** | **918** | **1,122** |

**Receivables from sales and direct finance leases:**

| | September 30, 2004 |
|---|---|
| are due as follows: | |
| 2005 | 1,482 |
| 2006 | 1,063 |
| 2007 | 695 |
| 2008 | 447 |
| 2009 | 235 |
| Thereafter | 217 |
| Minimum future lease payments | 4,139 |
| Less: Unearned income | (539) |
| Less: Allowance for doubtful accounts | (105) |
| Plus: Unguaranteed residual values | 179 |
| Net investment in lease receivables | 3,674 |
| Less: Long-term portion | (2,309) |
| **Receivables from sales and finance leases, current** | **1,365** |

Investments in direct financing and sales-type leases primarily relates to equipment for information and communication products, data processing and medical engineering equipment. Investments in direct financing leases also include leases of industrial and consumer products of third party manufacturers. Actual cash flows will vary from contractual maturities due to future sales of finance receivables, prepayments and write-offs.

(in millions of €, except where otherwise stated and per share amounts)

### 11 Inventories, net

| | September 30, 2004 | 2003 |
|---|---|---|
| Raw materials and supplies | 2,282 | 2,118 |
| Work in process | 2,261 | 2,066 |
| Costs and earnings in excess of billings on uncompleted contracts | 6,650 | 5,787 |
| Finished goods and products held for resale | 2,777 | 2,770 |
| Advances to suppliers | 651 | 795 |
| | 14,621 | 13,536 |
| Advance payments received | (3,263) | (3,170) |
| | **11,358** | **10,366** |

### 12 Other current assets

| | September 30, 2004 | 2003 |
|---|---|---|
| Taxes receivable | 1,033 | 1,100 |
| Loans receivable | 446 | 707 |
| Other receivables from associated and related companies | 304 | 337 |
| Other | 2,615 | 2,606 |
| | **4,398** | **4,750** |

### 13 Long-term investments

| | September 30, 2004 | 2003 |
|---|---|---|
| Investments in associated companies | 2,823 | 4,834 |
| Miscellaneous investments | 1,299 | 1,158 |
| | **4,122** | **5,992** |

As of September 30, 2003, *Investments in associated companies* included the Company's investment in Infineon Technologies AG (Infineon) with a carrying amount of €2,249. In the second quarter of fiscal 2004, the Company ceased accounting for Infineon under the equity method and began reporting its interest as available-for-sale marketable security at fair market value (see Note 3, 5 and 9). In January 2004, the Company sold 150 million Infineon shares, representing approximately 20.8% of the outstanding shares of Infineon for cash consideration of €1,794. Of the 150 million shares sold, 86,292,363 shares represented all of the Company's 16.6% current voting interests* and 63,707,637 shares came from the non-voting trust (see Note 3). Due to the sale, the Company's ownership interest in Infineon of 39.7% as of September 30, 2003 declined to 18.9% (as of the effective date of the sale). As of September 30, 2003, the Company's voting interest in Infineon amounted to 16.6%. Subsequent to the sale of the Infineon shares in January 2004 until the date of

* Based upon total Infineon shares outstanding at September 30, 2004 and 2003, respectively, less 136,292 thousand shares and 200 million shares, respectively, in the non-voting trust. As of September 30, 2004, the Company has no active voting interest based on the total shares outstanding. As of September 30, 2003, the Company's total voting interest was 12.0% based on the total shares outstanding.

Notes to consolidated financial statements the dissolution of the non-voting trust on November 28, 2004, the Company has no voting interests in Infineon. Upon termination of the non-voting trust, any shares held by the trustee revert to the Company and the Company is again entitled to vote these shares resulting in voting rights being again equivalent to the Company's legal ownership interest.

| | September 30, 2004 | shares in thousands | September 30, 2003 | shares in thousands |
|---|---|---|---|---|
| Siemens' ownership interest | 18.2% | 136,292 | 39.7% | 286,292 |
| Less: Non-voting trust's interest | | 136,292 | | 200,000 |
| Siemens' voting interest | –* | – | 16.6%* | 86,292 |

* Based upon total Infineon shares outstanding at September 30, 2004 and 2003, respectively, less 136,292 thousand shares and 200 million shares, respectively, in the non-voting trust. As of September 30, 2004, the Company has no active voting interest based on the total shares outstanding. As of September 30, 2003, the Company's total voting interest was 12.0% based on the total shares outstanding.

*Miscellaneous investments* generally include interests in other companies for which there is no readily determinable market value and which are recorded at the lower of cost or net realizable value. As of September 30, 2004 and 2003, this line item includes €459 and €308, respectively, of the fair value related to its investment in Juniper representing the Company's total non-current portion of available-for-sale securities (as of September 30, 2004 and 2003, for the fair value reported portion, cost amounted to €111 and €117, respectively, and unrealized gains to €348 and €191, respectively).

## 14 Goodwill

| | 10/1/03 | Translation adjustment and other | Acquisitions and Purchase Accounting Adjustments | Dis-positions | Im-pairments | 9/30/04 |
|---|---|---|---|---|---|---|
| **Operations** | | | | | | |
| Information and Communication Networks (ICN) | 249 | (7) | 30 | – | – | 272 |
| Information and Communication Mobile (ICM) | 96 | (1) | – | – | – | 95 |
| Siemens Business Services (SBS) | 281 | (9) | – | 3 | – | 269 |
| Automation and Drives (A&D) | 328 | (6) | 66 | – | – | 388 |
| Industrial Solutions and Services (I&S) | 67 | (6) | 197 | – | – | 258 |
| Logistics and Assembly Systems (L&A) | 564 | (8) | – | – | 433 | 123 |
| Siemens Building Technologies (SBT) | 429 | (7) | – | 7 | – | 415 |
| Power Generation (PG) | 943 | (14) | 98 | – | – | 1,027 |
| Power Transmission and Distribution (PTD) | 141 | 3 | 182 | 6 | – | 320 |
| Transportation Systems (TS) | 115 | (4) | – | – | – | 111 |
| Siemens VDO Automotive (SV) | 1,524 | – | – | – | – | 1,524 |
| Medical Solutions (Med) | 1,602 | (72) | 17 | 33 | – | 1,514 |
| Osram | 82 | (4) | – | – | – | 78 |
| **Financing and Real Estate** | | | | | | |
| Siemens Financial Services (SFS) | 80 | 2 | – | – | – | 82 |
| Siemens Real Estate (SRE) | – | – | – | – | – | – |
| **Siemens worldwide** | **6,501** | **(133)** | **590** | **49** | **433** | **6,476** |

(in millions of €, except where otherwise stated and per share amounts)

| | 10/1/02 | Translation adjustment and other | Acquisitions and Purchase Accounting Adjustments | Dispo- sitions | 9/30/03 |
|---|---|---|---|---|---|
| **Operations** | | | | | |
| Information and Communication Networks (ICN) | 265 | (2) | 4 | 18 | 249 |
| Information and Communication Mobile (ICM) | 93 | – | 3 | – | 96 |
| Siemens Business Services (SBS) | 230 | (23) | 74 | – | 281 |
| Automation and Drives (A&D) | 281 | (1) | 49 | 1 | 328 |
| Industrial Solutions and Services (I&S) | 92 | (26) | 1 | – | 67 |
| Logistics and Assembly Systems (L&A) | 581 | (2) | – | 15 | 564 |
| Siemens Building Technologies (SBT) | 442 | (13) | 1 | 1 | 429 |
| Power Generation (PG) | 598 | (64) | 409 | – | 943 |
| Power Transmission and Distribution (PTD) | 148 | (10) | 3 | – | 141 |
| Transportation Systems (TS) | 115 | – | – | – | 115 |
| Siemens VDO Automotive (SV) | 1,528 | (1) | 2 | 5 | 1,524 |
| Medical Solutions (Med) | 1,898 | (284) | 19 | 31 | 1,602 |
| Osram | 98 | (16) | – | – | 82 |
| **Financing and Real Estate** | | | | | |
| Siemens Financial Services (SFS) | 90 | (10) | – | – | 80 |
| Siemens Real Estate (SRE) | – | – | – | – | – |
| **Siemens worldwide** | **6,459** | **(452)** | **565** | **71** | **6,501** |

In fiscal 2004, the strength of the euro particularly against the U.S.$ resulted in foreign currency translation and other adjustments of €(133) primarily related to the Company's businesses in the U.S. Med's sale of its Life Support Systems business reduced goodwill by €(33). I&S's acquisition of USFilter and PTD's acquisition of Trench Electric Holdings BV increased goodwill by €185 (€179 net of foreign currency effects) and €182, respectively. For further information on acquisitions and dispositions see Note 3.

During the second quarter of fiscal 2004, the Company recorded a goodwill impairment of €433. Based on the results of the Company's analysis of current projects at Logistics and Assembly Systems (L&A) in conjunction with changing markets, new competition and structural challenges to attaining originally targeted profitability, the Company revised its related business plan and concluded that goodwill of two of L&A's reporting units, Distribution and Industry Logistics (DI) and Airport Logistics (AL), was impaired. Rapid market deterioration followed by excess capacity and significant margin declines caused the Company to reassess its estimated future cash flows from its DI business at a level materially below earlier estimates, resulting in an impairment charge of €293. In the AL business, increasing competition, particularly in the U.S., led to reductions in estimated future cash flows and resulted in a goodwill impairment of €140. The fair values of the reporting units were estimated using the present value of expected future cash flows.

(in millions of €, except where otherwise stated and per share amounts)

### 15 Other intangible assets, net

| | 10/1/03 | Translation adjustment | Additions | Retirements | 9/30/04 | Accumulated amortization | Net book value as of 9/30/04 | Accumulated amortization 10/1/03 | Net book value as of 10/1/03 | Amortization during fiscal 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| Software | 1,659 | (33) | 386 | 132 | 1,880 | 949 | 931 | 664 | 995 | 394 |
| Patents, licenses and similar rights | 2,523 | (39) | 501 | 207 | 2,778 | 1,195 | 1,583 | 1,160 | 1,363 | 246 |
| **Other intangible assets** | **4,182** | **(72)** | **887** | **339** | **4,658** | **2,144** | **2,514** | **1,824** | **2,358** | **640** |

Amortization expense for the year ended September 30, 2003 was €688.

The estimated amortization expense of *Other intangible assets, net* for the next five fiscal years is as follows:

| Fiscal year | |
|---|---|
| 2005 | 557 |
| 2006 | 377 |
| 2007 | 284 |
| 2008 | 218 |
| 2009 | 173 |

### 16 Property, plant and equipment, net

| | 10/1/03 | Translation adjustment | Additions | Reclassifications | Retirements | 9/30/04 | Accumulated depreciation | Net book value as of 9/30/04 | Accumulated depreciation 10/1/03 | Net book value as of 10/1/03 | Depreciation during fiscal 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Land and buildings | 9,416 | (87) | 368 | 91 | 626 | 9,162 | 4,516 | 4,646 | 4,586 | 4,830 | 291 |
| Technical machinery and equipment | 8,449 | (123) | 810 | 136 | 582 | 8,690 | 5,987 | 2,703 | 5,930 | 2,519 | 634 |
| Furniture and office equipment | 9,622 | (109) | 1,080 | 211 | 1,196 | 9,608 | 7,498 | 2,110 | 7,544 | 2,078 | 1,079 |
| Equipment leased to others | 1,653 | (29) | 251 | 2 | 405 | 1,472 | 819 | 653 | 945 | 708 | 177 |
| Advances to suppliers and construction in progress | 623 | (9) | 485 | (440) | 88 | 571 | – | 571 | 2 | 621 | – |
| **Property, plant and equipment** | **29,763** | **(357)** | **2,994** | **–** | **2,897** | **29,503** | **18,820** | **10,683** | **19,007** | **10,756** | **2,181** |

(in millions of €, except where otherwise stated and per share amounts)

## 17 Other assets

| | September 30, 2004 | 2003 |
|---|---|---|
| Long-term portion of receivables from sales and finance leases (see Note 10) | 2,309 | 2,156 |
| Prepaid pension assets | 442 | 52 |
| Long-term loans receivable | 541 | 531 |
| Other | 1,674 | 1,411 |
| | **4,966** | **4,150** |

## 18 Accrued liabilities

| | September 30, 2004 | 2003 |
|---|---|---|
| Employee related costs | 2,317 | 2,366 |
| Product warranties | 2,096 | 1,830 |
| Income and other taxes | 1,384 | 1,234 |
| Accrued losses on uncompleted contracts | 1,061 | 987 |
| Other | 2,382 | 2,467 |
| | **9,240** | **8,884** |

*Employee related costs* primarily include accruals for vacation pay, bonuses, accrued overtime and service anniversary awards and the current portion of accruals for pension plans and similar commitments, as well as provisions for severance payments.

The current and non-current accruals for product warranties changed as follows:

| | Year ended September 30, 2004 | 2003 |
|---|---|---|
| Accrual as of beginning of fiscal year (thereof current €1,830 and €1,634) | 2,353 | 2,094 |
| Amount charged to expense in current period (additions) | 1,013 | 1,159 |
| Reduction due to payments in cash or in kind (usage) | (920) | (649) |
| Foreign exchange translation adjustment | (24) | (77) |
| Other changes related to existing warranties | 402 | (174) |
| **Accrual as of fiscal year-end (thereof current €2,096 and €1,830)** | **2,824** | **2,353** |

(in millions of €, except where otherwise stated and per share amounts)

## 19 Other current liabilities

| | September 30, 2004 | 2003 |
|---|---|---|
| Billings in excess of costs and estimated earnings on uncompleted contracts and related advances | 4,585 | 4,755 |
| Payroll and social security taxes | 2,515 | 2,493 |
| Bonus obligations | 1,151 | 1,099 |
| Sales and other taxes | 924 | 944 |
| Deferred income | 634 | 633 |
| Liabilities to associated and related companies | 368 | 428 |
| Accrued interest | 128 | 140 |
| Other liabilities | 1,545 | 1,633 |
| | **11,850** | **12,125** |

## 20 Debt

| | September 30, 2004 | 2003 |
|---|---|---|
| Short-term | | |
| Notes and bonds | 621 | 436 |
| Loans from banks | 478 | 777 |
| Other financial indebtedness | 295 | 494 |
| Obligations under capital leases | 40 | 38 |
| Short-term debt and current maturities of long-term debt | 1,434 | 1,745 |
| Long-term | | |
| Notes and bonds (maturing 2005 – 2011) | 8,345 | 9,997 |
| Loans from banks (maturing 2005 – 2013) | 266 | 287 |
| Other financial indebtedness (maturing 2005 – 2015) | 971 | 904 |
| Obligations under capital leases | 203 | 245 |
| Long-term debt | 9,785 | 11,433 |
| | **11,219** | **13,178** |

As of September 30, 2004, weighted-average interest rates for loans from banks, other financial indebtedness and obligations under capital leases were 4.3% (2003: 4.5%), 3.5% (2003: 2.9%) and 6.2% (2003: 6.3%), respectively. In some countries, the Company has pledged securities and executed promissory notes to secure borrowings in conformity with local practice.

The Company has agreements with financial institutions under which it may issue up to €3 billion of commercial paper and U.S.$3.0 billion (€2.4 billion and €2.6 billion, respectively, as of September 30, 2004 and 2003) of commercial paper. As of September 30, 2004 and 2003, outstanding commercial paper totaled €242 (interest rates from 1.41% to 1.59%) and €385 (interest rates from 1.0% to 1.04%), respectively.

(in millions of €, except where otherwise stated and per share amounts)

The Company also has agreements with financial institutions under which it may issue up to €5.0 billion in medium-term notes. As of September 30, 2004 and 2003, approximately €0.9 billion and €1.4 billion, respectively, were outstanding under this program.

In fiscal 2004, the Company terminated a €400 backstop-facility which was to expire in July 2006. As of September 30, 2004, the remaining two global backstop facilities are unchanged to fiscal 2003 and amount to U.S.$3.0 billion (€2.4 billion and €2.6 billion, respectively, as of September 30, 2004 and 2003) and €0.75 billion. Borrowings under these credit facilities bear interest of 0.225% above either EURIBOR (Euro Interbank Offered Rate) in case of a drawdown in euros, or LIBOR (London Interbank Offered Rate) in case of a drawdown in one of the other currencies agreed on. As of September 30, 2004 and 2003, the full amounts of these lines of credit remain unused. Commitment fees for each of the years ended September 30, 2004 and 2003 totaled approximately €3. Under the terms of the agreements, credit may be used for general business purposes.

*Other financial indebtedness* includes €684 and €603, as of September 30, 2004 and 2003, respectively, for the Company's continuing involvement in certain real estate assets sold or transferred in which Siemens has retained significant risks and rewards of ownership, mainly through assumption of construction risks and obligations or through circumstances in which Siemens participates directly or indirectly in the change in market value of the property. Therefore, these transactions have been accounted for as financing obligations. These real estate properties are carried on the Company's Consolidated Balance Sheets and no sale and profit has been recognized.

As of September 30, 2004, the minimum lease payments under capital leases for the next five years and thereafter are as follows:

| Fiscal year | |
|---|---|
| 2005 | 55 |
| 2006 | 44 |
| 2007 | 42 |
| 2008 | 37 |
| 2009 | 32 |
| Thereafter | 100 |
| Minimum lease payment obligation | 310 |
| Less: unamortized interest expense | (67) |
| Obligations under capital leases | 243 |
| Less: current portion | (40) |
| | **203** |

As of September 30, 2004, the aggregate amounts of indebtedness maturing during the next five years and thereafter are as follows (excluding capital leases which are disclosed separately):

| Fiscal year | |
|---|---|
| 2005 | 1,394 |
| 2006 | 2,028 |
| 2007 | 1,511 |
| 2008 | 894 |
| 2009 | 40 |
| Thereafter | 5,109 |
| | **10,976** |

(in millions of €, except where otherwise stated and per share amounts)

Details of the Company's notes and bonds are as follows:

| | September 30, 2004 Currency (notional amount) | | €* | September 30, 2003 Currency (notional amount) | | €* |
|---|---|---|---|---|---|---|
| 1.11% 2002/2003 U.S.$ LIBOR linked notes | | – | – | USD | 200 | 171 |
| 1.22% 2002/2003 U.S.$ LIBOR linked notes | | – | – | USD | 50 | 43 |
| 1.15% 2002/2004 U.S.$ LIBOR linked bonds | | – | – | USD | 125 | 107 |
| 3% 1994/2004 Swiss franc bonds | | – | – | CHF | 178 | 115 |
| 1.0% 2000/2005 EUR exchangeable notes | EUR | 596 | 621 | EUR | 1,060 | 1,094 |
| 5.0% 2001/2006 EUR bonds | EUR | 1,595 | 1,655 | EUR | 2,000 | 2,109 |
| 2.5% 2001/2007 Swiss franc bonds | CHF | 250 | 165 | CHF | 250 | 168 |
| 5.5% 1997/2007 EUR bonds | EUR | 991 | 998 | EUR | 991 | 1,025 |
| 6% 1998/2008 U.S.$ notes | USD | 970 | 870 | USD | 970 | 945 |
| 1.375% 2003/2010 EUR convertible notes | EUR | 2,500 | 2,500 | EUR | 2,500 | 2,500 |
| 5.75% 2001/2011 EUR bonds | EUR | 2,000 | 2,157 | EUR | 2,000 | 2,156 |
| | | | **8,966** | | | **10,433** |

* Includes adjustments for fair value hedge accounting.

In June 2003, the Company issued €2.5 billion of convertible notes through its wholly owned Dutch subsidiary, Siemens Finance B.V., which are fully and unconditionally guaranteed by Siemens AG. The convertible notes have a 1.375% coupon and are convertible into approximately 44.5 million shares of Siemens AG at a conversion price of €56.1681 per share, which is subject to change under certain circumstances. The conversion right is contingently exercisable by the holders upon the occurrence of one of several conditions, including, upon the Company's share price having exceeded 110% of the conversion price on at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of any calendar quarter. This condition was met in the first quarter of fiscal 2004. The Company may, at any time from June 18, 2007, redeem the notes outstanding at their principal amount together with interest accrued thereon, if Siemens' share price exceeds 130% of the conversion price on any 15 of 30 consecutive trading days before notice of early redemption. Unless previously redeemed, converted or repurchased and cancelled, the notes mature on June 4, 2010.

In fiscal 2004, Siemens repurchased and retired €464.5 in notional amount (€473 carrying amount) of the Siemens Nederland N.V. 1.0% exchangeable notes into shares of Infineon Technologies AG which resulted in a gain of €2. Additionally, in fiscal 2004, the Company repurchased €405 in notional amount (€454 carrying amount) of the 5% €-bond resulting in a loss of €1. During fiscal 2003, Siemens repurchased and retired €1,440 of the €2,500 Siemens Nederland N.V. 1.0% exchangeable notes and recognized a gain of €35.

### 21 Pension plans and similar commitments

Pension benefits provided by Siemens are currently organized primarily through defined benefit pension plans which cover virtually all of the Company's domestic employees and many of the Company's foreign employees. To reduce the risk-exposure to Siemens out of its pension plans, the Company has implemented new plans whose benefits are predominantly based on contributions made by the Company. In order to fund Siemens' pension obligations, the Company's major pension plans are funded with assets in segregated pension entities. Furthermore, there are other postretirement benefits, which primarily comprise transition payments to German employees after retirement as well as postretirement health care and life insurance benefits to U.S. employees. These predominantly unfunded other postretirement benefit plans are qualified as defined benefit plans under U.S. GAAP.

In addition to the above, the Company has foreign defined contribution plans for pensions and other postretirement benefits. The recognition of a liability is not required because the obligation of the Company is limited to the payment of the contributions into these plans.

**Accounting for defined benefit plans**

**Consolidated Balance Sheets**

Defined benefit plans determine the entitlements of their beneficiaries. The net present value of the total fixed benefits for service already rendered is represented by the actuarially calculated **accumulated benefit obligation (ABO)**.

An employee's final benefit entitlement at regular retirement age may be higher than the fixed benefits at the measurement date due to future compensation or benefits increases. The net present value of this ultimate future benefit entitlement for service already rendered is represented by the **projected benefit obligation (PBO)**, which is actuarially calculated with consideration for future compensation increases.

The accrued benefit cost is equal to the PBO when the assumptions used to calculate the PBO such as discount rate, compensation increase rate and pension progression rate are achieved. In the case of funded plans, the market value of the external assets is offset against the benefit obligations. The net liability or asset recorded on the balance sheet is equal to the under- or overfunding of the PBO in this case, when the expected return on plan assets is subsequently realized.

Differences between actual experience and assumptions made for the discount rate, compensation increase rate and pension progression rate, as well as the differences between actual and expected returns on plan assets, result in the asset or liability related to pension plans being different than the under- or overfunding of the PBO. Such a difference also occurs when the assumptions used to value the PBO are adjusted at the measurement date. If the difference is so significant that the current benefit obligation represented by the ABO (or the amount thereof not funded by plan assets) exceeds the liability recorded on the balance sheet, such liability must be increased. The unfunded portion of the ABO is referred to as the Minimum Liability and an accrued pension liability that is at least equal to this Minimum Liability amount should be recognized without affecting the *Consolidated Statements of Income*. The required increase in the liability is referred to as the additional minimum liability (AML), and its offsetting AML adjustment results in the recognition of either an intangible asset or as a component of shareholders' equity (*AOCI*). The treatment as a separate component of shareholders' equity is recorded, net of tax, as a reduction of shareholders' equity. The recognition of the AML results in the elimination of any existing prepaid pension asset balance on a plan by plan basis.

(in millions of €, except where otherwise stated and per share amounts)

The *Consolidated Balance Sheets* include the following significant components related to pension plans and similar commitments based upon the situation at:

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| Accumulated other comprehensive income | (8,943) | (10,340) |
| *thereof principal pension benefit plans* | (8,760) | (10,192) |
| Less income tax effect | 3,418 | 3,950 |
| *thereof principal pension benefit plans* | 3,353 | 3,901 |
| Accumulated other comprehensive income, net of income taxes | (5,525) | (6,390) |
| *thereof principal pension benefit plans* | (5,407) | (6,291) |
| Accruals for pension plans and similar commitments | 4,392 | 5,843 |
| *thereof principal pension benefit plans* | 2,391 | 3,935 |
| *thereof principal other postretirement benefit plans* | 1,317 | 1,303 |
| *thereof other* | 684 | 605 |

**Consolidated Statements of Income**

The recognized expense related to pension plans and similar commitments in the Consolidated Statements of Income is referred to as **net periodic pension cost (NPPC)** and consists of several separately calculated and presented components. NPPC is comprised of the **service cost**, which is the actuarial net present value of the part of the PBO for the service rendered in the respective fiscal year; the **interest cost** for the expense derived from the addition of accrued interest on the PBO at the end of the preceding fiscal year on the basis of the identified **discount rate**; and the **expected return on plan assets** in the case of funded benefit plans. Actuarial gains and losses, resulting for example from an adjustment of the discount rate, and asset gains and losses, resulting from a deviation of actual and expected return on plan assets, are not recognized in the *Consolidated Statements of Income* as they occur. If these unrecognized gains and losses exceed 10% of the higher of PBO or market related value of plan assets, they are amortized over the remaining service period of the active employees as a separate component of NPPC.

In the Consolidated Statements of Income, NPPC is allocated among functional costs (cost of sales, research and development, marketing, selling and general administrative expense), according to the function of the employee groups accruing benefits.

In the Consolidated Statements of Income, NPPC expenses before income taxes for the Company's principal pension and other postretirement benefits in fiscal 2004 accumulated to €1,135 compared to €1,032 in the previous fiscal year.

**Consolidated Statements of Cash Flow**

The Company makes payments directly to the participants in the case of unfunded benefit plans and the payments are included in net cash used in operating activities. For funded pension plans, the participants are paid by the external pension fund and accordingly these payments are cash neutral to the Company. In this case, the Company's regular funding (service cost) and supplemental cash contributions result in a net cash used in operating activities.

In the Consolidated Statements of Cash Flow, the Company's principal pension and other postretirement benefits resulted in a net cash used in operating activities of €1,828 compared to €1,453 in the previous fiscal year. The separately reported supplemental cash contributions to pension trusts in fiscal 2004 and 2003 of €1,255 and €1,192, respectively, were included in these amounts.

**Principal pension benefits**
The principal pension benefit plans cover approximately 504,000 participants, including 239,000 active employees, 90,000 former employees with vested benefits and 175,000 retirees and surviving dependants. Individual benefits are generally based on eligible compensation levels and/or ranking within the Company hierarchy and years of service. Retirement benefits under these plans vary depending on legal, fiscal and economic requirements in each country.

In order to reduce the Company's exposure to certain risks associated with defined benefit plans, such as longevity, inflation, effects of compensation increases, and other factors. Siemens AG and the majority of our domestic affiliates implemented a new pension plan in fiscal 2004 covering virtually all active employees in Germany, BSAV (Beitragsorientierte Siemens Altersversorgung), whose benefits are based largely on contributions made by the Company. These benefits are to be funded by the assets of a new trust. Under the BSAV, Siemens will establish a benefit account for each employee reflecting the contributions by the employer and interest earned on the balance in the account. Conceptually, the contributions are determined as a percentage of the target annual compensation; however the Company has the option to review the contribution level every year. The Company will credit annually interest on the balance in the beneficiary's account until retirement, at the applicable guaranteed interest rate, currently 2.75%. At the time of retirement a one-off surplus credit will be awarded, depending on how the invested capital has performed. The funds in the benefit account will be paid at retirement, at the employee's election either in installments or in the form of a life annuity. Contrary to the defined benefit model used by the plans funded via our existing domestic pension trust – (Siemens German Pension Trust), benefit payments under the BSAV are based predominantly on the accumulated contributions in the employee's benefit account and, to a minor extent, the effects of mortality, inflation adjustments and interest rates.

In connection with the implementation of the BSAV, benefits provided under the pension plans funded via the Siemens German Pension Trust have been modified to substantially eliminate the effects of compensation increases. The elimination of the effects of compensation increases resulted in a decrease in the PBO. Such decrease is treated as an unrecognized prior service cost which will be amortized over the average remaining service period of the active employees. The pension plans funded via the Siemens German Pension Trust and the BSAV are reported on a combined basis under domestic pension plans.

(in millions of €, except where otherwise stated and per share amounts)

The Company's principal pension benefit plans are explicitly explained in the subsequent sections with regard to:

- Pension obligations and funded status (page 136),
- Recognition of an additional minimum liability (AML) (page 138),
- Components of NPPC (page 139),
- Assumptions for the calculation of the PBO and NPPC (page 140),
- Sensitivity analysis (page 141),
- Additional information concerning changes of the AML and the actual returns on plan assets (page 142),
- Plan assets (page 143),
- Pension plan funding (page 143), and
- Pension benefit payments (page 144).

**Pension benefits: Pension obligations and funded status**

A reconciliation of the funded status of the principal pension benefit plans to the amounts recognized in the Consolidated Balance Sheets is as follows:

| | September 30, 2004 | | | September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Fair value of plan assets | 17,708 | 11,965 | 5,743 | 15,899 | 11,016 | 4,883 |
| Projected benefit obligation (PBO) | 20,794 | 13,851 | 6,943 | 20,878 | 14,156 | 6,722 |
| Funded status[1] | (3,086) | (1,886) | (1,200) | (4,979) | (3,140) | (1,839) |
| *Germany* | (1,886) | | | (3,140) | | |
| *U.S.* | (392) | | | (1,061) | | |
| *U.K.* | (537) | | | (458) | | |
| *Other* | (271) | | | (320) | | |
| Unrecognized net losses[2] | 10,419 | 8,625 | 1,794 | 11,295 | 9,313 | 1,982 |
| Unrecognized prior service cost (benefit) | (219) | (289) | 70 | 83 | – | 83 |
| Unrecognized net transition asset | – | – | – | (1) | – | (1) |
| **Net amount recognized** | **7,114** | **6,450** | **664** | **6,398** | **6,173** | **225** |
| Amounts recognized in the Consolidated Balance Sheets consist of: | | | | | | |
| Prepaid pension assets | 442 | – | 442 | 52 | – | 52 |
| Accrued pension liability | (2,391) | (1,792) | (599) | (3,935) | (2,702) | (1,233) |
| Intangible assets | 303 | 289 | 14 | 89 | – | 89 |
| Accumulated other comprehensive loss | 8,760 | 7,953 | 807 | 10,192 | 8,875 | 1,317 |
| **Net amount recognized** | **7,114** | **6,450** | **664** | **6,398** | **6,173** | **225** |

[1] Funded status: The funded status shows the surplus/(deficit) of the PBO relative to the plan assets as of the measurement date, and, where applicable, fundings between the measurement date and the balance sheet date. The PBO is calculated based on the projected or the traditional unit credit method and reflects the net present value as of the measurement date of the accumulated pension entitlements of active employees, former employees with vested rights and of retirees and their surviving dependents with consideration of future compensation and pension increases.

[2] Unrecognized net losses: The NPPC is determined at the beginning of the relevant measurement period based on assumptions for the discount rate, compensation increase rate and pension progression rate as well as the long-term rate of return on plan assets. The cumulative effect of differences between the actual experience and the assumed assumptions and changes in the assumptions are disclosed in the line item unrecognized net losses.

(in millions of €, except where otherwise stated and per share amounts)

The measurement date of the PBO and fair value of plan assets of the Company's domestic pension benefit plans is September 30, and either September 30 or June 30 for the majority of its foreign plans. For plans with a measurement date of June 30, the actual investment return of the plan assets relate to the period from July 1, of the prior fiscal year, until June 30 of the current fiscal year.

A detailed reconciliation of the changes in the PBO for fiscal 2004 and 2003 as well as additional information by country is provided in the following table:

| | September 30, 2004 | | | September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Change in projected benefit obligations: | | | | | | |
| Projected benefit obligation at beginning of year | 20,878 | 14,156 | 6,722 | 19,492 | 13,331 | 6,161 |
| Foreign currency exchange rate changes | (140) | – | (140) | (739) | – | (739) |
| Service cost | 469 | 212 | 257 | 484 | 212 | 272 |
| Interest cost | 1,105 | 742 | 363 | 1,121 | 767 | 354 |
| Settlements and curtailments | – | – | – | (2) | – | (2) |
| Plan participants' contributions | 48 | – | 48 | 32 | – | 32 |
| Amendments and other | (313) | (301) | (12) | 476 | (34) | 510 |
| Actuarial (gains) losses, net | (174) | (309) | 135 | 1,000 | 563 | 437 |
| Acquisitions | 117 | 91 | 26 | 44 | 10 | 34 |
| Divestments | (205) | (25) | (180) | (83) | (7) | (76) |
| Benefits paid | (991) | (715) | (276) | (947) | (686) | (261) |
| **Projected benefit obligation at end of year** | **20,794** | **13,851** | **6,943** | **20,878** | **14,156** | **6,722** |
| *Germany* | 13,851 | | | 14,156 | | |
| *U.S.* | 3,010 | | | 3,031 | | |
| *U.K.* | 2,200 | | | 1,919 | | |
| *Other* | 1,733 | | | 1,772 | | |

The total *projected benefit obligation* at the end of the fiscal year includes approximately €8,019 for active employees, €2,379 for former employees with vested benefits and €10,396 for retirees and surviving dependants. The column domestic pension plans contains the PBO of both German pension plans. The item *amendments and other* reflects mainly the effect of the implementation of the BSAV. In addition, the PBO of the domestic pension plans was decreased by the reduction of the pension progression rate, reported in the position *actuarial (gains) and losses*.

(in millions of €, except where otherwise stated and per share amounts)

The following table shows the change in plan assets for fiscal year 2004 and 2003 and some additional information concerning pension plans:

| | September 30, 2004 | | | September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Change in plan assets: | | | | | | |
| Fair value of plan assets at beginning of year | 15,899 | 11,016 | 4,883 | 14,531 | 9,676 | 4,855 |
| Foreign currency exchange rate changes | (99) | – | (99) | (546) | – | (546) |
| Actual return on plan assets | 1,202 | 673 | 529 | 648 | 641 | 7 |
| Acquisitions and other | 81 | 55 | 26 | 413 | – | 413 |
| Divestments and other | (205) | – | (205) | (20) | – | (20) |
| Employer contributions (supplemental) | 1,255 | 700 | 555 | 1,569 | 1,385 | 184 |
| Employer contributions (regular) | 518 | 236 | 282 | 219 | – | 219 |
| Plan participants' contributions | 48 | – | 48 | 32 | – | 32 |
| Benefits paid | (991) | (715) | (276) | (947) | (686) | (261) |
| **Fair value of plan assets at end of year** | **17,708** | **11,965** | **5,743** | **15,899** | **11,016** | **4,883** |
| *Germany* | 11,965 | | | 11,016 | | |
| *U.S.* | 2,618 | | | 1,970 | | |
| *U.K.* | 1,664 | | | 1,461 | | |
| *Other* | 1,461 | | | 1,452 | | |

**Pension benefits: Recognition of an Additional Minimum Liability (AML)**
The total ABO of the principal pension benefit plans amounted to €19,962 and €19,779, as of September 30, 2004 and 2003, respectively.

For fiscal 2004 and 2003, the PBO, ABO and fair value of plan assets for the principal pension benefit plans whose ABO exceeded the fair value of plan assets at the measurement date were as follows:

| | September 30, 2004 | | | September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Projected benefit obligation | 18,446 | 13,851 | 4,595 | 20,701 | 14,156 | 6,545 |
| *Germany* | 13,851 | | | 14,156 | | |
| *U.S.* | 866 | | | 3,031 | | |
| *U.K.* | 2,200 | | | 1,919 | | |
| *Other* | 1,529 | | | 1,595 | | |
| Accumulated benefit obligation | 17,829 | 13,757 | 4,072 | 19,642 | 13,718 | 5,924 |
| *Germany* | 13,757 | | | 13,718 | | |
| *U.S.* | 776 | | | 2,746 | | |
| *U.K.* | 1,966 | | | 1,749 | | |
| *Other* | 1,330 | | | 1,429 | | |
| Fair value of plan assets | 15,467 | 11,965 | 3,502 | 15,744 | 11,016 | 4,728 |
| *Germany* | 11,965 | | | 11,016 | | |
| *U.S.* | 586 | | | 1,970 | | |
| *U.K.* | 1,643 | | | 1,450 | | |
| *Other* | 1,273 | | | 1,308 | | |
| **Underfunding of accumulated benefit obligation** | **(2,362)** | **(1,792)** | **(570)** | **(3,898)** | **(2,702)** | **(1,196)** |
| *Germany* | (1,792) | | | (2,702) | | |
| *U.S.* | (190) | | | (776) | | |
| *U.K.* | (323) | | | (299) | | |
| *Other* | (57) | | | (121) | | |

(in millions of €, except where otherwise stated and per share amounts)

The underfunded ABO of €2,362 (the Minimum Liability) was recorded as an accrued pension liability. Including a pension liability of €29 for principal pension benefit plans whose ABO was not underfunded at their measurement date, the total pension liability for the principal pension benefit plans as of September 30, 2004 totaled €2,391.

Excluding the AML adjustment, the Company has a net prepaid pension asset of €6,701, primarily related to the transfer of Infineon shares to the domestic pension plans in fiscal 2001 and from the supplemental funding of the domestic pension plans in the past years. This amount together with the underfunded ABO of €2,362, resulted in an AML adjustment of €9,063. Of this amount, €8,760 (€5,407 net of tax) was recorded in *AOCI* as a separate component of shareholders' equity and €303 was recorded as an intangible asset.

**Pension benefits: Components of NPPC**

The components of the NPPC for the fiscal years ended September 30, 2004 and 2003 were as follows:

| | Year ended September 30, 2004 | | | Year ended September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Service cost | 469 | 212 | 257 | 484 | 212 | 272 |
| Interest cost | 1,105 | 742 | 363 | 1,121 | 767 | 354 |
| Expected return on plan assets | (1,154) | (813) | (341) | (1,107) | (814) | (293) |
| Amortization of: | | | | | | |
| Unrecognized prior service cost | 10 | – | 10 | 12 | – | 12 |
| Unrecognized net losses (gains) | 623 | 520 | 103 | 451 | 392 | 59 |
| Unrecognized net transition obligation (asset) | (2) | – | (2) | – | – | – |
| Loss due to settlements and curtailments | – | – | – | 8 | – | 8 |
| **Net periodic pension cost** | **1,051** | **661** | **390** | **969** | **557** | **412** |
| *Germany* | 661 | | | 557 | | |
| *U.S.* | 217 | | | 240 | | |
| *U.K.* | 132 | | | 111 | | |
| *Other* | 41 | | | 61 | | |

For the Siemens German Pension Trust, the determination of the *expected return on plan assets* and the *amortization of unrecognized net losses (gains)* are based on a market-related value of plan assets calculated using the average of historical market values of plan assets over four quarters. This market-related value was €12,094 as of September 30, 2004, €129 above the fair value of the plan assets of the Siemens German Pension Trust. For all other plans, the market-related value of plan assets is equal to the fair value of plan assets as of the measurement date. If any significant supplemental contributions are made after the measurement date, these contributions will be considered on a pro-rata basis when determining the total expected return on plan assets for the respective fiscal year.

(in millions of €, except where otherwise stated and per share amounts)

Net unrecognized gains or losses in excess of 10% of the greater of the projected benefit obligation or the market-related value of plan assets are amortized over the average remaining service period of active participants (generally 15 years). Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants to whom such costs relate.

The higher *amortization of unrecognized net losses (gains)* is mainly due to negative developments in the international capital markets during fiscal 2002 and 2001, as well as the effect of reductions in the discount rate assumption used to calculate the PBO in fiscal 2003. The supplemental cash contributions in fiscal 2004 resulted in an increase in *expected absolute return on plan assets*.

**Pension benefits: Assumptions for the calculation of the PBO and NPPC**

Assumed discount rates, compensation increase rates and pension progression rates used in calculating the PBO together with long-term rates of return on plan assets vary according to the economic conditions of the country in which the retirement plans are situated as well as capital market expectations.

The weighted-average assumptions used for the actuarial valuation of the PBO as of the respective measurement date (June 30 or September 30), were as follows:

| | Year ended September 30, 2004 | | | Year ended September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Discount rate | 5.5% | 5.25% | 5.9% | 5.4% | 5.25% | 5.6% |
| *Germany* | 5.25% | | | 5.25% | | |
| *U.S.* | 6.5% | | | 6.25% | | |
| *U.K.* | 5.7% | | | 5.4% | | |
| Rate of compensation increase | 2.6% | 2.25% | 3.3% | 2.5% | 2.25% | 2.9% |
| *Germany* | 2.25% | | | 2.25% | | |
| *U.S.* | 3.25% | | | 3.0% | | |
| *U.K.* | 4.0% | | | 3.6% | | |
| Rate of pension progression | 1.3% | 1.0% | 2.3% | 1.4% | 1.25% | 2.1% |
| *Germany* | 1.0% | | | 1.25% | | |
| *U.K.* | 2.8% | | | 2.6% | | |

The assumptions used for the calculation of the PBO as of the measurement date (June 30 or September 30), of the preceding fiscal year are used to determine the calculation of interest cost and service cost of the following year. Therefore, the assumptions used for the calculation of the NPPC for fiscal 2005 are already determined. Regarding the assumption of the expected rate of return on plan assets, the Company decided to maintain the same fiscal 2004 return for fiscal 2005. Accordingly, the total expected return for fiscal 2004 will be based on such expected rate of return multiplied by the market-related value of plan assets at the fiscal 2004 measurement date. The market related value and thus the expected return on plan assets are adjusted for significant events after measurement date, such as a supplemental funding. Due to the implementation of the BSAV in fiscal 2004, the effect of the compensation increase on the domestic pension plans is substantially eliminated.

(in millions of €, except where otherwise stated and per share amounts)

The weighted-average assumptions used for determining the NPPC for the fiscal years ended September 30, 2005, 2004 and 2003 are shown in the following table:

| | Year ended Sept. 30, 2005 | | | Year ended Sept. 30, 2004 | | | Year ended Sept. 30, 2003 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Discount rate | 5.5% | 5.25% | 5.9% | 5.4% | 5.25% | 5.6% | 6.0% | 5.75% | 6.4% |
| *Germany* | 5.25% | | | 5.25% | | | 5.75% | | |
| *U.S.* | 6.5% | | | 6.25% | | | 7.25% | | |
| *U.K.* | 5.7% | | | 5.4% | | | 5.7% | | |
| Expected return on plan assets | 6.7% | 6.75% | 6.6% | 6.7% | 6.75% | 6.6% | 6.7% | 6.75% | 6.7% |
| *Germany* | 6.75% | | | 6.75% | | | 6.75% | | |
| *U.S.* | 6.95% | | | 6.95% | | | 6.95% | | |
| *U.K.* | 6.85% | | | 6.85% | | | 6.85% | | |
| Rate of compensation increase | 2.6% | 2.25% | 3.3% | 2.5% | 2.25% | 2.9% | 3.1% | 2.75% | 3.9% |
| *Germany* | 2.25% | | | 2.25% | | | 2.75% | | |
| *U.S.* | 3.25% | | | 3.0% | | | 4.25% | | |
| *U.K.* | 4.0% | | | 3.6% | | | 4.1% | | |
| Rate of pension progression | 1.3% | 1.0% | 2.3% | 1.4% | 1.25% | 2.1% | 1.4% | 1.25% | 2.3% |
| *Germany* | 1.0% | | | 1.25% | | | 1.25% | | |
| *U.K.* | 2.8% | | | 2.6% | | | 2.5% | | |

The discount rate assumptions reflect the rates available on high-quality, fixed-income investments of appropriate duration at the measurement date of each plan. The expected return on plan assets is determined on a uniform basis, considering long-term historical returns, asset allocation, and future estimates of long-term investment returns. Actuarial assumptions not shown in the table above, such as employee turnover, mortality, disability etc., remained primarily unchanged in 2004.

**Pension benefits: Sensitivity Analysis**

A one-percentage-point change of the established assumptions mentioned above, used for the calculation of the NPPC for fiscal 2004, and a change of the market-related value of plan assets of €500 as of September 30, 2004, would result in the following impact on the fiscal 2005 NPPC:

| | Effect on NPPC 2005 due to a | |
|---|---|---|
| | one-percentage-point/€500 increase | one-percentage-point/€500 decrease |
| Discount rate | 196 | (248) |
| Expected return on plan assets | 191 | (191) |
| Rate of compensation increase | (65) | 57 |
| Rate of pension progression | (292) | 244 |
| Market-related value of plan assets | 68 | (68) |

(in millions of €, except where otherwise stated and per share amounts)

Increases and decreases in the discount rate, rate of compensation increase and rate of pension progression which are used in determining the PBO do not have a symmetrical effect on NPPC primarily due to the compound interest effect created when determining the present value of the future pension benefit. If more than one of the assumptions were changed simultaneously, the impact would not necessarily be the same as if only one assumption was changed in isolation.

**Pension benefits: Additional information concerning changes of the AML and actual returns on plan assets**

| | Year ended September 30, 2004 | | | Year ended September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Change in the minimum liability adjustment within Accumulated other comprehensive income | (1,432) | (922) | (510) | 1,363 | 498 | 865 |

The reduction of shareholders' equity caused by the underfunded ABO decreased by €1,432. This reduction has no effect on income and was, among other effects, caused by the decrease in the ABO, as a result of the reduction of the pension progression rate in Germany. The contributions to plan assets had no effect on the AML. The contributions resulted in a lower difference between the ABO and the fair value of plan assets and at the same time prepaid pension assets before AML adjustments increased by the same amount.

| | Year ended September 30, 2004 | | | Year ended September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Actual return on plan assets | 1,202 | 673 | 529 | 648 | 641 | 7 |

The measurement dates for the valuation of certain Siemens pension funds, particularly our funds in the U.S. and U.K., do not coincide with the end of the Company's fiscal year. While the return over the last twelve months amounted to 6.6% or €1.128 billion, the aggregate return on plan assets between the last measurements dates amounted to 7.0% or €1.202 billion. For the Siemens German Pension Trust, €673 or 5.6% was realized, as compared to an expected return on plan assets of 6.75% or an amount of €813 that was included in the NPPC. For the foreign pension plans, €529 or 10.2% was realized, as compared to an expected return on plan assets of 6.6% or an amount of €341 that was included in the NPPC.

(in millions of €, except where otherwise stated and per share amounts)

**Pension benefits: Plan Assets**

The asset allocation of the plan assets of the principal pension benefit plans as of the measurement date for fiscal 2004 and 2003 as well as the target asset allocation for fiscal year 2005, are as follows:

| | Target asset allocation | Asset allocation as of the measurement date | | | | | |
|---|---|---|---|---|---|---|---|
| | | September 30, 2004 | | | September 30, 2003 | | |
| Asset class | September 30, 2005 | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Equity | 30–60% | 26% | 18% | 44% | 31% | 26% | 41% |
| Fixed income | 30–60% | 56% | 64% | 39% | 50% | 54% | 39% |
| Real estate | 5–15% | 9% | 8% | 10% | 10% | 10% | 11% |
| Cash | 5–15% | 9% | 10% | 7% | 9% | 10% | 9% |
| | | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

The asset allocation represents the plan assets exposure to market risk. For example, an equity which risk is hedged by a derivative is not reported as equity but under cash. Current asset allocation is biased towards high quality government and selected corporate bonds. As of September 30, 2004, the equity-portion of the pension assets of the principal pension benefit plans was significantly reduced in comparison to the prior year level.

Siemens constantly reviews the asset allocation in light of the duration of its pension liabilities and analysis trends and events that may affect asset values in order to initiate appropriate measures at a very early stage.



**Pension benefits: Pension Plan Funding**

Contributions made by the Company to its principal pension benefit plans in fiscal 2004 and 2003, as well as those planned in fiscal 2005, are as follows:

| | Unaudited Year ended Sept. 30, 2005 (expected) | | | Year ended September 30, 2004 | | | Year ended September 30, 2003 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Regular funding | 612 | 300 | 312 | 518 | 236 | 282 | 219 | – | 219 |
| Supplemental contributions | | | | | | | | | |
| *Cash* | 1,500 | 1,380 | 120 | 1,255 | 700 | 555 | 1,192 | 1,008 | 184 |
| *Real estate* | – | – | – | – | – | – | 377 | 377 | – |
| **Total** | **2,112** | **1,680** | **432** | **1,773** | **936** | **837** | **1,788** | **1,385** | **403** |

In fiscal 2004, €1,255 in cash was contributed in October 2003, as follows: €700 to the domestic pension plans and €555 to the pension plan in the U.S. In fiscal 2003, Siemens made a supplemental cash contribution to the pension plan in the U.K. in October 2002 amounting to €184. Also in fiscal 2003, supplemental contributions to the domestic pension plans included €1,008 in cash, thereof €258 in October 2002 and €750 in September 2003, and €377 in real estate in October 2002.

(in millions of €, except where otherwise stated and per share amounts)

Beginning in fiscal 2004, regular funding is generally based on the level of service costs incurred. For the BSAV funding corresponds to the contributions to the beneficiaries account. Future funding decisions for the Company's pension plans will be made with due consideration of developments affecting plan assets and pension liabilities, taking into account minimum funding requirements abroad and local tax deductibility.

**Pension benefits: Pension benefit payments**

The following overview comprises pension benefits paid out of the principal pension benefit plans during the years ended September 30, 2004 and 2003, and expected pension payments for the next five years and in the aggregate for the five years thereafter (undiscounted):

| | Total | Domestic | Foreign |
|---|---|---|---|
| **Pension benefits paid** | | | |
| 2003 | 947 | 686 | 261 |
| 2004 | 991 | 715 | 276 |
| **Expected pension payments** | | | |
| 2005 | 1,045 | 752 | 293 |
| 2006 | 1,103 | 804 | 299 |
| 2007 | 1,156 | 837 | 319 |
| 2008 | 1,183 | 856 | 327 |
| 2009 | 1,221 | 888 | 333 |
| 2010 – 2014 | 6,583 | 4,542 | 2,041 |

As pension benefit payments for Siemens' principal funded pension benefit plans reduce the PBO and plan assets by the same amount, there is no impact on the funded status of such plans.

**Other postretirement benefits**

In Germany, employees who entered into the Company's employment on or before September 30, 1983, are entitled to transition payments for the first six months after retirement equal to the difference between their final compensation and the retirement benefits payable under the corporate pension plan. Certain foreign companies, primarily in the U.S., provide other postretirement benefits in the form of medical, dental and life insurance. The amount of obligations for other postretirement benefits in the form of medical and dental benefits specifically depends on the expected cost trend in the health care sector. To be entitled to such healthcare benefits participants must contribute to the insurance premiums. Participant contributions are based on specific regulations of cost sharing which are defined in the benefit plans. The Company has the right to adjust the cost allocation at any time, generally this is done on an annual basis. Premiums for life insurance benefits are paid solely by the Company.

(in millions of €, except where otherwise stated and per share amounts)

Other postretirement benefits are illustrated in detail in the subsequent sections with regard to:

- Obligations and funded status (page 145),
- Plan assets (page 146),
- Components of net periodic benefit cost for other postretirement benefits (page 146)
- Assumptions used in the calculation of the PBO and the net periodic benefit cost for other postretirement benefits (page 146), and
- Benefit payments (page 147).

**Other postretirement benefits: Obligations and funded status**
The funded status of plan assets and a reconciliation of the funded status to the amounts recognized in the Consolidated Balance Sheets is as follows:

| | September 30, 2004 | | | September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Fair value of plan assets | 5 | – | 5 | 3 | – | 3 |
| Projected benefit obligations | 939 | 443 | 496 | 1,088 | 482 | 606 |
| Funded status (plan assets less other postretirement obligations) | (934) | (443) | (491) | (1,085) | (482) | (603) |
| Unrecognized net (gain) loss | (373) | (274) | (99) | (211) | (221) | 10 |
| Unrecognized prior service cost | (11) | – | (11) | (8) | – | (8) |
| Unrecognized net transition asset | 1 | – | 1 | 1 | – | 1 |
| **Net amount recognized** | **(1,317)** | **(717)** | **(600)** | **(1,303)** | **(703)** | **(600)** |

The following table shows a detailed reconciliation of the changes in the projected benefit obligation for other postretirement benefits for the years ended September 30, 2004 and 2003:

| | September 30, 2004 | | | September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Change in projected benefit obligations: | | | | | | |
| Projected benefit obligation at beginning of year | 1,088 | 482 | 606 | 1,150 | 534 | 616 |
| Foreign currency exchange rate changes | (31) | – | (31) | (104) | – | (104) |
| Service cost | 44 | 17 | 27 | 42 | 19 | 23 |
| Interest cost | 60 | 26 | 34 | 66 | 30 | 36 |
| Settlements and curtailments | (3) | – | (3) | (29) | – | (29) |
| Plan participant's contributions | 2 | – | 2 | 1 | – | 1 |
| Plan amendments and other | (4) | 7 | (11) | (19) | – | (19) |
| Actuarial (gains) losses | (170) | (65) | (105) | 58 | (62) | 120 |
| Acquisitions | 10 | 1 | 9 | – | – | – |
| Divestments | (2) | (2) | – | (24) | (22) | (2) |
| Benefits paid | (55) | (23) | (32) | (53) | (17) | (36) |
| **Projected benefit obligation at end of year** | **939** | **443** | **496** | **1,088** | **482** | **606** |

Management has concluded that prescription drug benefits available under the plan for U.S. employees are actuarially equivalent to Medicare Part D and thus qualify for the subsidy under the Medicare Act. According to the Act subsidy receipts will begin in year 2006. For further information see Note 2.

(in millions of €, except where otherwise stated and per share amounts)

**Other postretirement benefits: Plan assets**
The following table shows the change in plan assets for fiscal 2004 and 2003:

| | September 30, 2004 | | | September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Change in plan assets | | | | | | |
| Fair value of plan assets at beginning of year | 3 | – | 3 | 13 | – | 13 |
| Employer contributions | 32 | – | 32 | 25 | – | 25 |
| Plan participant's contributions | 2 | – | 2 | 1 | – | 1 |
| Benefits paid | (32) | – | (32) | (36) | – | (36) |
| **Fair value of plan assets at year end** | **5** | **–** | **5** | **3** | **–** | **3** |

**Other postretirement benefits: Components of net periodic benefit cost**
The components of the net periodic benefit cost for other postretirement benefits for the years ended September 30, 2004 and 2003 are as follows:

| | Year ended September 30, 2004 | | | Year ended September 30, 2003 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Service cost | 44 | 17 | 27 | 42 | 19 | 23 |
| Interest cost | 60 | 26 | 34 | 66 | 30 | 36 |
| Amortization of: | | | | | | |
| Unrecognized prior service cost | (8) | – | (8) | (5) | – | (5) |
| Unrecognized net gains | (10) | (12) | 2 | (13) | (7) | (6) |
| Net gain due to settlements and curtailments | (2) | – | (2) | (27) | – | (27) |
| **Net periodic benefit cost** | **84** | **31** | **53** | **63** | **42** | **21** |

The effect of the Medicare act (Part D) on the foreign net periodic benefit costs as of September 30, 2004 is not significant. For further information see Note 2.

**Other postretirement benefits: Assumptions used in the calculation of the PBO and net periodic benefit cost**
Discount rates and other key assumptions used for transition payments in Germany are the same as those utilized for domestic pension benefit plans.

The weighted-average assumptions used in calculating the actuarial values for the postretirement healthcare and life insurance benefits, primarily in the U.S., are as follows:

| | Year ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Discount rate | 6.5% | 6.25% |
| Medical trend rates (initial/ultimate /year): | | |
| Medicare ineligible pre-65 | 10%/5%/2010 | 8.33%/5%/2007 |
| Medicare eligible post-65 | 10%/5%/2010 | 8.33%/5%/2007 |
| Fixed dollar benefit | 4.5% | 6% |
| Dental trend rates (initial/ultimate/year) | 6%/5%/2021 | 6%/5%/2021 |

(in millions of €, except where otherwise stated and per share amounts)

The health care assumptions may be significantly influenced by the expected progression in health care expense. A one-percentage-point change in the healthcare trend rates would have the following effects on the accumulated postretirement benefit obligation and the service and interest cost as of and for the year ended September 30, 2004:

| | September 30, 2004 One-percentage-point increase | decrease |
|---|---|---|
| Effect on accumulated postretirement benefit obligation | 72 | (58) |
| Effect on total of service and interest cost components | 11 | (8) |

**Other postretirement benefits: Benefit payments**

The following overview comprises benefit payments for other postretirement benefits paid out of the principal other defined benefit postretirement plans during the years ended September 30, 2004 and 2003, and expected pension payments for the next five years and in the aggregate for the five years thereafter (undiscounted):

| | Total | Domestic | Foreign |
|---|---|---|---|
| **Payments for other postretirement benefits** | | | |
| 2003 | 53 | 17 | 36 |
| 2004 | 55 | 23 | 32 |
| **Expected payments for other postretirement benefits** | | | |
| 2005 | 63 | 34 | 29 |
| 2006 | 67 | 37 | 30 |
| 2007 | 73 | 42 | 31 |
| 2008 | 75 | 43 | 32 |
| 2009 | 80 | 47 | 33 |
| 2010 – 2014 | 430 | 257 | 173 |

Since the benefit obligations for other postretirement benefits are generally not funded, such payments will impact the current operating cash flow of the Company.

There are no expected U.S. subsidy receipts for the years 2004 and 2005 with regard to the Medicare Act. The expected U.S. subsidy receipts for the years 2006-2014 total €22.

(in millions of €, except where otherwise stated and per share amounts)

## 22 Other accruals and provisions

| | September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Product warranties | 728 | 523 |
| Asset retirement obligations | 478 | 495 |
| Deferred income | 356 | 288 |
| Other long-term accruals | 2,454 | 2,112 |
| | **4,016** | **3,418** |

The Company is subject to asset retirement obligations related to certain tangible long-lived assets. Such asset retirement obligations are primarily attributable to environmental clean-up costs which amounted to €513 and €543, respectively as of September 30, 2004 and 2003 (thereof non-current portion of €445 and €460, respectively) and to costs associated with the removal of leasehold improvements at the end of the lease term amounting to €39 and €49, respectively as of September 30, 2004 and 2003 (thereof non-current portion of €33 and €35, respectively).

Environmental clean-up costs are mainly related to remediation and environmental protection liabilities which have been accrued for the estimated costs of decommissioning facilities for the production of uranium and mixed-oxide fuel elements in Hanau, Germany (Hanau facilities) as well as in Karlstein, Germany (Karlstein facilities). According to the German Atomic Energy Act, when such a facility is closed, the resulting radioactive waste must be collected and delivered to a government-developed final storage facility. In this regard, the Company has developed a plan to decommission the Hanau and Karlstein facilities in the following steps: clean-out, decontamination and disassembly of equipment and installations, decontamination of the facilities and buildings, sorting of radioactive materials, and intermediate and final storage of the radioactive waste. This process will be supported by continuing engineering studies and radioactive sampling under the supervision of German federal and state authorities. The decontamination, disassembly and sorting activities are planned to continue in Hanau until 2007 and in Karlstein until 2009; thereafter, the Company is responsible for intermediate storage of the radioactive materials until a final storage facility is available. The final location is not expected to be available before approximately 2030. The ultimate costs of the remediation are contingent on the decision of the federal government on the location of the final storage facility and the date of its availability. Consequently, the accrual is based on a number of significant estimates and assumptions. The Company does not expect any recoveries from third parties and did not reduce the accruals for such recoveries. The Company believes that it has adequately provided for this exposure. Prior to the adoption of SFAS 143 on October 1, 2002, liabilities for such obligations were recorded based on estimated future cash flows discounted using a risk-free rate. Therefore, the impact of the adoption of SFAS 143 principally relates to the application of current credit-adjusted risk-free interest rates. The interest rates for the environmental liabilities relating to the decommissioning of the Hanau and Karlstein facilities, ranging from approximately 4% to 5% prior to the adoption of SFAS 143, have been adjusted to a range from approximately 3% to 6%. The rates are determined based on the differing durations of the steps of decommissioning. As of September 30, 2004 and 2003, the accrual totals €513 and €543, respectively, and is recorded net of a present value discount of €1,471, and €1,438, respectively. The total expected payments for each of the next five fiscal years and the total thereafter are €68, €43, €46, €11, €11 and €1,806 (includes €1,753 for the costs associated with final storage in 2033).

The Company recognizes the accretion of the liability for the Hanau facility using the effective interest method. During the years ended September 30, 2004 and 2003 the Company recognized €26 and €22, respectively, in accretion expense in Other operating income (expense), net.

The cumulative effect of initially applying SFAS 143 in fiscal 2003 amounted to a positive €36 (net of income taxes).

The current and non-current portion of asset retirement obligations developed as follows:

| | Year ended September 30, 2004 | 2003 |
|---|---|---|
| Aggregate carrying amount as of the beginning of fiscal year (thereof current portion of €97 and €93) | 592 | 692 |
| Effect of adopting SFAS 143, before income taxes | – | (59) |
| Liabilities incurred in the current period | 4 | 10 |
| Liabilities settled in the current period | (87) | (93) |
| Accretion expense | 28 | 25 |
| Revision in estimated cash flows | 15 | 17 |
| **Aggregate carrying amount as of fiscal year-end (thereof current portion of €74 and €97)** | **552** | **592** |



## 23 Shareholders’ equity

**Common stock and Additional paid-in capital**

As of September 30, 2004, the Company’s common stock totaled €2,673 divided into 891,076 thousand shares without par value and a notional value of €3.00 per share. Each share of common stock is entitled to one vote.

As of September 30, 2003 the Company’s common stock totaled €2,673 representing 890,866 thousand shares.

The following table provides a summary of outstanding capital and the changes in authorized and conditional capital for fiscal years 2004 and 2003:

| | Common stock (authorized and issued) | | Authorized capital (not issued) | | Conditional capital (not issued) | |
|---|---|---|---|---|---|---|
| | in thousands of € | in thousand shares | in thousands of € | in thousand shares | in thousands of € | in thousand shares |
| As of October 1, 2002 | 2,671,122 | 890,374 | 766,630 | 255,543 | 194,093 | 64,698 |
| Settlement to former SNI shareholders | 1,477 | 492 | – | – | (1,477) | (492) |
| New approved capital | – | – | 250,000 | 83,334 | 267,000 | 89,000 |
| Expired capital | – | – | (300,000) | (100,000) | – | – |
| As of September 30, 2003 | 2,672,599 | 890,866 | 716,630 | 238,877 | 459,616 | 153,206 |
| Stock options | 195 | 65 | – | – | (195) | (65) |
| Settlement to former SNI shareholders | 433 | 145 | – | – | (433) | (145) |
| New approved capital | – | – | 600,000 | 200,000 | 733,528 | 244,509 |
| Expired capital | – | – | (650,000) | (216,667) | (267,000) | (89,000) |
| **As of September 30, 2004** | **2,673,227** | **891,076** | **666,630** | **222,210** | **925,516** | **308,505** |

**Capital increases**

In fiscal 2004 and 2003, common stock increased by €195 thousand and € – , respectively, through the issuance of 65 thousand and – , shares, respectively, from the conditional capital to service the stock option plans.

In fiscal 2004 and 2003, common stock increased by €433 thousand and €1,477 thousand, respectively, through the issuance of 145 thousand shares and 492 thousand shares, respectively, from the conditional capital as settlement to former shareholders of Siemens Nixdorf Informationssysteme AG (SNI AG).

**Authorized and conditional capital**

On September 30, 2004, the authorized but unissued capital of the Company totaled €667 or 222,210 thousand common shares.

On September 30, 2003, the authorized but unissued capital of the Company totaled €717 or 238,877 thousand common shares.

Authorized Capital 2001/I of €400 (representing 133 million shares) and Authorized Capital 2003 of €250 (representing 83 million shares) were replaced by resolution of the Annual Shareholders' Meeting on January 22, 2004. The Company's shareholders authorized the Managing Board with the approval of the Supervisory Board to increase the capital stock by up to €600 through the issuance of up to 200 million new shares against cash contributions and/or contributions in kind (Authorized Capital 2004). The Managing Board is authorized to determine, with the approval of the Supervisory Board, the further content of the rights embodied in the shares and the conditions of the share issue. The Managing Board is authorized, with the approval of the Supervisory Board, to exclude pre-emptive rights of shareholders in the event of capital increases against contributions in kind and in certain pre-stipulated circumstances against cash. The Authorized Capital 2004 will expire on January 21, 2009.

By resolution of the Annual Shareholders' Meeting on January 22, 2004, Conditional Capital 2003 of €267 (representing 89 million shares) was terminated. The Company's shareholders authorized the Managing Board to issue bonds in an aggregate principal amount of up to €11,250 with conversion rights (convertible bonds) or with warrants entitling the holders to subscribe to up to 200 million new shares of Siemens AG, representing a pro rata amount of up to €600 of the capital stock. Since the Conditional Capital 2003 has partly been utilized, the new Conditional Capital 2004 permits the issuance of shares under the new authorization and the issuance of shares to service bonds issued under the old authorization. Therefore, total Conditional Capital 2004 allows the issuance of up to €734 representing 244,509 thousand shares of Siemens AG. The authorization will expire on January 21, 2009.

Authorized Capital 1998 of €90 and Authorized Capital 1999 of €210 were replaced by resolution of the Annual Shareholders' Meeting on January 23, 2003. The Company's shareholders authorized the Managing Board with the approval of the Supervisory Board to increase the common stock by up to €250 through the issuance of up to 83,333,334 shares for which the shareholders' pre-emptive rights are excluded since these shares will be issued against contribution in kind (Authorized Capital 2003). The Authorized Capital 2003 was to expire on January 22, 2008. As mentioned above, Authorized Capital 2003 was replaced by resolution of the Annual Shareholders' Meeting on January 22, 2004.

By resolution of the Annual Shareholders' Meeting on January 23, 2003, the Managing Board is authorized to issue bonds in an aggregate principal amount of up to €5 billion with conversion rights (convertible bonds) or with warrants entitling the holders to subscribe to new shares of Siemens AG. The authorization will expire on December 31, 2007. The shareholders also approved conditional share capital of €267 for the issuance of up to 89,000,000 shares to service the exercise of the conversion or option rights of holders of these convertible bonds or warrants attached to these bonds (Conditional Capital 2003). As mentioned above, Conditional Capital 2003 was terminated by resolution of the Annual Shareholders' Meeting on January 22, 2004.

As of September 30, 2004 and 2003 conditional capital of €0.6 and €1, respectively, provides for the settlement offered to former shareholders of SNI AG who had not tendered their SNI share certificates.

Conditional capital to service the 2001 and 1999 Siemens Stock Option Plan amounts to €191 and €192 as of September 30, 2004 and 2003.

Conditional capital provided to service the issuance of bonds with conversion rights or warrants amounts to €734 and €267 as of September 30, 2004 and 2003.

**Treasury stock**

On January 22, 2004, the Company's shareholders authorized the Company to repurchase up to 10% of the €2,673 common stock.

In fiscal 2004, Siemens repurchased a total of 1,702,776 shares (representing €5 or 0.2% of common stock) at an average price of €62.24 per share in addition to the 1,184 shares of treasury stock held at beginning of the fiscal year. Of these shares, 1,703,710 (representing €5 or 0.2% of common stock) were sold to employees. The majority of these shares was sold to employees at a preferential price of €40.90 per share during the second quarter of fiscal 2004. As of September 30, 2004, 250 shares of stock remained in treasury with a carrying amount of €15 thousand.

On January 23, 2003, the Company's shareholders authorized the Company to repurchase up to 10% of the €2,671 common stock.

In fiscal 2003, Siemens repurchased a total of 2,903,150 shares (representing €9 or 0.3% of common stock) at an average price of €43.84 per share in addition to the 49,864 shares of treasury stock held at beginning of the fiscal year. Of these shares, 2,951,830 (representing €9 or 0.3% of common stock) were sold to employees. The majority of these shares was sold to employees at a preferential price of €29 per share during the second quarter of fiscal 2003. As of September 30, 2003, 1,184 shares of stock remained in treasury with a carrying amount of €52 thousand.

(in millions of €, except where otherwise stated and per share amounts)

### Accumulated other comprehensive income (loss)

The changes in the components of other comprehensive income are as follows:

| | Year ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | | 2003 | | |
| | Pretax | Tax effect | Net | Pretax | Tax effect | Net |
| Changes in unrealized gains (losses) on securities: | | | | | | |
| Unrealized holding gains (losses) for the period | 218 | (79) | 139 | 334 | (87) | 247 |
| Reclassification adjustments for (gains) losses included in net income | (75) | 13 | (62) | 25 | (4) | 21 |
| Net unrealized gains (losses) on available-for-sale securities | 143 | (66) | 77 | 359 | (91) | 268 |
| Changes in unrealized gains (losses) on derivative financial instruments: | | | | | | |
| Unrealized gains (losses) on derivative financial instruments | 73 | (33) | 40 | 179 | (68) | 111 |
| Reclassification adjustments for (gains) losses included in net income | (111) | 43 | (68) | (141) | 54 | (87) |
| Net unrealized gains (losses) on derivative financial instruments | (38) | 10 | (28) | 38 | (14) | 24 |
| Minimum pension liability | 1,397 | (532) | 865 | (1,477) | 499 | (978) |
| Foreign-currency translation adjustment | (249) | – | (249) | (695) | – | (695) |
| | **1,253** | **(588)** | **665** | **(1,775)** | **394** | **(1,381)** |

### Miscellaneous

Under the German Stock Corporation Act, the amount of dividends available for distribution to shareholders is based upon the earnings of Siemens AG as reported in its statutory financial statements determined in accordance with the German Commercial Code (Handelsgesetzbuch). During the fiscal year ended September 30, 2004, Siemens AG management distributed an ordinary dividend of €978 (€1.10 per share) of the 2003 earnings of Siemens AG as a dividend to its shareholders. During the year ended September 30, 2003, Siemens AG management distributed €888 (€1.00 per share) of the 2002 earnings of Siemens AG as a dividend to its shareholders.

## 24 Commitments and contingencies

### Guarantees and other commitments

The following table presents the undiscounted amount of maximum potential future payments for each major group of guarantee:

| | September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Guarantees | | |
| Credit guarantees | 341 | 515 |
| Guarantees of third-party performance | 370 | 559 |
| Other guarantees | 525 | 704 |
| | **1,236** | **1,778** |

(in millions of €, except where otherwise stated and per share amounts)

*Credit guarantees* cover the financial obligations of third parties in cases where Siemens is the vendor and/or contractual partner. These guarantees generally provide that in the event of default or non-payment by the primary debtor, Siemens will be required to pay such financial obligations. In addition, Siemens provides credit guarantees generally as credit-line guarantees with variable utilization to associated and related companies. The maximum amount of these guarantees is subject to the outstanding balance of the credit or, in case where a credit line is subject to variable utilization, the nominal amount of the credit line. These guarantees usually have terms of between one year and five years. Except for statutory recourse provisions against the primary debtor, credit guarantees are generally not subject to additional contractual recourse provisions. As of September 30, 2004 and 2003, the Company has accrued €82 and €125, respectively, relating to credit guarantees.

Furthermore, Siemens issues *Guarantees of third-party performance*, which include performance bonds and guarantees of advanced payments in cases where Siemens is the general or subsidiary partner in a consortium. In the event of non-fulfillment of contractual obligations by the consortium partner(s), Siemens will be required to pay up to an agreed-upon maximum amount. These agreements span the term of the contract, typically ranging from three months to five years. Generally, consortium agreements provide for fallback guarantees as a recourse provision among the consortium partners. No significant liability has been recognized in connection with these guarantees.

*Other guarantees* include indemnifications issued in connection with dispositions of business entities. Such indemnifications protect the buyer from tax, legal and other risks related to the purchased business entity. As of September 30, 2004 and 2003, the total accruals for Other guarantees amounted to €156 and €196, respectively.

As of September 30, 2004, future payment obligations under non-cancellable operating leases are as follows:

| | |
|---|---|
| 2005 | 628 |
| 2006 | 494 |
| 2007 | 399 |
| 2008 | 311 |
| 2009 | 258 |
| Thereafter | 773 |

Total operating rental expense for the years ended September 30, 2004 and 2003 was €769 and €530, respectively.

As of September 30, 2004 and 2003, the Company has commitments to make capital contributions of €212 and €256, respectively, to other companies.

The Company is jointly and severally liable and has capital contribution obligations as a partner in companies formed under the German Civil Code (BGB), through which it has executed profit-and-loss transfer agreements with other companies as a partner in commercial partnerships and in a European Economic Interest Grouping (EEIG) and as a participant in various consortiums.

Siemens AG and its subsidiaries have been named as defendants in various legal actions and proceedings arising in connection with their activities as a global diversified group. Some of the legal actions include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. In the ordinary course of business, Siemens may also be involved in investigations and administrative and governmental proceedings. Given the number of legal actions and other proceedings to which Siemens is subject, some may result in adverse decisions. Siemens believes it has defenses to the actions and contests them when appropriate. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Siemens often cannot predict what the eventual loss or range of loss related to such matters will be. Although the final resolution of such matters could have a material effect on Siemens' consolidated operating results for any reporting period in which an adverse decision is rendered, Siemens believes that its consolidated financial position should not be materially affected.

## 25 Derivative instruments and hedging activities

As part of the Company's risk management program, a variety of derivative financial instruments are used to reduce risks resulting primarily from fluctuations in foreign-currency exchange rates and interest rates, as well as to reduce credit risks. The following is a summary of Siemens' risk management strategies and the effect of these strategies on the Consolidated Financial Statements.

### Foreign currency exchange risk management

Siemens' significant international operations expose the Company to significant foreign-currency exchange risks in the ordinary course of business. The Company employs various strategies discussed below involving the use of derivative financial instruments to mitigate or eliminate certain of those exposures.

### Derivative financial instruments not designated as hedges

The Company manages its risks associated with fluctuations in foreign-currency-denominated receivables, payables, debt, firm commitments and anticipated transactions primarily through a Company-wide portfolio approach. This approach concentrates the associated Company-wide risks centrally, and various derivative financial instruments, primarily foreign exchange contracts and, to a lesser extent, interest rate and cross-currency interest rate swaps and options, are utilized to minimize such risks. Such a strategy does not qualify for hedge accounting treatment under SFAS 133. Accordingly, all such derivative financial instruments are recorded at fair value on the Consolidated Balance Sheets as either an *Other current asset* or *Other current liability* and changes in fair values are charged to earnings.

The Company also has foreign-currency derivative instruments, which are embedded in certain sale and purchase contracts denominated in a currency other than the functional currency of the significant parties to the contract, principally the U.S. dollar. Gains or losses relating to such embedded foreign-currency derivatives are reported in Cost of sales in the Consolidated Statements of Income.

**Hedging activities**

The Company's operating units applied hedge accounting for certain significant anticipated transactions and firm commitments denominated in foreign currencies. Specifically, the Company entered into foreign exchange contracts to reduce the risk of variability of future cash flows resulting from forecasted sales and purchases and firm commitments resulting from its business units entering into long-term contracts (project business) which are denominated primarily in U.S. dollars.

**Cash flow hedges** – Changes in fair value of forward exchange contracts that were designated as foreign-currency cash flow hedges are recorded in *AOCI* as a separate component of shareholders' equity. During the years ended September 30, 2004 and 2003, net gains of €21 and €40, respectively, were reclassified from *AOCI* into cost of sales because the occurrence of the related hedged forecasted transaction was no longer probable. During the years ended September 30, 2004 and 2003, net gains of €1 and €5, respectively, were recognized in cost of sales representing hedge ineffectiveness of derivative contracts.

It is expected that €64 of net deferred gains in *AOCI* will be reclassified into earnings during the year ended September 30, 2005 when the hedged forecasted foreign-currency denominated sales and purchases occur.

As of September 30, 2004, the maximum length of time over which the Company is hedging its future cash flows associated with foreign-currency forecasted transactions is 58 months.

**Fair value hedges** – As of September 30, 2004 and 2003, the Company hedged firm commitments using forward exchange contracts that were designated as foreign-currency fair value hedges of future sales related primarily to the Company's project business and, to a lesser extent, purchases. As of September 30, 2004 and 2003, the hedging transactions resulted in the recognition of an *Other current asset* of €20 and €21, respectively and *Other current liability* of €33 and €25, respectively for the hedged firm commitments, whose changes in fair value were charged to cost of sales. Changes in fair value of the derivative contracts were also recorded in cost of sales. During the year ended September 30, 2003, a net loss of €13 was recognized in cost of sales because the hedged firm commitment no longer qualified as a fair value hedge. No such gains or losses were recorded in fiscal 2004. During the year ended September 30, 2004, a net gain of €1 representing hedge ineffectiveness was recognized in cost of sales. No such gains and losses were recorded in fiscal 2003.

**Interest rate risk management**

Interest rate risk arises from the sensitivity of financial assets and liabilities to changes in market rates of interest. The Company seeks to mitigate such risk by entering into interest rate derivative financial instruments such as interest rate swaps, options and, to a lesser extent, cross-currency interest rate swaps and interest rate futures.

Interest rate swap agreements are used to adjust the proportion of total debt, and to a lesser extent interest-bearing investments, that are subject to variable and fixed interest rates. Under an interest rate swap agreement, the Company either agrees to pay an amount equal to a specified variable rate of interest times a notional principal amount, and to receive in return an amount equal to a specified fixed rate of interest times the same notional principal amount or, vice-versa, to receive a variable-rate amount and to pay a fixed-rate amount. The notional amounts of the contracts are not exchanged. No other cash payments are made unless the agreement is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract.

**Derivative financial instruments not designated as hedges**
The Company uses a portfolio-based approach to manage its interest rate risk associated with certain interest-bearing assets and liabilities, primarily interest-bearing investments and debt obligations. This approach focuses on mismatches in the structure of the interest terms of these assets and liabilities without referring to specific assets or liabilities. Such a strategy does not qualify for hedge accounting treatment under SFAS 133. Accordingly, all interest rate derivative instruments used in this strategy are recorded at fair value as either an Other current asset or Other current liability and changes in the fair values are charged to earnings.

**Fair value hedges of fixed-rate debt obligations**
Under the interest rate swap agreements outstanding during the years ended September 30, 2004 and 2003, the Company agrees to pay a variable rate of interest multiplied by a notional principle amount, and receive in return an amount equal to a specified fixed rate of interest multiplied by the same notional principal amount. These interest rate swap agreements offset an impact of future changes in interest rates on the fair value of the underlying fixed-rate debt obligations. The interest rate swap contracts are reflected at fair value in the Company's Consolidated Balance Sheet and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its carrying amount plus an adjustment representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of interest rates swap contracts, and the offsetting changes in the adjusted carrying amount of the related portion of fixed-rate debt being hedged, are recognized as adjustments to the line item *Income (expense) from financial assets and marketable securities*, net in the Consolidated Statements of Income. Net cash receipts and payments relating to such interest rate swap agreements are recorded to interest expense.

The Company had interest rate swap contracts to pay variable rates of interest (average rate of 2.3% as of September 30, 2004 and 2003) and received fixed rates of interest (average rate of 4.9% as of September 30, 2004 and 2003). The notional amount of indebtedness hedged as of September 30, 2004 and 2003 was €4,746 and €5,153, respectively. This resulted in 55% and 52% of the Company's underlying notes and bonds being subject to variable interest rates as of September 30, 2004 and 2003, respectively. The notional amounts of these contracts mature at varying dates based on the maturity of the underlying hedged items. The net fair value of interest rate swap contracts used to hedge indebtedness as of September 30, 2004 and 2003 was €251 and €309, respectively. During the years ended September 30, 2004 and 2003, net gains of €15 and €13, respectively, on the interest rate swaps were recognized in *Income (expense) from financial assets and marketable securities, net* representing hedge ineffectiveness.

**Cash flow hedges of revolving term deposits**
During the year ended September 30, 2004, the Company applied cash flow hedge accounting for a revolving term deposit. Under the interest rate swap agreements entered, the Company agrees to pay a variable rate of interest multiplied by a notional principle amount, and to receive in return an amount equal to a specified fixed rate of interest multiplied by the same notional principal amount. These interest rate swap agreements offset the effect of future changes in interest payments of the underlying variable-rate term deposit. The interest rate swap contracts are reflected at fair value and the effective portion of changes in fair value of the interest rate swap contracts that were designated as cash flow hedges are recorded in AOCI as a separate component of shareholders' equity. During the year ended September 30, 2004, there was no hedge ineffectiveness.

**Credit risk management**
Siemens Financial Services uses credit default swaps to protect from credit risks stemming from its receivables purchase business. The credit default swaps are classified as derivatives under SFAS 133.

## 26 Fair value of financial instruments

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. In determining the fair values of the derivative financial instruments, certain compensating effects from underlying transactions (e.g., firm commitments and anticipated transactions) are not taken into consideration.

**Derivative financial instruments**
The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings.

**Derivative interest rate contracts** – The fair values of derivative interest rate contracts (e.g., interest rate swap agreements) are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. Interest rate options are valued on the basis of quoted market prices or on estimates based on option pricing models.

**Derivative currency contracts** – The fair value of forward foreign exchange contracts is based on forward exchange rates. Currency options are valued on the basis of quoted market prices or on estimates based on option pricing models.

**Credit default swaps** – The fair value of credit default swaps is calculated by comparing discounted expected future cash flows using current bank conditions with discounted expected future cash flows using contracted conditions.

As of September 30, 2004 and 2003, the fair value of derivative financial instruments amounted to €489 and €757, respectively, which was recorded on the Consolidated Balance Sheets in *Other current assets* amounting to €693 and €1,020, respectively, and *Other current liabilities* in the amount of €204 and €263, respectively.

(in millions of €, except where otherwise stated and per share amounts)

**Non-derivative financial instruments**
The fair values for non-derivative financial instruments are determined as follows: Fair value of cash and cash equivalents, short-term receivables, accounts payable, additional liabilities and commercial papers and borrowings under revolving credit facilities approximate their carrying amount due to the short-term maturities of these instruments.

**Financial assets and securities**
Fair values for marketable securities and publicly traded long-term equity investments are derived from quoted market prices. It is not practicable to estimate the fair value of the Company's long-term investments which are not publicly traded, as there are no readily available market prices. The following table presents the fair value (if readily available) and carrying amount of long-term investments:

| | September 30, 2004 | 2003 |
|---|---|---|
| Fair value | 4,293 | 7,049 |
| Carrying amount | 4,122 | 5,992 |

**Financing receivables**
Long-term fixed-rate and variable-rate receivables are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As of September 30, 2004 and 2003, the carrying amounts of such receivables, net of allowances, approximates their fair value.

**Debt**
The fair value of debt is estimated by discounting future cash flows using rates currently available for debt of similar terms and remaining maturities. As of September 30, 2004 and 2003, the fair value and carrying amount of debt is as follows:

| | September 30, 2004 | 2003 |
|---|---|---|
| Fair value | 11,663 | 13,533 |
| Carrying amount | 11,219 | 13,178 |

## 27 Stock-based compensation

As of October 1, 2003, the Company adopted the fair value recognition provisions of SFAS 123, *Accounting for Stock-Based Compensation* using the prospective method set forth in SFAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* for all awards granted, modified or settled after October 1, 2003. Awards granted before October 1, 2003 continue to be accounted for under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations.

**Description of plans – 1999 Siemens Stock Option Plan**

As part of a stock option plan for members of the Managing Board, executive officers and other eligible employees, the Company's shareholders authorized the Managing Board on February 18, 1999 to distribute non-transferable options exercisable for up to an aggregate of 10 million common shares. The authority to distribute options under this plan would have originally expired on February 18, 2004. With the ratification by Siemens shareholders of the 2001 Siemens Stock Option Plan (further details see below), the 1999 Siemens Stock Option Plan (the 1999 Plan) has been terminated and further options have not been granted.

Under the 1999 Plan, the exercise price is equal to the average market price of Siemens' stock during the five days preceding the date the options were granted. The options are exercisable within the five years following a holding period of two years if Siemens AG stock price outperforms the Dow Jones Stoxx-Index by at least two percentage points on five consecutive days. This percentage applies to the first year of the five-year option exercise period, and increases by 0.5 percentage points in each subsequent year. As a result of such performance requirements, the plan has been accounted for as a variable plan under APB Opinion No. 25.

The terms of the plan allow the Company, at its discretion upon exercise of the option, to offer optionees settlement of the options in either newly issued shares of common stock of Siemens AG from the Conditional Capital reserved for this purpose, treasury stock or cash. The alternatives offered to optionees are determined by the Managing Board in each case as approved by the Supervisory Board. Compensation in cash shall be equal to the difference between the exercise price and the average market price of the Company's stock on the five trading days preceding the exercise of the stock options.

**Description of plans – 2001 Siemens Stock Option Plan**

At the Annual Shareholders' Meeting on February 22, 2001, shareholders authorized Siemens AG to establish the 2001 Siemens Stock Option Plan, making available up to 55 million options. Compared to the 1999 Plan, the number of eligible recipients is significantly larger. The option grants are subject to a two-year vesting period, after which they may be exercised for a period of up to three years. The exercise price is equal to 120% of the reference price, which corresponds to the average opening market price of Siemens AG during the five trading days preceding the date of the stock option grant. However, an option may only be exercised if the trading price of the Company's shares reaches a performance target which is equal to the exercise price at least once during the life of the option. The terms of the plan allow the Company, at its discretion upon exercise of the option, to offer optionees settlement of the options in either newly issued shares of common stock of Siemens AG from the Conditional Capital reserved for this purpose, treasury stock or cash. The alternatives offered to optionees are determined by the Managing Board in each case as approved by the Supervisory Board. Compensation in cash shall be equal to the difference between the exercise price and the opening market price of the Company's stock on the day of exercising the stock options. As a result of its design, the new plan has no income effect under APB Opinion No. 25 in the case of settlement in shares due to the fact that the exercise price is also the performance target. Any settlements in cash would be recorded as compensation expense.

(in millions of €, except where otherwise stated and per share amounts)

Stock options may be granted within a period of 30 days after publication of the results for the fiscal year or quarter then ended. The Supervisory Board decides how many options to grant to the Managing Board, and the Managing Board decides how many options to grant to executive officers and other eligible employees. Option grants to members of the Managing Board may only be made once annually after the close of the fiscal year.

The issue of stock options to members of the Managing Board on or after October 1, 2003, is subject to the proviso that the Supervisory Board may restrict the stock option exercise in the event of extraordinary, unforeseen changes in the market price of the Siemens share. Those restrictions may reduce the number of options exerciseable by each Board Member, provide for an exercise in cash for a constricted amount only, or suspend the exercise of the option until the extraordinary effects on the share price have ceased. The fair value of the awards has not been adjusted for effects resulting from such restrictions. Reasonable estimates cannot be made until it is probable that such adverse events will occur. Since it is not possible to reasonably estimate the fair value of those options at the grant date, compensation costs are determined based on the current intrinsic value of the option until the date at which the number of shares to which a Board member is entitled and the exercise price are determinable. Upon that date, fair value will be determined in accordance with the fair value recognition provisions of SFAS 123, Accounting for Stock-Based Compensation based on an appropriate fair value option pricing model.

In November 2003, the Supervisory Board and Managing Board granted options to 5,625 key executives for 8,678,752 shares with an exercise price of €73.25 of which options for 262,500 shares were granted to the Managing Board. In November 2002, the Supervisory Board and Managing Board granted options to 5,814 key executives for 9,397,005 shares with an exercise price of €53.70 of which options for 345,000 shares were granted to the Managing Board.

| | Year ended September 30, 2004 | | Year ended September 30, 2003 | |
|---|---|---|---|---|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Outstanding, beginning of period | 20,410,876 | €69.82 | 11,648,767 | €82.85 |
| Granted | 8,678,752 | €73.25 | 9,397,005 | €53.70 |
| Options exercised | (65,063) | €57.73 | – | – |
| Options forfeited | (970,239) | €71.18 | (634,896) | €70.28 |
| **Outstanding, end of period** | **28,054,326** | **€70.86** | **20,410,876** | **€69.82** |
| Exercisable, end of period | 10,804,159 | €82.91 | 4,573,058 | €76.36 |

(in millions of €, except where otherwise stated and per share amounts)

The following table summarizes information on stock options outstanding and exercisable at September 30, 2004:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Exercise prices | Options outstanding | Weighted average remaining life (years) | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| €53.70 | 8,764,835 | 3 | €53.70 | – | – |
| €57.73 | 1,477,522 | 2 | €57.73 | 1,477,522 | €57.73 |
| €73.25 | 8,485,332 | 4 | €73.25 | – | – |
| €86.23 | 2,875,434 | 3 | €86.23 | 2,875,434 | €86.23 |
| €87.19 | 6,451,203 | 2 | €87.19 | 6,451,203 | €87.19 |

**Fair value information**

The Company's determination of the fair value of grants is based on a Black-Scholes option pricing model. The fair value of grants made during the years ended September 30, 2004 and 2003, are as follows:

| | Assumptions at grant date | |
|---|---|---|
| | 2004 | 2003 |
| Risk-free interest rate | 3.22% | 3.31% |
| Expected dividend yield | 1.80% | 2.23% |
| Expected volatility | 31.85% | 53.49% |
| Expected option life | 3 yrs. | 3 yrs. |
| Estimated weighted average fair value per option | €9.62 | €9.80 |
| Fair value of total options granted during fiscal year | €81 | €92 |

The Black-Scholes option valuation model was developed for use in estimating the fair values of options that have no vesting restrictions. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options may have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option.

**Employee share purchase plan**

During the years ended September 30, 2004 and 2003, the Company incurred compensation expense (before income taxes) of €35 and €46, respectively, related to the sale of repurchased shares to employees.

**Stock appreciation rights**

Supervisory Board members receive stock appreciation rights under the same conditions as the Siemens Stock Option Plans (for further information see Note 29).

Additionally, where local regulations restrict the grants of stock options in certain jurisdictions, the Company grants stock appreciation rights to employees. In fiscal 2004, 206,050 stock appreciation rights, which allow settlement in cash only, were granted at an exercise price of €73.25 under the same conditions as the 2001 Siemens Stock Option Plan. In fiscal 2004, 7,200 stock appreciation rights were forfeited resulting in 198,850 stock appreciation rights outstanding as of September 30, 2004.

(in millions of €, except where otherwise stated and per share amounts)

## 28 Personnel costs

| | Year ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Wages and salaries | 20,553 | 20,740 |
| Statutory social welfare contributions and expenses for optional support payments | 3,465 | 3,573 |
| Expenses relating to pension plans and employee benefits | 1,422 | 1,439 |
| | **25,440** | **25,752** |

The average number of employees in fiscal year 2004 and 2003 was 419,200 and 419,300, respectively. Part-time employees are included on a proportionate basis rather than being counted as full units. The employees were engaged in the following activities:

| | September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Manufacturing | 186,300 | 184,900 |
| Sales and marketing | 139,400 | 132,100 |
| Research and development | 43,600 | 45,700 |
| Administration and general services | 49,900 | 56,600 |
| | **419,200** | **419,300** |

## 29 Additional information relating to Board members

The following remuneration regarding the stock-based compensation of the Supervisory and Managing Boards was recorded in the respective fiscal year and is dependent on the applied accounting principles relevant for that year. As of October 1, 2003, Siemens adopted the fair value recognition provisions of SFAS No. 123 for all awards granted after this date. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the service period under the fair value recognition provisions of SFAS No. 123. For stock options issued before October 1, 2003, the Company has elected to apply APB Opinion No. 25 and related Interpretations.

In accordance with the related accounting principles the valuation of Stock Appreciation Rights (SAR's) granted to members of the Supervisory Board is based on the intrinsic value at fiscal year-end. Stock options awarded to members of the Managing Board under the 1999 Siemens Stock Option Plan are also recorded at their intrinsic value. Stock options granted under the 2001 Siemens Stock Option Plan before October 1, 2003, have no income effect upon the occurrence of share settlement. Due to a cap placed on stock options granted to Managing Board members for stock options granted after October 1, 2003, their valuation also depends on their intrinsic value.

### Supervisory Board

The remuneration of members of the Supervisory Board was set at the Annual Shareholders' Meeting through shareholder approval of a proposal by the Managing and Supervisory Boards and set out in § 17 of the Articles of Association of Siemens AG. The remuneration includes a fixed component, a variable, dividend-dependent component and a stock-based compensation component. Accordingly, the fixed compensation of each Supervisory Board member is € 6 thousand, and the dividend-dependent compensation is € 3.5 thousand for each 5 cent dividend distributed per share in excess of 20 cent. The Chairman of the Supervisory Board receives twice the standard compensation rate of an ordinary member and each Deputy Chairman receives 1.5 times the standard compensation rate. The Chairman of the Audit Committee receives an additional 100 percent and each remaining member of the Audit Committee an additional 50 percent of the standard compensation rate. In addition, each member of the Supervisory Board receives annually 1,500 SAR's granted and exercisable on the same terms as options issued under the Siemens stock option plan in effect.

The fixed component of the remuneration of the members of the Supervisory Board amounts to €0.2 and €0.2 for the years ended September 30, 2004 and 2003, respectively. The variable component amounts to €1.8 (fiscal 2003: €1.6) at a dividend rate of €1.25 per share.

In November 2003, each member of the Supervisory Board received 1,500 SAR's granted under the same conditions as under the 2001 Siemens Stock Option Plan, which had a fair value as of the grant date of €9.62 per SAR totaling €0.3 in fiscal 2004 (fiscal 2003: €9.80 per SAR totaling €0.3), determined using the Black-Scholes option pricing model. Since the intrinsic value was zero for all SAR's outstanding at the end of September 30, 2004 and 2003, no compensation cost for the stock-based compensation of members of the Supervisory Board was recognized in the reported fiscal years.

Including the stock-based compensation expense the total remuneration of the members of the Supervisory Board amounts to €2.0 and €1.8 for the years ended September 30, 2004 and 2003, respectively.

An existing agreement with Mr. Peter von Siemens was renewed after the Annual Shareholders' Meeting 2003 with unchanged terms and conditions under which Mr. Peter von Siemens, as a member of the founder's family, is entitled to reimbursement of expenses and the provision of a company car and secretarial services for representing the Company at official events in Germany and abroad and in various associations.

During the last two fiscal years there have been no loans outstanding to members of the Supervisory Board.

**Managing Board**

The Chairman's Committee of the Supervisory Board is responsible for determining the remuneration of the members of the Managing Board. The remuneration takes into consideration the Company's size and global presence, its economical and financial position, and the level and structure of the managing board compensation at peer group companies in Germany and abroad. Furthermore, the remuneration is performance related and has three components: a fixed compensation, a variable bonus, and a stock-based compensation. A significant portion of the goals for the members of the Corporate Executive Committee is tied to company-wide EVA performance while for the remaining members of the Managing Board their financial goals depend primarily on the performance of the Group led by them. One-half of the variable bonus is paid as an annual bonus while the other half is granted as a long-term bonus (LT bonus). The annual bonus is contingent upon achieving the EVA target established for the fiscal year. The LT bonus depends on the average attainment of EVA targets over a three-year period. As additional stock-based compensation, members of the Managing Board receive stock options under the Siemens stock option plans authorized by the Annual Shareholders' Meeting and stock awards. The number granted for each member of the Managing Board is performance-related and determined annually. For further information relating to the conditions of the Siemens stock option plans, see Note 27.

(in millions of €, except where otherwise stated and per share amounts)

The remuneration of the Managing Board comprised the following:

| | 2004 | 2003 |
|---|---|---|
| **Cash compensation** | | |
| thereof salary | 8.5 | 6.5 |
| thereof annual bonus(1) | 10.9 | 12.6 |
| thereof LT bonus cash portion(1) | 6.4 | 7.2 |
| thereof other(2) | 1.0 | 1.2 |
| **Stock-based compensation** | | |
| thereof stock awards from LT bonus(1) | 3.9 | 0.7 |
| thereof other stock awards(1) | – | – |
| thereof stock options | 0.1 | – |
| **Total** | **30.8** | **28.2** |

(1) Annual bonus and LT-bonus are recorded in income of the fiscal year in which members of the Managing Board have rendered the related service. Since fiscal year 2003, only a part of the LT-bonus is paid in cash. The remainder is granted in the form of a commitment to transfer shares of Siemens AG (stock awards) which will be settled four years after the commitment is made. Under the stock award agreement, the eligible grantees will receive a corresponding number of Siemens shares without additional payment. Other stock awards will be granted to members of the Managing Board first in fiscal year 2005.
(2) Non-cash benefits in the form of company cars, subsidized insurance, accommodation and moving expenses.

In fiscal year 2004 and 2003, the members of the Managing Board received 262,500 and 345,000, respectively, stock options under the 2001 Siemens Stock Option Plan. The fair value per option at grant date calculated using the Black-Scholes option pricing model was €9.62 totaling €2.5 in fiscal 2004 and €9.80 totaling €3.4 in fiscal 2003. Since the LT-bonus is partly settled in the form of a commitment to transfer shares, 70,592 and 11,717 stock awards were granted for fiscal year 2004 and 2003, respectively.

**Pension commitments.** Pension commitments up to and including fiscal year 2004, were made on a defined benefit basis, corresponding to a percentage to the fixed compensation component.

With the realignment of the German pension plan of Siemens AG into a new plan (BSAV), whose benefits are based largely on contributions made by the Company, the present system of defined benefits for Managing Board members was replaced with effect from October 1, 2004 by a contribution-based system. Benefits earned until September 30, 2004 are not affected. The amount of the contributions for the BSAV is determined by the Chairman's Committee of the Supervisory Board.

Pension commitments to current members of the Managing Board are covered by Siemens AG. As of September 30, 2004 and 2003, accruals of €46.3 and €42.3, respectively, have been recorded. Such amounts are included in the amounts disclosed in Note 21.

Former members of the Managing Board and their surviving dependents received pensions and transitional payments of €13.5 and €12.5 for the years ended September 30, 2004 and 2003, respectively. Members of the Managing Board who were appointed to the Managing Board before October 1, 2002, have the contractually accorded right to receive transitional payments after leaving the Managing Board. The transitional payments generally amount to the fixed salary of the year of resignation and the average of variable bonus paid for the last three fiscal years before resignation. In single cases, the transitional payments equal a one-year target compensation. If a member of the Managing Board resigns early from office, the member has the right to receive a severance payment which amounts to the target compensation for the remaining contractual term of office.

Pension commitments to former members of the Managing Board and their surviving dependents are also covered by Siemens AG. As of September 30, 2004 and 2003, accruals of €102.2 and €106.4, respectively, have been recorded. Such amounts are included in the amounts disclosed in Note 21.

In the past two years there have been no loans outstanding to members of the Managing Board.

**Stock ownership by members of the Managing and Supervisory Boards**

As of October 15, 2004, members of the Managing Board held 1,000,014 Siemens shares and stock options on Siemens shares, representing 0.112% percent of the capital stock of Siemens AG. On October 15, 2004, members of the Supervisory Board held 18,824 Siemens shares and stock options on Siemens shares, representing 0.002 percent of the capital stock of Siemens AG. These figures do not include 16,364,977 shares, or 1.8 percent of the capital stock, that are held by the von Siemens-Vermögensverwaltungs GmbH (vSV) – a German limited liability entity that functions much like a trust – and 38,685,250 shares, or some 4.3 percent of the capital stock, over which the vSV has voting control under a power of attorney. Mr. Peter von Siemens is authorized to vote these shares as a representative of the founder's family.

Pursuant to § 15a of the German Securities Trading Act (WpHG) (in effect during the reporting period), members of the Managing and Supervisory Boards were required to disclose significant purchases or sales of shares of Siemens AG. In fiscal 2004, no such transactions were reported.

**Directors and officers (D&O) liability insurance**

The members of the governing bodies of Siemens AG and all board members of its domestic and foreign subsidiaries are indemnified by Siemens AG or its subsidiaries against third-party liability claims to the extent permissible by law. For this purpose, the Company provides a group insurance policy for board and committee members and employees of the Siemens organization which is taken out for one year and renewed annually. The insurance covers the personal liability of the insured in the case of a financial loss associated to employment functions. There is no deductible in terms of Section 3.8, paragraph 2, of the German Corporate Governance Code. It is not considered appropriate in the case of a group insurance policy to differentiate between members of the Supervisory and Managing Boards of Siemens AG and high-level personnel of its subsidiaries. Furthermore, such a deductible is not common practice outside of Germany.

**Related party transactions**

Certain of the Managing and Supervisory board members of Siemens AG hold or in the last fiscal year have held positions of significant responsibility with other entities. The Company has relationships with almost all of these entities in the ordinary course of business, whereby it buys and sells a wide variety of products and services at arm's length. Significant are the relationships with Deutsche Bank AG. Dr. Josef Ackermann is the Spokesman of the Managing Board of Deutsche Bank AG. The Company's transactions with Deutsche Bank AG include securities underwritings, other investment banking services, and credit, money market and foreign exchange business.

The members of the Managing Board of Siemens AG are listed on page 180 of this Annual Report, and the Supervisory Board members are named on page 178.

### 30 Earnings per share

| (shares in thousands) | Year ended September 30, 2004 | 2003 |
|---|---|---|
| Net income | 3,405 | 2,445 |
| Plus: interest on dilutive convertible debt securities | 21 | – |
| Net income plus effect of assumed conversion | 3,426 | 2,445 |
| Weighted average shares outstanding – basic | 890,705 | 889,988 |
| Effect of dilutive convertible debt securities and stock options | 45,510 | – |
| Weighted average shares outstanding – diluted | 936,215 | 889,988 |
| Basic earnings per share | 3.82 | 2.75 |
| Diluted earnings per share | 3.66 | 2.75 |

In June 2003, the Company issued €2.5 billion of convertible notes (see Note 20). The conversion condition was met in the first quarter of fiscal 2004, and the dilutive effect of potential common shares has been incorporated in determining diluted earnings per share.

Fiscal 2003 earnings per share amounts are reported after cumulative effects of a change in accounting principle. Basic earnings per share and diluted earnings per share before cumulative effects of a change in accounting principle amounted to €2.71 and €2.71, respectively, for the year ended September 30, 2003.

### 31 Segment information

Siemens has fifteen reportable segments (referred to as “Groups”) reported among the components used in Siemens’ financial statement presentation (see Note 1). The Groups are organized based on the nature of products and services provided.

Within the **Operations** component, Siemens has thirteen Groups which involve manufacturing, industrial and commercial goods, solutions and services in areas more or less related to Siemens origins in the electrical business. Also included in **Operations** are operating activities not associated with a Group, which are reported under *Other Operations* (see below) as well as other reconciling items discussed in *Reconciliation to financial statements* below.

The **Financing and Real Estate** component includes the Groups SFS and SRE. The **Eliminations, reclassifications and Corporate Treasury** component separately reports the consolidation of transactions among **Operations** and **Financing and Real Estate** as well as certain reclassifications and the activities of the Company’s Corporate Treasury.

The accounting policies of these components, as well as the Groups included, are generally the same as those used for **Siemens worldwide** and are described in the Summary of significant accounting policies (Note 2). Corporate overhead is generally not allocated to segments. Intersegment transactions are generally based on market prices.

New orders are determined principally as the estimated sales value of accepted purchase orders and order value changes and adjustments, excluding letters of intent.

**Operations**

The Managing Board is responsible for assessing the performance of the **Operations** Groups. The Company's profitability measure for its **Operations** Groups is earnings before financing interest, certain pension costs, and income taxes (Group profit) as determined by the Managing Board as the chief operating decision maker (see discussion below). Group profit excludes various categories of items which are not allocated to the Groups since the Managing Board does not regard such items as indicative of the Groups' performance. Group profit represents a performance measure focused on operational success excluding the effects of capital market financing issues.

Financing interest is any interest income or expense other than interest income related to receivables from customers, from cash allocated to the Groups and interest expense on payables to suppliers. Financing interest is excluded from Group profit because decision-making regarding financing is typically made centrally by Corporate Treasury.

Similarly, decision-making regarding essential pension items is done centrally. As a consequence, Group profit includes only amounts related to the service cost of pension plans, while all other pension related costs (including charges for the German pension insurance association and plan administration costs) are included in the line item *Corporate items, pensions and eliminations*. Until September 30, 2003, only service costs of foreign pension plans were allocated to the Groups. Beginning October 1, 2003, management decided to also allocate directly attributable service costs of domestic pension plans to the Groups. Group profit of the **Operations** Groups and Income before income taxes of **Financing and Real Estate** as well as the line item *Corporate items, pensions and eliminations* would have amounted to €5,170, €361, and €(1,382), respectively, had the corresponding €175 service costs of domestic pension plans not been allocated to the Groups in fiscal 2004.

Furthermore, income taxes are excluded from Group profit since tax expense is subject to legal structures which typically do not correspond to the structure of the **Operations** Groups.

The Managing Board also determined Net capital employed as additional information to assess the capital intensity of the **Operations** Groups. Its definition corresponds with the Group profit measure. Net capital employed is based on total assets excluding intracompany financing receivables and intracompany investments and tax related assets, as the corresponding positions are excluded from Group profit (Asset-based adjustments). The remaining assets are reduced by non-interest bearing liabilities other than tax related liabilities (e.g. accounts payable) and certain accruals (Liability-based adjustments) to derive Net capital employed. The reconciliation of total assets to Net capital employed is presented below.

*Other Operations* primarily refers to operating activities not associated with a Group and certain centrally-held equity investments (such as BSH Bosch und Siemens Hausgeräte GmbH), but excluding the equity investment in Infineon, which is not considered under an operating perspective since Siemens intends to divest its remaining interest in Infineon over time. In January 2004, the Company sold 150 million shares of Infineon (see Note 3, 5, 9 and 13).

(in millions of €, except where otherwise stated and per share amounts)

**Reconciliation to financial statements**

*Reconciliation to financial statements* includes items which are excluded from definition of Group profit as well as costs of corporate headquarters.

*Corporate items* includes corporate charges such as personnel costs for corporate headquarters, the results of corporate-related derivative activities as well as corporate projects and non-operating investments including, up to the second quarter of fiscal 2004, the Company's share of earnings (losses) from the equity investment in Infineon as well as goodwill impairment related to L&A (see Note 14). Because the impaired businesses were acquired at the corporate level as part of the Company's Atecs Mannesmann transaction, the resulting goodwill impairment was taken centrally. *Pensions* include the Company's pension related income (expenses) not allocated to the Groups. *Eliminations* represent the consolidation of transactions within the **Operations** component.

*Corporate items, pensions and eliminations* in the column *Group profit* consists of:

| | Year ended September 30, | |
|---|---|---|
| | 2004 | 2003 |
| Corporate items | (450) | (747) |
| Pensions | (730) | (828) |
| Eliminations | (27) | (1) |
| | **(1,207)** | **(1,576)** |

In fiscal 2004, *Corporate items* include a pre-tax gain of €590 from the sale of Infineon shares (see Note 3, 5 and 13), €14 representing the Company's at-equity share in the net income generated by Infineon and impairment charges at L&A of €433. In fiscal 2003, *Corporate items* include €170, representing Siemens' at-equity share in the net loss incurred by Infineon. Fiscal 2003 also includes the positive resolution of an arbitration proceeding.

*Pensions* declined primarily due to service costs of domestic pension plans directly attributable to the Groups which were reported in *Corporate items* in the prior year and allocated to the Groups in fiscal 2004. This decline in *Pensions* was largely offset by higher amortization of unrecognized net losses. Pensions for fiscal 2003 were negatively affected by changes in pension trust net asset values and lower return assumptions. In addition, fiscal 2003 was impacted by increased amortization expense primarily related to the underfunding of the Company's pension trusts. For more information related to the Company's pension plans, see Note 21.

*Other interest expense* of Operations relates primarily to interest paid on debt and corporate financing transactions through Corporate Treasury.

(in millions of €, except where otherwise stated and per share amounts)

The following table reconciles total assets of the **Operations** component to Net capital employed of the **Operations** Groups as disclosed in *Segment Information* according to the above definition:

| | September 30, 2004 | September 30, 2003 |
|---|---|---|
| Total assets of **Operations** | 67,927 | 64,475 |
| Asset-based adjustments | | |
| Intracompany financing receivables and investments | (13,534) | (11,931) |
| Tax related assets | (4,889) | (4,373) |
| Liability-based adjustments | | |
| Pension plans and similar commitments | (4,392) | (5,813) |
| Accruals | (6,125) | (6,022) |
| Liabilities to third parties | (20,881) | (20,394) |
| Total adjustments (line item *Other assets related reconciling items* within the *Segment Information table*) | (49,821) | (48,533) |
| Net capital employed of *Corporate items, pensions and eliminations* | 3,116 | 3,781 |
| **Net capital employed of Operations Groups** | **21,222** | **19,723** |

**Financing and Real Estate**

The Company's performance measurement for its **Financing and Real Estate** Groups is *Income before income taxes*. In contrast to the performance measurement used for the **Operations** Groups, interest expense and income is an important source of revenue and expense for **Financing and Real Estate**.

For the years ended September 30, 2004 and 2003, *Income before income taxes* at SFS includes interest revenue of €422 and €445, respectively, and interest expense of €223 and €253, respectively. In addition, *Income before income taxes* includes earnings from equity investees for the years ended September 30, 2004 and 2003 of €42 and €60, respectively.

For the years ended September 30, 2004 and 2003, *Income before income taxes* at SRE includes interest revenue of €8 and €9, respectively, and interest expense of €93 and €105, respectively.

**Eliminations, reclassifications and Corporate Treasury**

*Income before income taxes* consists primarily of interest income due to cash management activities, corporate finance, and certain currency and interest rate derivative instruments. For the fiscal year ended September 30, 2003, *Income before income taxes* also includes a gain of €35 from the repurchase and the retirement of €1,440 notional amount of the Siemens Nederland N.V. 1.0% exchangeable notes.

**Description of business segments**

The **Operations** Groups are comprised of the following businesses:

**Information and Communication Networks (ICN)** – ICN develops, manufactures and sells comprehensive public and enterprise communication systems, including related hardware and software, and provides a wide variety of consultancy, maintenance and other services. ICN's worldwide customer base comprises service providers, such as network operators and internet service providers, as well as private companies, ranging from small businesses to large multinational enterprises.

**Information and Communication Mobile (ICM)** – ICM designs, manufactures and sells a broad range of mobile network products and systems and communication devices including mobile, cordless and corded fixed-line telephones.

**Siemens Business Services (SBS)** – SBS provides information and communications services to customers in industry, in the public sector, and in the telecommunications, transport, utilities and finance industries. SBS designs, builds and operates both discrete and large-scale information and communications systems, and provides related maintenance and support services.

**Automation and Drives (A&D)** – A&D produces and installs manufacturing automation systems, drives systems, low voltage controllers and distributors, and process automation products and instrument systems.

**Industrial Solutions and Services (I&S)** – I&S provides a range of facilities systems and services, including general contracting, to raw materials processing companies and infrastructure customers.

**Logistics & Assembly Systems (L&A reported as Siemens Dematic in prior periods)** – L&A supplies logistics and factory automation equipment. It designs, engineers, manufactures and supplies turnkey facilities and the associated components, systems and services for electronic assembly systems, logistics and factory automation equipment as well as postal automation systems.

**Siemens Building Technologies (SBT)** – SBT provides products, systems and services for monitoring and regulating the temperature, safety, electricity, lighting and security of commercial and industrial property.

**Power Generation (PG)** – PG provides customers worldwide with a full range of equipment necessary for the efficient conversion of energy into electricity and heat. It offers a broad range of power plant technology, with activities that include: development and manufacture of key components, equipment, and systems; planning, engineering and construction of new power plants; and comprehensive servicing, retrofitting and modernizing of existing facilities.

**Power Transmission and Distribution (PTD)** – PTD supplies energy utilities and large industrial power users with equipment, systems and services used to process and transmit electrical power to various points along the power transmission network, including end users.

**Transportation Systems (TS)** – TS provides products and services for the rail industry, including signaling and control systems, railway electrification systems, complete heavy rail systems including rapid transit systems, locomotives, light rail systems and other rail vehicles.

**Siemens VDO Automotive (SV)** – SV designs, manufactures and sells integrated electrical, electronic and electromechanical systems and modules and individual components used in automotive applications. Its product range includes components and systems used in automobile powertrains, body electronic systems, safety and chassis systems, electric motor drives, information and cockpit systems, and driver information, communication and multimedia systems.

**Medical Solutions (Med)** – Med develops, manufactures and markets diagnostic and therapeutic systems and devices such as computed tomography, magnetic resonance imagers, ultrasound and radiology devices, and hearing instruments as well as information technology systems for clinical and administrative purposes. It provides technical maintenance, professional and consulting services.

**Osram** – Osram designs, manufactures and sells a full spectrum of lighting products for a variety of applications such as general lighting and automotive, photo-optic and opto-semiconductor lighting.

The **Financing and Real Estate** Groups are comprised of the following two businesses:

**Siemens Financial Services (SFS)** – SFS, the Company's international financial services segment, provides a variety of customized financial solutions both to third parties and to other Siemens business Groups and their customers.

**Siemens Real Estate (SRE)** – SRE owns and manages a substantial part of Siemens' real estate portfolio and offers service portfolio specializing in real estate development projects, real estate disposals, asset management, and lease and service management.

(in millions of €, except where otherwise stated and per share amounts)

### 32 Geographic information

The following table presents data by geographic region as of and for the years ended September 30, 2004, and 2003:

| | Sales by location of customer | | Sales by location of companies | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Germany | 17,073 | 17,100 | 27,470 | 27,123 |
| Europe (other than Germany) | 25,151 | 25,327 | 23,159 | 22,196 |
| U.S. | 13,621 | 15,357 | 13,611 | 15,293 |
| Americas other than U.S. | 4,067 | 3,206 | 3,363 | 2,683 |
| Asia-Pacific | 9,349 | 8,728 | 5,832 | 5,560 |
| Other countries | 5,906 | 4,515 | 1,732 | 1,378 |
| **Siemens worldwide** | **75,167** | **74,233** | **75,167** | **74,233** |

| | Long-lived assets | |
|---|---|---|
| | 2004 | 2003 |
| Germany | 4,190 | 4,340 |
| Europe (other than Germany) | 2,886 | 3,036 |
| U.S. | 2,295 | 2,174 |
| Americas other than U.S. | 455 | 447 |
| Asia-Pacific | 778 | 718 |
| Other countries | 79 | 41 |
| **Siemens worldwide** | **10,683** | **10,756** |

Long-lived assets consist of property, plant and equipment.

(in millions of €, except where otherwise stated and per share amounts)

### 33 Principal accountant fees and services

Fees related to professional services rendered by the Company's principal accountant, KPMG, for the fiscal years 2004 and 2003 were as follows:

| | Year ended September 30, | |
|---|---|---|
| Type of Fees | 2004 | 2003 |
| Audit Fees | 41.9 | 38.9 |
| Audit-Related Fees | 5.9 | 5.3 |
| Tax Fees | 4.2 | 5.4 |
| All Other Fees | 0.9 | 1.2 |
| **Total** | **52.9** | **50.8** |

Audit fees are the aggregate KPMG fees for professional services in connection with the audit of the Company's consolidated annual financial statements, reviews of interim financial statements, as well as audits of statutory financial statements of Siemens AG and its affiliates. Also included in Audit fees are amounts for attestation services in relation to regulatory filings and other compliance requirements. Audit-related fees are fees for accounting advice on actual or contemplated transactions, due diligence engagements related to acquisitions or divestments, attestation regarding compliance with certain agreements, employee benefit plan audits and other agreed-upon procedures. Tax fees are fees for tax advice on actual or contemplated transactions, expatriate employee tax services and transfer pricing studies.

### 34 Subsequent event

In the first quarter of fiscal 2005, the Company made a supplemental cash contribution of €1.5 billion to its pension plans.

**Statement of the Managing Board**

The Managing Board of Siemens AG is responsible for preparing the following consolidated financial statements and management's discussion and analysis.

Siemens employs extensive internal controls, company-wide uniform reporting guidelines and additional measures, including employee training and continuing education, to ensure that its financial reporting is conducted in accordance with accepted accounting principles. The presidents and chief financial officers (CFOs) of the Groups as well as the presidents and CFOs of the Siemens companies have confirmed to us both the correctness of the financial data they have reported to Siemens' corporate headquarters and the functionality of the related monitoring systems. We continually monitor the compliance with these measures and guidelines, and also the functionality and reliability of our internal control system, through a company-wide internal audit process. In addition, we have established a Disclosure Committee that has evaluated all documents to be disclosed as to their completeness and conformity with both the provisions of the Securities and Exchange Act and the rules of the Securities and Exchange Commission (SEC) in the U.S. and reported the results of this evaluation to us.

Our risk management system complies with the requirements of the German Corporation Act (AktG). Our risk management system is designed to enable the Managing Board to recognize potential risks early on and initiate timely countermeasures.

In accordance with the resolution made at the Annual Shareholders' Meeting, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft has audited the consolidated financial statements prepared in accordance with U.S. GAAP and management's discussion and analysis, and issued an unqualified opinion.

Together with the independent auditors, the Supervisory Board has thoroughly examined the consolidated financial statements, management's discussion and analysis, and the independent auditors' report. The result of this examination is included in the Report of the Supervisory Board which begins on page 32 of this Annual Report.

Dr. Heinrich v. Pierer
President and Chief Executive
Officer of Siemens AG

Heinz-Joachim Neubürger
Chief Financial Officer
of Siemens AG

**Independent auditors' report**

The Supervisory Board of Siemens AG:

We have audited the accompanying consolidated balance sheets of Siemens AG and subsidiaries as of September 30, 2004 and 2003, and the related consolidated statements of income, cash flow and changes in shareholders' equity for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Siemens AG and subsidiaries as of September 30, 2004 and 2003, and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, Siemens AG adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" effective October 1, 2002.

Munich, Germany
November 17, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Prof. Dr. Nonnenmacher | v. Heynitz |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

(independent auditors)

# Five-year summary

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Sales and earnings** (in millions of euros) | | | | | |
| Net sales | 75,167 | 74,233 | 84,016 | 87,000 | 77,484 |
| Gross profit on sales | 21,645 | 20,883 | 23,206 | 23,105 | 21,535 |
| Research and development expenses | 5,063 | 5,067 | 5,819 | 6,782 | 5,848 |
| as a percentage of sales | 6.7 | 6.8 | 6.9 | 7.8 | 7.5 |
| Net income | 3,405 | 2,445 | 2,597 | 2,088 | 8,860 |
| **Assets, liabilities and shareholders' equity** (in millions of euros) | | | | | |
| Current assets | 45,946 | 43,489 | 44,062 | 51,013 | 49,091 |
| Current liabilities | 33,372 | 32,028 | 34,712 | 44,524 | 36,855 |
| Debt | 11,219 | 13,178 | 12,346 | 12,610 | 9,338 |
| Long-term debt | 9,785 | 11,433 | 10,243 | 9,973 | 6,734 |
| Net debt(1) | 2,357 | (379) | (751) | (4,017) | 841 |
| Pension plans and similar commitments | 4,392 | 5,843 | 5,326 | 4,721 | 2,473 |
| Shareholders' equity | 26,855 | 23,715 | 23,521 | 23,812 | 28,480 |
| as a percentage of total assets | 34 | 31 | 30 | 26 | 35 |
| Total assets | 79,518 | 77,605 | 77,939 | 90,118 | 81,654 |
| **Cash flows** (in millions of euros) | | | | | |
| Net cash provided by operating activities | 5,080 | 5,712 | 5,564 | 7,016 | 6,154 |
| Amortization, depreciation and impairments | 3,344 | 3,334 | 4,126 | 6,264 | 4,652 |
| Net cash used in investing activities | (1,818) | (3,939) | (810) | (5,886) | (435) |
| Additions to intangible assets, property, plant and equipment | (2,764) | (2,852) | (3,894) | (7,048) | (5,544) |
| Net cash used in financing activities | (3,108) | (487) | (859) | (95) | (1,174) |
| Net increase in cash and cash equivalents | 41 | 953 | 3,394 | 940 | 4,725 |
| **Employees** | | | | | |
| Employees(2) (September 30, in thousands) | 430 | 417 | 426 | 484 | 448 |
| Employee costs (in millions of euros) | 25,440 | 25,752 | 27,195 | 27,102 | 26,601 |

(1) Net debt includes four positions from the Consolidated Balance Sheets: Cash and cash equivalents, Marketable securities, Short-term debt and current maturities of long-term debt and Long-term debt.
(2) Without temporary student workers and trainees.
(3) To be proposed at the Annual Shareholders' Meeting.
(4) XETRA closing prices, Frankfurt.

| **Key capital market data** (in euros, unless otherwise indicated) | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| EVA (in millions of euros) | 1,364 | 449 | 617 | (743) | 7,095 |
| Earnings per share | 3.82 | 2.75 | 2.92 | 2.36 | 9.97 |
| Diluted earnings per share | 3.66 | 2.75 | 2.92 | 2.36 | 9.96 |
| Dividend per share | 1.25[3] | 1.10 | 1.00 | 1.00 | 1.60 |
| Siemens stock price[4] | | | | | |
| High | 68.30 | 58.32 | 78.52 | 105.77 | 127.67 |
| Low | 52.02 | 32.05 | 34.00 | 37.50 | 50.65 |
| Year-end (September 30) | 59.21 | 51.14 | 34.00 | 41.89 | 97.33 |
| Siemens stock performance over prior year (in percentage points) | | | | | |
| Compared to DAX index® | – 1.59 | + 36.34 | + 18.25 | – 19.84 | + 57.88 |
| Compared to Dow Jones STOXX index® | + 0.17 | + 44.81 | + 7.87 | – 28.30 | + 63.95 |
| Number of shares (in millions) | 891 | 891 | 890 | 888 | 883 |
| Market capitalization at period-end (in millions of euros) | 52,761 | 45,559 | 30,273 | 37,208 | 85,939 |
| Credit rating of long-term debt | | | | | |
| Standard & Poor's | AA– | AA– | AA– | AA | AA |
| Moody's | Aa3 | Aa3 | Aa3 | Aa3 | Aa3 |

| **Quarterly data** (in millions of euros) | 2004 | 4th Quarter | 3rd Quarter | 2nd Quarter | 1st Quarter |
|---|---|---|---|---|---|
| Net sales | 75,167 | 20,828 | 18,216 | 17,794 | 18,329 |
| Net income | 3,405 | 654 | 815 | 1,210 | 726 |

| **Quarterly data** (in millions of euros) | 2003 | 4th Quarter | 3rd Quarter | 2nd Quarter | 1st Quarter |
|---|---|---|---|---|---|
| Net sales | 74,233 | 19,778 | 17,380 | 18,230 | 18,845 |
| Net income | 2,445 | 724 | 632 | 568 | 521 |

**Siemens AG – Statement of income and balance sheet***
(condensed version) (in billions of euros)

| Years ended September 30 | 2004 | 2003 |
|---|---|---|
| Net sales | 30.1 | 27.1 |
| Cost of sales | (22.1) | (19.9) |
| Gross profit on sales | 8.0 | 7.2 |
| Other functional costs | (7.9) | (8.0) |
| Other income and expense, net | 2.3 | 1.9 |
| Income before income taxes | 2.4 | 1.1 |
| Income taxes | (0.2) | (0.1) |
| Net income | 2.2 | 1.0 |
| Profit available for distribution | 1.1 | 1.0 |

* Prepared in accordance with the German Commercial Code (HGB).

| As of September 30 | 2004 | 2003 |
|---|---|---|
| Intangibles, property, plant equipment | 1.6 | 1.5 |
| Investments | 37.8 | 37.6 |
| Non-current | 39.4 | 39.1 |
| Inventories | – | – |
| Receivables and prepaid expense | 14.5 | 14.5 |
| Marketable securities, liquid assets | 10.6 | 10.9 |
| Total assets | 64.5 | 64.5 |
| Shareholders' equity | 15.8 | 14.6 |
| Accrued liabilities and special reserves | 18.0 | 17.4 |
| Debt | 0.2 | 0.4 |
| Other liabilities | 30.5 | 32.1 |
| Total shareholders' equity and liabilities | 64.5 | 64.5 |

# Supervisory Board

**Karl-Hermann Baumann, Dr. rer. oec.**
Chairman
Date of birth: 7/22/35
Member since: 2/19/98

Additional positions
German supervisory board positions:
Deutsche Bank AG, Frankfurt/Main
E.ON AG, Düsseldorf
Linde AG, Wiesbaden
Schering AG, Berlin
ThyssenKrupp AG, Düsseldorf

**Ralf Heckmann**
First Deputy Chairman
Chairman of the Central Works Council, Siemens AG
Date of birth: 7/19/49
Member since: 3/24/88

**Josef Ackermann, Dr. oec.**
Second Deputy Chairman
Spokesman of the Board of Managing Directors, Deutsche Bank AG
Date of birth: 2/7/48
Member since: 1/23/03

Additional positions
German supervisory board positions:
Bayer AG, Leverkusen
Linde AG, Wiesbaden
Deutsche Lufthansa AG, Cologne

**Lothar Adler**
Deputy Chairman of the Central Works Council, Siemens AG
Date of birth: 2/22/49
Member since: 1/23/03

**Gerhard Bieletzki**
Member of the Combine Works Council, Siemens AG
Date of birth: 5/16/47
Member since: 1/23/03

Group positions
German supervisory board positions:
Siemens VDO Automotive AG, Munich (Deputy Chairman)

**John David Coombe**
Chief Financial Officer, GlaxoSmithKline plc
Date of birth: 3/17/45
Member since: 1/23/03

**Hildegard Cornudet**
Chairwoman of the Central Works Council, Siemens Business Services GmbH & Co. OHG
Date of birth: 4/16/49
Member since: 4/1/04

**Gerhard Cromme, Dr. jur.**
Chairman of the Supervisory Board, ThyssenKrupp AG
Date of birth: 2/25/43
Member since: 1/23/03

Additional positions
German supervisory board positions:
Allianz AG, Munich
Axel Springer Verlag AG, Berlin
Deutsche Lufthansa AG, Cologne
E.ON AG, Düsseldorf
E.ON Ruhrgas AG, Essen
Hochtief AG, Essen
Volkswagen AG, Wolfsburg
Comparable positions outside Germany:
BNP Paribas S.A., France
SUEZ S.A., France

**Rolf Dittmar** (until 3/31/04)
Member of the Works Council, Munich/Perlach facility, Siemens AG
Date of birth: 10/25/43
Member since: 1/23/03

**Bertin Eichler** (until 6/30/04)
Executive Member of the Board of Management, Finance, IG Metall
Date of birth: 8/27/52
Member since: 11/13/96

Additional positions
German supervisory board positions:
Allgemeine Deutsche Direktbank AG, Frankfurt/Main
BGAG Beteiligungsgesellschaft der Gewerkschaften AG, Frankfurt/Main (Chairman)
BauBeCon Holding AG, Hanover
BHW Holding AG, Hameln
BMW AG, Munich
ThyssenKrupp AG, Düsseldorf

**Birgit Grube**
Office clerk
Date of birth: 8/21/45
Member since: 3/11/93

**Heinz Hawreliuk**
Head of the Company Codetermination Department, IG Metall
Date of birth: 3/20/47
Member since: 4/1/85

Additional positions
German supervisory board positions:
Astrium GmbH, Munich
DaimlerChrysler Aerospace AG, Munich
DaimlerChrysler Luft und Raumfahrt Holding AG, Munich
Eurocopter Deutschland GmbH, Munich
Infineon Technologies AG, Munich

**Berthold Huber**
Deputy Chairman, IG Metall
Date of birth: 2/15/50
Member since: 7/1/04

Additional positions
German supervisory board positions:
Audi AG, Ingolstadt
Heidelberger Druckmaschinen AG, Heidelberg
RWE AG, Essen

**Walter Kröll, Prof. Dr. rer. nat.**
President of Helmholtz-Gemeinschaft Deutscher Forschungszentren e.V.
Date of birth: 5/30/38
Member since: 1/23/03

Additional positions
German supervisory board positions:
MTU Aero Engines GmbH, Munich
Wincor Nixdorf AG, Paderborn

**Wolfgang Müller**
Head of the Siemens Team, IG Metall
Date of birth: 1/14/48
Member since: 1/23/03

Additional positions
German supervisory board positions:
Infineon Technologies AG, Munich

**Georg Nassauer**
Steel casting constructor
Date of birth: 3/8/48
Member since: 3/11/93

**Albrecht Schmidt, Dr. jur.**
Chairman of the Supervisory Board, Bayerische Hypo- und Vereinsbank AG
Date of birth: 3/13/38
Member since: 3/11/93

Additional positions
German supervisory board positions:
Münchener Rückversicherungs-Gesellschaft AG, Munich
Thyssen'sche Handelsgesellschaft m.b.H., Mülheim

**Henning Schulte-Noelle, Dr. jur.**
Chairman of the Supervisory Board, Allianz AG
Date of birth: 8/26/42
Member since: 2/13/97

Additional positions
German supervisory board positions:
E.ON AG, Düsseldorf
ThyssenKrupp AG, Düsseldorf

**Peter von Siemens**
Industrial manager
Date of birth: 8/10/37
Member since: 3/11/93

Additional positions
German supervisory board positions:
Münchener Tierpark Hellabrunn AG, Munich

**Jerry I. Speyer**
President, TishmanSpeyer Properties
Date of birth: 6/23/40
Member since: 7/14/03

**Lord Iain Vallance of Tummel**
Vice Chairman, The Royal Bank of Scotland Group
Date of birth: 5/20/43
Member since: 1/23/03

**Klaus Wigand**
Industrial manager
Date of birth: 11/19/45
Member since: 2/19/98

The Supervisory Board of Siemens AG has 20 members. As stipulated by the German Codetermination Act, half of the members represent Company shareholders, and half represent Company employees. The shareholder representatives were elected at the Annual Shareholders' Meeting on January 23, 2003, and the employee representatives were elected by an assembly of employee delegates on December 5, 2002. The Supervisory Board is elected for five years.

As of September 30, 2004

## Supervisory Board committees

The Supervisory Board of Siemens AG has established four standing committees. Information on their activities in fiscal 2004 is provided on pages 36-37 of this Annual Report.

| Committee | Meetings in FY 2004 | Duties and responsibilities | Members as of Sept. 30, 2004 |
|---|---|---|---|
| Chairman's Committee of the Supervisory Board | 5 plus 10 decisions by notational voting using written circulations | The Chairman's Committee of the Supervisory Board is responsible for reviewing basic issues of business policy and management, especially in matters concerning the Managing Board. The Committee makes recommendations to the Supervisory Board on the appointment and dismissal of Managing Board members and determines the Managing Board's employment and remuneration framework. The Committee executes the contracts of employment with Managing Board members and determines their remuneration as well as the annual amounts of the variable and stock-based components of their compensation. The Committee makes recommendations to the Supervisory Board on the composition of Supervisory Board committees and – through representatives of the shareholders – proposes shareholder candidates for appointment to the Supervisory Board. The Committee decides whether to approve business transactions with Managing Board members and related parties. The Committee's duties include a regular review of the Company's corporate governance principles and formulating proposals to improve the Company's approach to corporate governance issues. | **Karl-Hermann Baumann, Dr. rer. oec. (Chairman)**<br>**Ralf Heckmann**<br>**Josef Ackermann, Dr. oec.** |
| Audit Committee | 5 | The Audit Committee's duties include preparing Supervisory Board reviews of the annual financial statements of Siemens AG and of the consolidated financial statements of Siemens worldwide. The Committee also reviews the quarterly reports and liaises with the internal Financial Audit Department and with the independent auditors (particularly with regard to awarding the audit contract, defining the focal points of the audit, determining the auditors' fee, and monitoring their independence). | **Karl-Hermann Baumann*, Dr. rer. oec. (Chairman)**<br>**Ralf Heckmann**<br>**Josef Ackermann*, Dr. oec.**<br>**Heinz Hawreliuk**<br>**Henning Schulte-Noelle*, Dr. jur.** |
| Mediation Committee, § 31 (3), (5) of the German Codetermination Act | 0 | As stipulated by German law, the Mediation Committee makes recommendations to the Supervisory Board regarding the appointment or revocation of appointment of Managing Board members, if the required two-thirds majority of Supervisory Board member votes is not obtained on the first ballot. | **Karl-Hermann Baumann, Dr. rer. oec. (Chairman)**<br>**Ralf Heckmann**<br>**Josef Ackermann, Dr. oec.**<br>**Heinz Hawreliuk** |
| Ownership Rights Committee, § 32 of the German Codetermination Act | 0<br>6 decisions by notational voting using written circulations | The Ownership Rights Committee is responsible for decisions relating to the exercise of ownership rights resulting from interests in other companies. | **Karl-Hermann Baumann, Dr. rer. oec. (Chairman)**<br>**Josef Ackermann, Dr. oec.**<br>**Albrecht Schmidt, Dr. jur.** |

* Audit Committee financial experts

Further information on corporate governance at Siemens is available at:
**www.siemens.com/corporate_governance**

# Managing Board

**Heinrich v. Pierer, Dr. jur., Dr.-Ing. E. h.**
President and Chief Executive Officer, Siemens AG (until 1/27/05)

Date of birth: 1/26/41
First appointed: 10/1/89
Term expires: 1/27/05

Outside positions

German supervisory board positions:
Bayer AG, Leverkusen
Hochtief AG, Essen
Münchener Rückversicherungs-Gesellschaft AG, Munich
Volkswagen AG, Wolfsburg

Company positions

Comparable positions outside Germany:
Siemens Aktiengesellschaft Österreich, Austria (Chairman)

**Klaus Kleinfeld, Dr. rer. pol.**
Vice President of the Managing Board of Siemens AG

Date of birth: 11/6/57
First appointed: 12/1/02
Term expires: 9/30/07

Outside positions

Comparable positions outside Germany:
Alcoa Inc., USA
The Turner Corporation, USA

**Johannes Feldmayer**
Date of birth: 10/16/56
First appointed: 5/1/03
Term expires: 9/30/07

Company positions

Comparable positions outside Germany:
Siemens AB, Sweden
Siemens A.E., Greece (Chairman)
Siemens A/S, Denmark
Siemens A.Ş., Turkey
Siemens Holdings plc, UK
Siemens Rt., Hungary (Chairman)
Siemens S.A., Belgium
Siemens S.A., Spain (Deputy Chairman)
Siemens S.p.A., Italy (Deputy Chairman)
Siemens s.r.o., Czech Republic (Chairman)

**Thomas Ganswindt**
Date of birth: 11/18/60
First appointed: 12/1/02
Term expires: 9/30/07

Company positions

German supervisory board positions:
Siemens VDO Automotive AG, Munich

Comparable positions outside Germany:
Siemens Ltd., China
Siemens Ltd., Thailand (Chairman)
Siemens Osakeyhtiö, Finland (Deputy Chairman)
Siemens Rt., Hungary
Siemens S.A., Belgium (Chairman)

**Edward G. Krubasik, Prof. Dr. rer. nat.**
Date of birth: 1/19/44
First appointed: 1/1/97
Term expires: 9/30/06

Outside positions

German supervisory board positions:
Dresdner Bank AG, Frankfurt/Main

Company positions

German supervisory board positions:
Siemens VDO Automotive AG, Munich (Chairman)

Comparable positions outside Germany:
Siemens A/S, Norway
Siemens France S.A., France

**Rudi Lamprecht**
Date of birth: 10/12/48
First appointed: 4/26/00
Term expires: 3/31/09

Company positions

German supervisory board positions:
BSH Bosch und Siemens Hausgeräte GmbH, Munich
Osram GmbH, Munich (from 10/1/04)

Comparable positions outside Germany:
Fujitsu Siemens Computers (Holding) BV, The Netherlands (Chairman)
OOO Siemens, Russia

**Heinz-Joachim Neubürger**
Date of birth: 1/11/53
First appointed: 11/5/97
Term expires: 9/30/07

Outside positions

German supervisory board positions:
Allianz Versicherungs-AG, Munich
Bayerische Börse AG, Munich

Comparable positions outside Germany:
Merrill Lynch & Co., Inc., USA

Company positions

Comparable positions outside Germany:
Siemens Corp., USA
Siemens Ltd., China

**Jürgen Radomski, Dr. rer. pol. h.c., Dr. techn. h.c.**
Date of birth: 10/26/41
First appointed: 6/29/94
Term expires: 9/30/06

Outside positions

German supervisory board positions:
Deutsche Krankenversicherung AG, Cologne
Dräger Medical AG, Lübeck

Company positions

German supervisory board positions:
BSH Bosch und Siemens Hausgeräte GmbH, Munich (Deputy Chairman)
Osram GmbH, Munich (Chairman)

Comparable positions outside Germany:
Siemens Aktiengesellschaft Österreich, Austria
Siemens Osakeyhtiö, Finland
Siemens Nederland N.V., The Netherlands
Siemens Schweiz AG, Switzerland (Chairman)

**Erich R. Reinhardt, Prof. Dr.**
Date of birth: 10/3/46
First appointed: 12/1/01
Term expires: 9/30/06

Outside positions

German supervisory board positions:
Bio[M] AG, Munich
Dräger Medical AG, Lübeck

Comparable positions outside Germany:
Siemens Medical Solutions USA, Inc. (Chairman)

**Uriel J. Sharef, Dr. rer. pol.**
Date of birth: 8/19/44
First appointed: 7/26/00
Term expires: 3/31/08

Company positions

Comparable positions outside Germany:
Siemens Canada Ltd., Canada
Siemens Corp., USA (Chairman)
Siemens Israel Ltd., Israel (Chairman)
Siemens Ltda., Brazil
Siemens Power Transmission & Distribution, Inc., USA
Siemens S.A. de C.V., Mexico

**Claus Weyrich, Prof. Dr. phil., Dr.-Ing. E. h.**
Date of birth: 1/6/44
First appointed: 10/1/96
Term expires: 9/30/06

Outside positions

German supervisory board positions:
HERAEUS Holding GmbH, Hanau

Company positions

Comparable positions outside Germany:
Siemens Corporate Research, Inc., USA (Chairman)
Siemens Ltd., China

**Klaus Wucherer, Prof. Dr.-Ing., Dr.-Ing. E.h.**
Date of birth: 7/9/44
First appointed: 8/1/99
Term expires: 3/31/08

Outside positions

German supervisory board positions:
Deutsche Messe AG, Hanover
Infineon Technologies AG, Munich

Company positions

Comparable positions in Germany:
BSH Bosch und Siemens Hausgeräte GmbH, Munich

Comparable positions outside Germany:
Eviop-Tempo A.E., Greece
Siemens Energy & Automation, Inc., USA (Chairman)
Siemens K.K., Japan (Chairman)
Siemens Ltd., China (Chairman)
Siemens Ltd., India
Siemens S.A., Portugal (Chairman)

As of September 30, 2004

Siemens' corporate structure is shown on the foldout inside the back cover.

## Managing Board committees

| Committee | Meetings in FY 2004 | Duties and responsibilities | Members as of Oct. 1, 2004 |
|---|---|---|---|
| Corporate Executive Committee | 63 | The Corporate Executive Committee currently comprises the President of the Managing Board, the heads of Corporate Finance and Corporate Personnel, and seven other Managing Board members elected by the Managing Board. The Corporate Executive Committee has full authority to act for and on behalf of the Managing Board between meetings of the Managing Board. | **Heinrich v. Pierer, Dr. jur., Dr.-Ing. E. h.**<br>**Johannes Feldmayer**<br>**Thomas Ganswindt**<br>**Klaus Kleinfeld, Dr. rer. pol.**<br>**Edward G. Krubasik, Prof. Dr. rer. nat.**<br>**Rudi Lamprecht**<br>**Heinz-Joachim Neubürger**<br>**Jürgen Radomski, Dr. rer. pol. h.c., Dr. techn. h.c.**<br>**Uriel J. Sharef, Dr. rer. pol.**<br>**Klaus Wucherer, Prof. Dr.-Ing., Dr.-Ing. E. h.** |
| Committee Responsible for the Issuance of Employee Stock | 1 | The Committee oversees the utilization of authorized capital in connection with the issuance of employee stock. | **Heinrich v. Pierer, Dr. jur., Dr.-Ing. E. h.**<br>**Heinz-Joachim Neubürger**<br>**Jürgen Radomski, Dr. rer. pol. h.c., Dr. techn. h.c.** |
| Equity Committee | 1 | The Equity Committee is responsible for implementing various capital measures. | **Heinrich v. Pierer, Dr. jur., Dr.-Ing. E. h.**<br>**Heinz-Joachim Neubürger**<br>**Jürgen Radomski, Dr. rer. pol. h.c., Dr. techn. h.c.** |

Further information on corporate governance at Siemens is available at:
**www.siemens.com/corporate_governance**

# Glossary

## A

| | |
|---|---|
| **Accumulated benefit obligation (ABO)** | A measure to determine a company's pension-related "additional minimum liability." The ABO is based on the same computational methodologies as the projected benefit obligation (PBO), except for compensation levels. The ABO applies to past and current compensation levels. It does not incorporate compensation increases. |
| **American Depositary Receipts (ADRs)** | Negotiable share certificates issued by major U.S. banks, related to non-American shares deposited with them. ADRs are generally issued in a ratio of 1:1. |
| **Asset management** | The process of managing corporate assets in order to enhance operational efficiency while minimizing costs and associated risks. |

## B

| | |
|---|---|
| **Backstop facility** | Bank line of credit to provide liquidity support to an organization in the event of unfavorable capital markets. |
| **Benchmarking** | A technique used to compare the products, services, processes and financials within an organization, in relation to "best-in-class" quality in other similar organizations. |
| **Business portfolio** | The aggregate total of business areas in which Siemens is active. |

## C

| | |
|---|---|
| **Captive finance unit** | A financial services unit organized as a business within an industrial enterprise that offers financial solutions primarily to customers of the operating groups of that enterprise. |
| **Cash flow** | The net cash inflow or outflow for a specific time period. |
| **Cash management** | The management of cash and cash equivalents within an organization to optimize financial activities. |
| **Commercial paper** | Short-term loans issued in the open market by companies with strong credit ratings. Maturities typically range from 2 to 270 days. |
| **Consolidated financial statements** | Financial statements that bring together all assets, liabilities, net worth, and operating figures of two or more affiliated companies, as though the business were in fact a single economic entity. Duplications in items are eliminated so that the combined figures do not show more assets and equities than actually exist. |
| **Corporate Treasury** | A corporate function responsible for ensuring the availability of company-wide financing and cash management, including consulting services involving issues of corporate finance, interest rates and currencies, liquidity management and all other questions related to the financial management of operations. |
| **Cost of capital** | The rate that a company must pay for its capital. |

## D

| | |
|---|---|
| **Debt-to-equity ratio** | Total long-term debt divided by total shareholders' equity. This is a measure of leverage – the use of borrowed money to enhance the return on shareholders' equity. The higher the ratio, the greater the leverage. |
| **Deferred taxes** | Assets and liabilities in the balance sheet arising from the different treatment of transactions for financial and tax reporting purposes. |
| **Derivative** | A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond). |

## E

| | |
|---|---|
| **Equity method** | Valuation method used to account for holdings in companies whose business policy can be significantly influenced (associated companies). |
| **EVA** | Short for "economic value added." As a measure, EVA is equal to net operating profit after taxes (NOPAT) less a charge for the capital employed in the business (cost of capital). |
| **Expected long-term rate of return on pension plan assets** | Represents the average rate of earnings expected on plan assets. |

## F

| | |
|---|---|
| **Financing and Real Estate** | The worldwide leasing, lending, financing and real estate activities of Siemens Financial Services (SFS) and Siemens Real Estate (SRE). |
| **Fully diluted** | Earnings per share are fully diluted when they reflect the effects of exercising stock options or warrants or converting convertible securities. |
| **Functional costs** | Functional costs include cost of sales, R&D expenses, marketing and selling expenses, and general administration expenses. |
| **Funded status of a pension plan** | The difference between a pension plan's projected benefit obligation (PBO) and the fair market value of assets designated to the pension plan (plan assets) as of a specific date. |

## G

| | |
|---|---|
| **GASC** | Short for "German Accounting Standards Committee." An independent registered association to develop, among other things, accounting standards for application in the area of consolidated financial reporting. |
| **German GAAP** | Short for "Generally Accepted Accounting Principles in Germany." The accounting concepts, measurements, techniques and standards of presentation used in financial statements in Germany pursuant to the German Commercial Code (HGB). |

| | | |
|---|---|---|
| **Goodwill** | The excess of the fair value of net assets acquired over cost resulting from a business combination accounted for as a purchase. | |
| **Group profit** | Measure of individual Group profit or loss. Earnings before financing interest, certain pension costs and income taxes. | H |
| **Hedging** | A strategy used to minimize exposure to changes in prices, interest rates or exchange rates by means of derivative financial instruments (options, swaps, forward contracts, etc.). | J |
| **Joint venture** | A form of business partnership between two or more companies to engage in a commercial enterprise with mutual sharing of profits and losses. | M |
| **Medium-term note program** | Flexible financing framework providing for the issuance of notes in rotation in the context of a program unrestricted in time (constant issue). The notes may be issued in several tranches, with terms and conditions and time of issue being determined in accordance with then current goals and prevailing market conditions. | |
| **Moody's Investors Service** | Independent rating agency that provides evaluation of securities investment and credit risk. | N |
| **Net capital employed** | Net capital employed is the asset measure used to assess the capital intensity of the Operations Groups. Its definition corresponds with the Group profit measure. | |
| **Net cash from operating and investing activities** | Total of cash provided by (used in) operating and investing activities as determined in the statement of cash flow. | |
| **Net periodic pension cost (NPPC)** | The amount of pension costs recorded in the statement of income. Net periodic pension cost components include service cost, interest cost, expected return on plan assets, amortization of unrecognized prior service cost (if any), gains or losses recognized and amortized after exceeding a certain corridor (if any), amortization of unrecognized initial net obligation and/or initial net asset. | O |
| **Operations** | The most important of the three major components of Siemens. Operations comprises all activities of the Siemens organization worldwide with the exception of Financing and Real Estate and Corporate Treasury. | P |
| **Projected benefit obligation (PBO)** | A measure to determine pension liabilities. The PBO is the actuarial present value as of a specific date of employees' vested and non-vested pension benefits incorporating compensation increases, attributable to employee services performed as of that date. | R |
| **R&D** | Short for "research and development." | |
| **Ratings** | Standardized evaluation of issuers' credit standing and debt instruments, carried out by specialized agencies (such as Standard & Poor's or Moody's Investors Service). | |
| **Risk management** | Systematic process of identifying, assessing and monitoring various financial risk factors and of selecting and implementing measures to handle them. | S |
| **SEC** | Short for "Securities and Exchange Commission." The primary federal agency in the U.S. responsible for regulating the financial reporting practices of most publicly owned corporations in connection with the buying and selling of stocks and bonds. | |
| **Standard & Poor's** | Independent rating agency that provides evaluation of securities investment and credit risk. | |
| **Stock options** | Form of employee incentive and compensation. The employee is given an option to purchase a company's shares if certain targets are met under specified conditions. | U |
| **UMTS** | Short for "Universal Mobile Telecommunications System." Third-generation mobile communications standard that provides broadband services optimized for high-speed data, mobile Internet and applications based on intranets, extranets and mobile multimedia. | |
| **U.S. GAAP** | Short for "United States Generally Accepted Accounting Principles." The accounting concepts, measurements, techniques and standards of presentation applicable to financial statements in the U.S. | V |
| **Volatility** | The degree of fluctuation for a given price or rate, such as a stock price or currency exchange rate. | |

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# Siemens financial calendar*

| | |
|---|---|
| Jan. 27, 2005 | **First-quarter financial report** |
| Jan. 27, 2005 | **Annual Shareholders' Meeting** – Olympiahalle, Munich, 10:00 a.m. |
| Jan. 28, 2005 | **Ex-dividend date** |
| Apr. 27, 2005 | **Second-quarter financial report and Semiannual Press Conference** |
| July 28, 2005 | **Third-quarter financial report** |
| Nov. 10, 2005 | **Preliminary figures for fiscal year / Press conference** |
| Jan. 26, 2006 | **Annual Shareholders' Meeting for fiscal 2005** |

* Provisional. Updates will be posted at: **www.siemens.com/financial_calendar**

# Information resources

**Information on content**

| | |
|---|---|
| Telephone | +49 89 636-33032 (Press Office) |
| | +49 89 636-32474 (Investor Relations) |
| Fax | +49 89 636-32825 (Press Office) |
| | +49 89 636-32830 (Investor Relations) |
| E-mail | press@siemens.com |
| | investorrelations@siemens.com |

**Address**

Wittelsbacherplatz 2
D-80333 Munich
Federal Republic of Germany
Internet: www.siemens.com

This Annual Report is also available in German, French and Spanish. The German and English versions can be downloaded at: www.siemens.com
An abridged Japanese version will be available as of January 2005 at: www.siemens.co.jp

**Additional copies of this Annual Report are available from:**

| | |
|---|---|
| E-mail | siemens@bek-gmbh.de |
| Internet | http://www.siemens.com/order_annualreport |
| Telephone | +49 7237-480024 |
| Fax | +49 7237-1736 |

**Employees may also obtain additional copies from:**

LZF, Fürth-Bislohe

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|---|---|
| Intranet | http://c4bs.spls.de/ |
| Fax | +49 911 654-4271 |
| German | Order no. A19100-F-V63 |
| English | Order no. A19100-F-V63-X-7600 |
| French | Order no. A19100-F-V63-X-7700 |
| Spanish | Order no. A19100-F-V63-X-7800 |

Employees should include postal address and complete company unit designation (Org-ID) when ordering.

In addition to an Annual Report at the end of each fiscal year, Siemens publishes quarterly consolidated financial statements in the form of press releases. Conference calls with journalists and analysts supplement these reports. Two major press conferences – one at mid-year and one at year-end – as well as an annual analyst conference give journalists and analysts additional opportunities to review developments in our businesses. The financial reports for the first three quarters are also complemented by an extensive interim report comprising management's discussion and analysis as well as the consolidated financial statements (with notes). These reports are submitted to the Deutsche Börse (the German stock exchange) and the U.S. Securities and Exchange Commission (SEC), among other organizations. Siemens also provides the SEC with the annual report on Form 20-F. All of these financial reports are available on the Internet at: www.siemens.com/financial_reports



Concept and coordination:
Christoph Wegener
Corporate Communications
E-mail: christoph.wegener@siemens.com

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We would especially like to thank:
Regina Recht (pages 4, 13, 17, 32)
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Other photos:
Osram GmbH (page 25)
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Production:
Publicis KommunikationsAgentur GmbH, GWA, Munich

# Corporate structure

## Managing Board of Siemens AG[1]

**Corporate Executive Committee**

**Heinrich v. Pierer, President and Chief Executive Officer**
Head of CD
Special responsibilities: CC, CT, ECR

**Klaus Kleinfeld, Vice President**

**Heinz-Joachim Neubürger**
Head of CF
Special responsibilities: SFS, SRE

**Jürgen Radomski**
Head of CP
Special responsibilities: Med, MCP

**Johannes Feldmayer**
Special responsibilities: L&A, SBT, CIO, GPL, Europe

**Thomas Ganswindt**
Special responsibilities: Com, SBS

**Edward G. Krubasik**
Special responsibilities: SV
Executive committees: ZVEI, BDI
EU Commission relations

**Rudi Lamprecht**
Special responsibilities: Osram, BSH[2], FSC[2], Africa, Middle East, C.I.S.

## Corporate Departments

**Corporate Development** (CD)
Heinrich v. Pierer
Reinhart Bubendorfer
Herbert Figge
Thomas Frischmuth
Joe Kaeser

**Corporate Finance** (CF)
Heinz-Joachim Neubürger
Paul Hobeck
Peter Moritz
Ralf P. Thomas

**Corporate Personnel** (CP)
Jürgen Radomski
Günther G. Goth
Albrecht Schäfer

**Corporate Technology** (CT)
Claus Weyrich
Winfried Büttner

## Operations

### Information and Communications

**Communications** (Com)
Lothar Pauly
Thorsten Heins
Michael Kutschenreuter
Andy W. Mattes
Anton Hendrik Schaaf

**Siemens Business Services GmbH & Co. OHG** (SBS)
Adrian v. Hammerstein
Jürgen Frischmuth
Bernd Regendantz

### Automation and Control

**Automation and Drives** (A&D)
Helmut Gierse
Anton S. Huber
Alfred Ötsch

**Industrial Solutions and Services** (I&S)
Joergen Ole Haslestad
Bernd Euler
Joachim Möller

**Logistics and Assembly Systems** (L&A)
Johann Löttner
Peter Drexel
Hans-Jörg Grundmann

**Siemens Building Technologies**[3] (SBT)
Heinrich Hiesinger
Vincenzo Giori
Hubert Ovenhausen
Rolf Renz

### Power

**Power Generation** (PG)
Klaus Voges
Ralf Guntermann
Norbert König
Randy H. Zwirn

**Power Transmission and Distribution** (PTD)
Udo Niehage
Pamela Knapp
Hans-Jürgen Schloß

### Transportation

**Transportation Systems** (TS)
Hans M. Schabert
Alfred Frank
Jörn F. Sens
Friedrich Smaxwil

**Siemens VDO Automotive AG** (SV)
Wolfgang Dehen
Klaus Egger
Günter Hauptmann
Reinhard Pinzer

**Regional organization**
Regional Organization Germany (RD), Regional Companies, Representative Offices, agencies

[1] See also pages 13 and 180.
[2] Affiliates: BSH Bosch und Siemens Hausgeräte GmbH, Fujitsu Siemens Computers (Holding) BV
[3] Company unit in Siemens Schweiz AG

**Uriel J. Sharef**
Special responsibilities: PG, PTD, The Americas

**Klaus Wucherer**
Special responsibilities: A&D, I&S, TS, Asia, Australia

**Erich R. Reinhardt**
Head of Med

**Claus Weyrich**
Head of CT

## Corporate Centers

**Corporate Communications**
(CC)
Eberhard Posner

**Corporate Information Office**
(CIO)
Volkhart P. Matthäus

**Global Procurement and Logistics**
(GPL)
Erich Hautz

**Chief Economist/ Corporate Relations**
(ECR)
Bernd Stecher

**Management Consulting Personnel**
(MCP)
Karl-Heinz Sämann

Medical

**Medical Solutions**
(Med)

Erich R. Reinhardt
Hermann Requardt
Götz Steinhardt

Lighting

**Osram GmbH**

Wolf-Dieter Bopst
Jörg Schaefer
Thomas Seeberg

## Financing and Real Estate

**Siemens Financial Services GmbH**
(SFS)

Herbert Lohneiß
Johannes Schmidt

**Siemens Real Estate**
(SRE)

Hartmut Wagner
Karl-Heinz Seibert

As of January 1, 2005

Members of the Supervisory Board are listed on page 178.

“We will ‘Go for Profit and Growth’ again in 2005.”

SIEMENS

Global network of innovation

Siemens Aktiengesellschaft

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