SIEMENS

# Annual Report 2005

# Key figures

| in millions of euros | **2005** [1] | 2004 [1] |
|---|---|---|
| New orders [2] | **83,791** | 75,789 |
| Sales [2] | **75,445** | 70,237 |
| Income from continuing operations | **3,058** | 3,450 |
| Loss from discontinued operations, net of income taxes | **(810)** | (45) |
| Net income | **2,248** | 3,405 |
| Net cash from operating and investing activities [2] | **(1,489)** | 3,015 |
| *therein: Net cash provided by operating activities* | ***4,217*** | *4,704* |
| *Net cash used in investing activities* | ***(5,706)*** | *(1,689)* |
| *Supplemental contributions to pension trusts (included in net cash provided by (used in) operating activities)* | ***(1,496)*** | *(1,255)* |
| *Net proceeds from the sale of Infineon shares (included in net cash provided by (used in) investing activities)* | **–** | *1,794* |
| Research and development expenses [2] | **5,155** | 4,650 |
| Shareholders' equity (September 30) | **27,117** | 26,855 |
| Employees [2] (September 30, in thousands) | **461** | 424 |

(1) Fiscal year from October 1 to September 30
(2) Continuing operations (excluding the discontinued mobile devices activities)

# Contents



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

# Our vision

To continue to grow and deliver sustainable value to our customers

To be one of the largest, most successful companies in the global electrical market, with leading positions in all our businesses

To remain at the forefront of technological progress

To create the greatest possible value for our shareholders

To attract the world's best and brightest with a high-performance culture

To uphold an exacting set of values – including humanity, equal opportunity and strict ethical standards in all our business practices

Dear Shareholders,

Last January, on my first day as President and CEO of Siemens AG, I sent some 500 personal letters to customers around the world. Over the course of the next 100 days, I personally visited more than 100 of these companies. What I learned from our customers is extremely encouraging for our Company. They gave me clear advice on what to continue and what to improve. They confirmed that we have one of the largest, most loyal customer bases in the world and that they rely on us to bring them cutting-edge innovations to keep them a step ahead of their competition and the trends that impact their markets. This customer confidence in Siemens will drive our growth in 2006 and well into the future.

This past year demonstrated that we already have strong growth momentum, but we also have some tough challenges to overcome. What were the highlights?

**Growth accelerated**

New orders climbed to €84 billion, showing 11 percent growth compared with fiscal 2004. We already exceeded our medium-term goal of growing twice as fast as global GDP. Worldwide sales were up 7 percent to €75 billion over the previous year. Growth was especially impressive in the most dynamic regions of the world. In Asia-Pacific, for example, orders were up 23 percent. In the Americas, they were up 19 percent.

**Portfolio further developed**

We divested our loss-making mobile phone business to BenQ, which was the best solution in the interest of customers, employees, and you, our shareholders. We strengthened our portfolio in the field of energy with the acquisitions of VA Technologie and Bonus Energy. The VA Technologie acquisition also boosted our portfolio in the industry sector as did our purchases of Flender and Robicon. By acquiring Photoscan, we broadened our security offerings. In the medical field, our complete acquisition of CTI Molecular Imaging contributed to a significant strengthening of our healthcare business. Myrio and Chantry, both folded into our Communications Group, enlarged our offerings in the fields of home entertainment systems and WLAN solutions for enterprise customers. And with the acquisition of USFilter the year before, we gained a leading position in water and wastewater systems in the U.S., both of which are now being rolled out into other regional markets by our global sales force.

**Earnings on target**

Earnings from continuing operations were €3.1 billion – equal to last year on a comparable basis. If we include the effects of our discontinued and loss-making operations in mobile phones, our net income totaled €2.2 billion.

**Majority of Groups on course**

Ten of our 12 operating Groups, plus Siemens Financial Services – reached, exceeded, or were closing in on their respective margin targets. For the two Groups that continue to face significant challenges, SBS and Com, we are taking decisive action to improve their long-term profitability.

Siemens Business Services faces the challenges of overcapacity, competition and cost pressures, especially in product related services. We have set clear goals and measures to put SBS operationally back on track. A new management team is in place. An ambitious cost-cutting program is underway targeting savings of €1.5 billion in the next two years. And there's a greater focus on higher-value services.

At our Communications Group, even with the divestiture of mobile phones, there's still a continuing need to act. While Mobile Networks' performance remained solid, major steps are still required at Fixed Networks and Enterprise Networks. Com continues to face a number of significant market challenges, including ongoing consolidations among network operators and suppliers as the industry adjusts to fixed/mobile convergence, technologies such as Voice over Internet Protocol (VoIP), as well as substantial market price erosions. To meet these challenges, here too, we have a new management team in place that is working hard to solidify this Group's future.

**Our gameplan: Fit*4*More**

All Groups are following our action plan, which we call Fit4More, with a target completion date of April 2007. It embraces four main pillars:

- **Performance and Portfolio:** We are committed to achieving profitable growth by growing our sales at least twice as fast as global GDP and ensuring that every one of our Groups achieves its margin targets. Strengthening our portfolio is an ongoing process that includes continuous adaptations and acquisitions.
- **Operational Excellence:** We are committed to executing the *top*+ Siemens Management System with its sharp focus on innovation, customer focus and global competitiveness, including finding the most strategic fit in today's ever-changing global value chain.

- **People Excellence:** We are working to create a uniform high-performance culture Company-wide – one that motivates our people to excel at everything they do. After meeting with countless employees worldwide, I know our employees are excited about our people excellence programs. We are also increasing our global talent pool, establishing career tracks for specialists and offering a new curriculum for our Siemens Leadership Program.
- **Corporate Responsibility:** We are committed to being an active and responsible member of every community where we do business worldwide and we've set the goal of becoming best-in-class in corporate governance, business practices, sustainability and corporate citizenship.

**Megatrends: Driving our customers' markets**

Fit*4*More is a short-term plan that sets the foundation for our long-term future as a world-class company in every segment and every activity of our business. Our business is based squarely on opportunities in markets derived from the major megatrends of tomorrow – namely changing demographics and the growth of cities worldwide. We have tremendous contributions to make in both areas.

Today's population of more than six billion will swell to eight billion by 2020 and life expectancy will increase in industrialized countries as well as emerging markets. At the same time, according to the United Nations, for the first time in human history, a majority of humanity will be living in cities by 2007, including in some 20 so-called "megacities" with more than 10 million inhabitants each. In 1975, there were only four such megacities; by 2015 there will be 22.

Both megatrends, working in tandem, will have a significant impact on the world of tomorrow, particularly in the fields of health, water, power, mobility and security as well as in communications, automation and lighting. These areas comprise the traditional businesses of our portfolio. Siemens is uniquely positioned among infrastructure companies worldwide to provide the products, services and solutions necessary to meet these challenges head-on. Here are just a few examples.

In **healthcare**, where reliable and affordable care will be at a premium as populations grow and age, Siemens is already a world-class healthcare leader making important contributions to keep costs down and quality up for patients and providers. Our digital hospitals and electronic healthcare systems are on the cutting-edge; and we're the world's biggest provider of e-health solutions, a business where we generate some €1 billion in annual sales alone.

**Water** will be one of of tomorrow's most critical commodities. Some 1.2 billion people today have no access to potable water, and water consumption will grow worldwide some 40 percent by 2025. The multi-billion annual market for water and wastewater systems globally is huge and Siemens already has a broad spectrum of solutions for the full cycle of water processing – from preparing fresh water, to distributing it, to processing wastewater. Our acquisition of USFilter is already helping us ensure market leadership in this field.

Worldwide demand for **power** is expected to grow some 70 percent by 2020. About 40 percent of this demand will be in developed nations, 60 percent in the developing world. To meet this voracious demand, an intelligent energy mix – including fossil or nuclear fuels and renewable energy sources such as wind, biomass, hydro and geothermal – is needed. In each case, as well as in the reliable transmission of energy without the loss of power, Siemens is already tomorrow's trendsetter in power generation and transmission.

In many industrialized and developing countries – particularly in large megacities – **mobility** is reaching a point of gridlock. For example, it's estimated that the German economy alone loses some €100 billion per year in fuel costs, lost time and additional $CO_2$ emissions due to traffic jams. Each year, Americans spend 3.5 billion hours stuck in traffic. Siemens has the solutions to help in terms of high-performance rail systems, intelligent telematics solutions, fleet management, highway e-payment systems and other innovations to improve people's mobility.

**Security** – in traffic as well as buildings – will continue to grow in importance in urban areas as populations rise, spectators flock to events in mega-stadiums, and airports process ever-growing numbers of passengers. Here, too, Siemens is leading the trends. We're piloting, for example, a cutting-edge biometric passenger recognition system with Lufthansa and have installed an RFID-based system on admissions tickets in Stuttgart, Germany, that speeds up control and prevents misuse.

Siemens' infrastructure solutions position us extremely well to leverage and profit from the megatrends of tomorrow, and these are only a few examples of our power of innovation at work. And today, we're making even stronger inroads now that we're offering our customers our products, services and solutions from *one* source through Siemens One. By bundling our capabilities, we can offer more customers more innovation than ever before.

**Poised to grow**

Along the way to meeting our targets for 2007, the profitability measures we implemented in 2005 will begin showing positive effects in fiscal 2006, but we still face challenges in our information and communications business that will require further attention. On the growth side, we're confident that our Groups are strategically well-positioned for the future. We are in businesses that provide us the opportunity to benefit from megatrends; cutting-edge innovation will allow us to keep one step ahead of our competitors; and an increasing ability to integrate our cross-Group offerings meets our customers' needs for advanced and comprehensive solutions.

I am pleased to report that your company continues its proud past and looks forward to a successful future.

Dr. Klaus Kleinfeld
President and Chief Executive Officer
Siemens AG

# Managing Board of Siemens AG*

Uriel J. Sharef, Dr. rer. pol.

Johannes Feldmayer

Rudi Lamprecht

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

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



* As of January 1, 2006
For further information, see page 222 and back cover foldout.

Klaus Kleinfeld,
Dr. rer. pol.

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

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

Thomas Ganswindt,
Dr. h. c.

Heinz-Joachim Neubürger

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

# Performance and Portfolio

Our business portfolio is focused on growth and profitability. We aim to grow twice as fast as the global economy. That's why – in this age of worldwide megatrends like rapid population growth and increasing urbanization – we're investing in dynamic fields such as healthcare, energy, water, mobility, security and communications. All our businesses have committed themselves to achieving returns comparable to those of the leaders in their industries. We're firmly convinced that Siemens is worth far more than the sum of its parts.

**Stock market information**

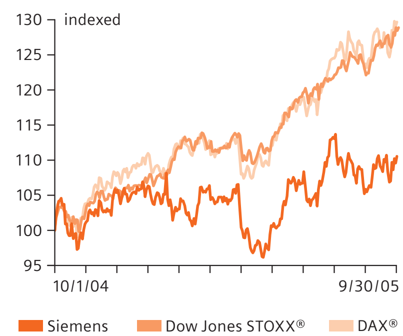
| in euros | **2005**[1] | 2004[1] |
|---|---|---|
| **Stock price range** (XETRA closing prices, Frankfurt) | | |
| **High** | **66.18** | 68.30 |
| **Low** | **56.20** | 52.02 |
| **Year-end** | **64.10** | 59.21 |
| **Number of shares** (year-end, in millions) | **891** | 891 |
| **Market capitalization** (year-end, in millions of euros)[2] | **57,118** | 52,761 |
| **Per-share data** | | |
| **Earnings per share**[3] | **3.43** | 3.87 |
| **Earnings per share** (fully diluted)[3] | **3.29** | 3.71 |
| **Dividend** | **1.35**[4] | 1.25 |

[1] Fiscal year from October 1 to September 30
[2] On the basis of outstanding shares
[3] On the basis of continuing operations
[4] To be proposed at the Annual Shareholders' Meeting

**The Siemens share**

As of September 30, 2005, 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. On September 30, 2005, Siemens shares were listed on all German stock 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 American Depositary Receipts (ADRs), with one ADR corresponding to one Siemens share.

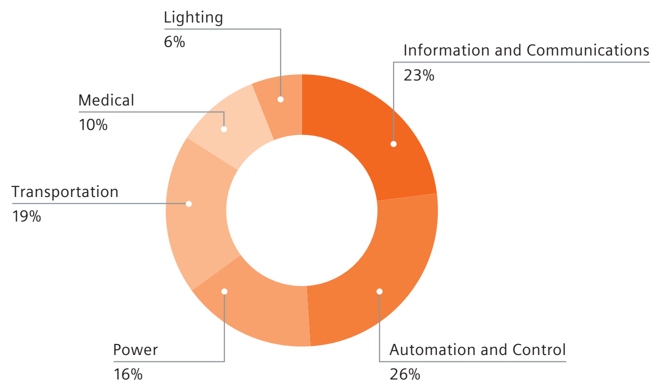



**Investor relations**

Siemens maintains a continuous and open dialogue with its investors. The Company provides comprehensive financial information to its shareholders at the Annual Shareholders' Meeting, in quarterly and annual reports, and in ad hoc press releases. Our Investor Relations Team organizes annual conferences and conference calls at which investors and financial analysts can discuss current Company-related issues with our management. To reach a broader public, these conferences are generally transmitted live on the Internet. The Investor Relations Team also holds hundreds of one-on-one talks with institutional investors to keep them up-to-date on all Company developments. In a number of major surveys, investors and analysts ranked Siemens' capital market communications No. 1 again in fiscal 2005. For further information, please visit our completely revised Investor Relations site at **www.siemens.com**.

## Siemens – A strong portfolio

**Sales by business area**

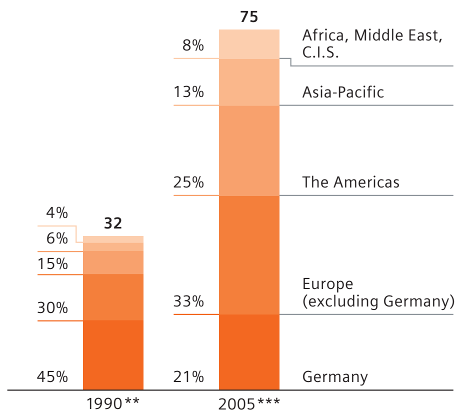



Siemens operates in six business areas. In each area, we implement active portfolio policies to continuously optimize our performance:

- In the Information and Communications area, we have augmented our expertise in key growth fields through the acquisition of specialists like Chantry and Myrio. We are intensifying our focus on systems and solutions for communications infrastructure. As part of this strategy, we sold our mobile devices business to the Taiwanese company BenQ.
- In the Automation and Control area, our Flender and Robicon acquisitions have strengthened our leading position in automation systems. With the acquisition of USFilter, we have entered a new growth field: water.
- Our acquisitions of Bonus Energy (wind power) and VA Technologie AG (power transmission) have further strengthened our portfolio in the Power area. VA Technologie is also supplementing our activities in the industry sector while boosting our presence in Central and Eastern Europe.
- In the Transportation area, we have expanded our automotive systems business, primarily in the Americas and Asia-Pacific.
- The acquisition of CTI Molecular Imaging has strengthened our activities in key growth sectors within the Medical area.
- In the Lighting area, our Osram Group has expanded its product spectrum, particularly in the field of opto semiconductors.

## Regional growth markets – Focus on the Americas and Asia

**Sales by region** (in billions of euros) *




* Sales by location of customer
** Sales as determined under the German Commercial Code
*** Sales as determined under U.S. GAAP

Siemens' total sales have more than doubled since the beginning of the 1990s. This development has resulted in major changes in our regional sales breakdown:

- In absolute terms, sales in Germany have remained virtually unchanged. As a share of total sales, however, they have declined about 50 percent, accounting now for slightly more than 20 percent of the total.
- The other European countries account for more than 30 percent of our business worldwide.
- North and South America now contribute about 25 percent of our global sales.
- Growth in Asia-Pacific, where we now generate substantially more than 10 percent of our total sales, has been particularly strong.
- In the other economic regions, our primary focus is on growth markets in the Middle East and Russia.

# Operational Excellence

Siemens has the tools it needs to manage its businesses successfully in today's fiercely competitive global arena. These tools are part of our *top*+ Siemens Management System, which includes three Company-wide programs: Innovation, Customer Focus and Global Competitiveness. We set clear goals and define concrete measures for each of our operating units – and we reward results.

### Clear goals, concrete measures, definite consequences

Our businesses have a clear orientation: long-term profitable growth. By leveraging our system of unsurpassed tools and sharing our constantly expanding expertise with one another, we made major strides in fiscal 2005. Our *top*+ program – a uniform Company-wide initiative – has been guiding our activities for more than seven years. Clear goals, concrete measures and definite consequences – these are the pillars of our success.
All the tools we use have already demonstrated their effectiveness for our business. Firmly anchored in all of our activities around the world, this proven approach is driving successful *top*+ programs at every level of the Company.

### The *top*+ programs

Our Siemens Management System (SMS) ensures that *top*+ is consistently applied. The three SMS programs – Innovation, Customer Focus and Global Competitiveness – define the issues that will guarantee our continued success in the future.

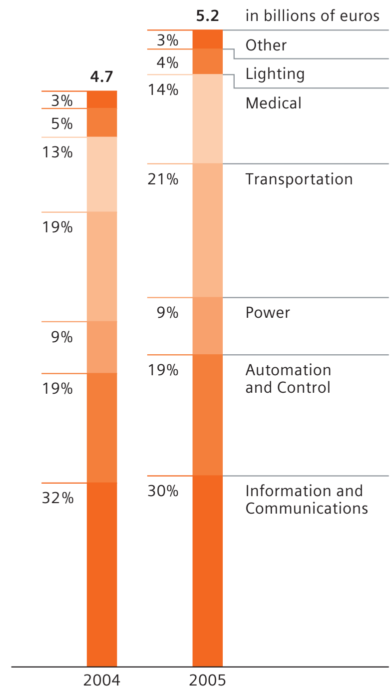
Ever since Siemens was founded in 1847, the power of innovation has been the key to our long-term business success. **Innovation** is what puts us ahead of our competitors and keeps us there.

Our **Customer Focus** program optimizes the partnership between our Groups and new and existing customers, while coordinating cross-Group activities in key market segments. By strengthening cooperation across our vertically organized Groups, we enable customers worldwide to profit from our unparalleled ability to combine a comprehensive array of innovative products and services in order to create complete solutions for complex infrastructure projects like airports, hospitals, sports arenas and integrated security systems.

To meet the demands of rapidly developing markets and businesses, we are constantly increasing our **Global Competitiveness** all along the value chain. True global presence means that all the links – research, hardware and software development, purchasing, manufacturing, service and, of course, sales – are seamlessly networked and optimally coordinated on the basis of efficient vertical and horizontal processes.

## Investments in research and development

Maintaining traditional strengths while driving progress – that's the way to ensure sustainable and profitable growth at a global company like Siemens. In fiscal 2005 – true to our motto of "continuity and change" – we invested €5.2 billion in research and development (R&D) to lay the foundation for successful innovations. We were once again a world leader in R&D outlays in the electronics and electrical engineering industry. Well over half of this investment flowed into software and information and communications technology. Innovative materials and material systems – ranging from nanotechnology and biochips to intelligent sensors and actuators – continue to be top priorities.




Our R&D activities are focused not only on customer needs and market requirements but also on long-term megatrends. The world's population is growing, driving ever-greater urbanization. In industrialized countries in particular, average life expectancy is rising, and natural resources like water and fossil fuels are becoming scarcer. All over the world, traffic volumes are increasing, the number of megacities is growing, and security needs are becoming harder and harder to satisfy. These are the challenges that our broad technology portfolio and our innovations are designed to meet. The integration of cutting-edge technologies – a process effectively supported by our *top*+ innovation programs – is enabling us to offer unique solutions with high customer benefit, while setting the pace in all our business areas. As innovation cycles become shorter and shorter, it is critical to get new products to the market quickly and, above all, at just the right time. We have acted on this realization: more than 75 percent of our sales today are generated by products and solutions less than five years old.

Now spanning the globe, our R&D activities are increasingly concentrated in regions with strong market growth, dynamic innovation and highly qualified people. This has further intensified internationalization: Slightly more than 50 percent of our 47,000 researchers work outside Germany – mainly in other European countries, the Americas and Asia-Pacific.

**www.siemens.com/research_and_development**

**Strategic patent portfolio**

Patents play a vital strategic role in the global competition for customers and market share. Our innovative strength is reflected in a portfolio comprising more than 53,000 patents worldwide as well as in a large number of patent exchange and licensing agreements and patents for standards. This intellectual property provides unrestricted access to all key markets and supports the entire innovation process – to the benefit of our Company and our customers.

In fiscal 2005, our researchers submitted some 8,800 invention reports, roughly seven percent more than in fiscal 2004. We filed patent applications for about two-thirds of these inventions. Siemens' leadership in the international patent statistics is a testimony to our power of innovation. In first-time patent applications, we were No. 1 in Germany, No. 2 in Europe and among the top ten in the United States.

Our competitive position will continue to depend not only on the creativity of our people but also on the strategic management of our patent portfolio. A Company-wide patent initiative is driving our concerted efforts to further strengthen our patent portfolio and leverage it in the face of stiff global competition.

**www.siemens.com/intellectual_property**

# People Excellence

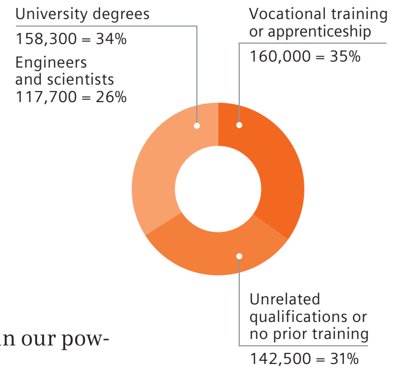
People are the key to our success. Only outstanding employees can empower us to achieve our ambitious long-range goals. To expand our leading positions in business and technology for the benefit of our customers and investors, we recruit the best and brightest people worldwide. Within the Company, we identify and foster highly talented individuals early in their careers – entry-level managers and technology experts who are willing and able to assume more responsibility.

Our personnel policies are geared to attracting, assessing and developing extraordinary individuals. To maximize the value our people create, we not only leverage the knowledge and experience of every single employee but also build high-performance teams across departments, Groups and Regions.

### Performance culture

Sustainable success requires a true performance culture at all our Groups, Regional Companies and Corporate Units. Our intense focus on performance entails comparing ourselves to the industry-best – in terms of orders, innovations, solutions, the efficiency of our processes and, of course, our attractiveness as an employer in the global competition for talent. Our goals – outstanding expertise, continuous development and proactive strategies that anticipate tomorrow's challenges today – are ambitious, and we cannot achieve them without the personal commitment of every employee.

Employee qualifications




To guarantee top performance and long-term customer value, we do everything in our power to attract, recruit and systematically develop exceptional employees. Our business success depends on the energy, enthusiasm and motivation of our people, regardless of where they work in the Company.

### Performance-based compensation

Siemens' top 700 executives are covered by a uniform performance-based remuneration system.

A large part of the remuneration paid to our roughly 6,000 senior managers worldwide is also performance-based. Their income is calculated in terms of categories set out in the Siemens Leadership Framework (SLF) – a comprehensive system for assessing value creation that takes into account not only business success but also factors like personal leadership qualities, customer satisfaction and process excellence. All decisions regarding management compensation are based on a transparent and uniform evaluation of an individual's contribution to Company value. The variable components of remuneration – annual bonuses and stock-based compensation – are also governed by uniform rules.

### Siemens Leadership Excellence

Siemens Leadership Excellence (SLE) is our program to prepare Siemens managers for the challenges of the future. Top executives – including the members of our Managing Board – participate in the program as both mentors and mentees. By equipping managers for their leadership responsibilities, SLE's Siemens-specific curriculum lays the groundwork for the success of individual participants as well as entire business units.

This highly interactive program is providing a solid foundation for our global Company-wide network of ideas and know-how. It is also bringing entry-level managers into contact with senior executives, who serve as career models and coaches.

SLE aims to:

- foster leadership and values
- provide management tools
- encourage the development of new approaches, strategies and tools
- establish a Company-wide network of managers around the world.

### Recognizing top talent

Once a year, as part of our Siemens Management Review, we initiate an intensive process aimed at identifying our most talented employees and actively fostering their further development. In fiscal 2005 alone, we focused on 1,500 employees, many of whom were just embarking on their Siemens careers. The most important part of their development takes place in their immediate work environments – in all Groups and Regions.

### New hires

In fiscal 2005, we hired 61,400 employees worldwide, 31 percent of whom hold university degrees. A full two-thirds (13,800) of our university-trained new hires are engineers and scientists. As these figures attest, we continue to boast an exceptionally well-qualified workforce.

### Opportunities for technology experts

Extending our technology leadership is a key Company goal. To achieve this ambitious objective, we must maintain and strengthen our power of innovation over the long term. That's why we are systematically enhancing the status of our technology experts by offering them attractive career options and giving the best of them a major role in making business decisions. These experts now have advancement opportunities comparable to those of our top junior managers. We're convinced that this approach will enable all our employees to fully develop their potential for innovation while helping us attract and retain the best people on the labor market.

### Worldwide vocational training programs

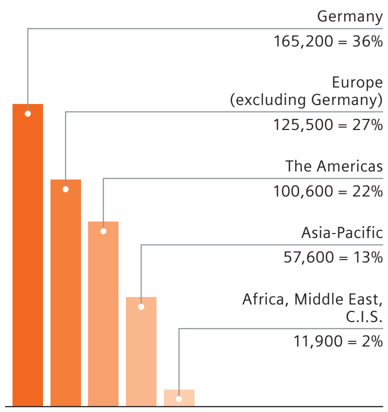
With more than 7,000 apprentices, Siemens is one of Germany's largest private providers of vocational training. In the fall of 2005, as part of our Training Pact for the Future, we created an additional 400 apprenticeships in Germany. We offer a comprehensive range of training programs, preparing young people for new types of jobs in business administration, IT, metalworking and electrical engineering. In addition, we sponsor special programs for high school graduates and work-study projects for university students. Some 3,000 young people from other companies are also enrolled in our training programs.

Siemens is exporting its dual training system, which combines theory and practice, to many of its Regional Companies around the world. Outside Germany, about 4,000 young people are currently enrolled in Siemens apprenticeship programs, which have been adapted to suit country-specific conditions. These programs enable us to maintain an outstanding workforce, which in turn will contribute to the high quality of our products and services.

### Employees worldwide

At the end of fiscal 2005, Siemens had 460,800 employees worldwide. Of this total, more than 60 percent worked outside Germany.

We are active in roughly 190 countries. In fiscal 2005, we again boosted our global presence, particularly in the key growth markets of Asia.



# Corporate Responsibility

We believe that an unwavering commitment to corporate responsibility is vital for our long-term success. That's why we go to great lengths to balance business, ethical, environmental and social concerns in each of the following areas:

- Corporate governance: We are committed to financial transparency, compliance with the financial reporting requirements of German stock corporation law and U.S. capital market regulations, a two-tier management and control structure, and open communication with our shareholders (see also pages 72 – 77 of this Report).
- Business practices: Binding rules and guidelines ensure that our dealings with business partners are ethical and adhere to all relevant legal requirements (see also page 75 of this Report).
- Sustainability: We aim to ensure that our activities today do not jeopardize our opportunities for success tomorrow. That's why our products, solutions and production processes worldwide comply not only with environmental legislation but also with our own environmental regulations.
- Corporate citizenship: We are helping improve the lives of people in all the countries in which we do business. Our involvement encompasses supporting the training and education of young people, addressing social problems, and promoting culture and the arts.

## Sustainability

Our forward-looking commitment to environmental protection is strengthening our business and creating new opportunities. Innovative solutions are needed to meet global challenges such as climate change, the growing demand for energy and the need to conserve natural resources. Reducing environmental burdens has been one of our top priorities for many years. Today, we are a world leader among electrical engineering companies when it comes to minimizing environmental impact.

Energy-saving electric motors, high-efficiency power stations, projects that finance themselves through reduced energy consumption, fuel-saving car engine controls, water analysis systems and energy-saving marine drives are only a few examples of our environmentally compatible technologies. Recent acquisitions have strengthened our market position in the areas of wind power, water treatment and purification, and air pollution controls.

Political initiatives like the emissions trading system introduced by the European Union at the beginning of 2005 are providing us with new business opportunities. Our solutions enable customers to reduce greenhouse emissions, cut costs and benefit from the emissions trading scheme. Very few of our own production facilities are involved in emissions trading.

Our many years of experience have made it easier for us to meet evolving EU requirements. For example, our product recycling know-how has prepared us for new rules requiring the takeback of used electrical equipment. And an in-house standard for ecofriendly product design, which we have continuously updated since its introduction in 1993, has facilitated our compliance with new regulations restricting the use of hazardous materials in products.

## Corporate citizenship

Our commitment to outstanding corporate citizenship is anchored in our Corporate Principles. This commitment has a long tradition at Siemens. Back in the 19th century, our Company's founder, Werner von Siemens, set out to create a corporate culture based on individual responsibility and involvement in the community. Today, corporate citizenship at Siemens has three main pillars: Generation21, which focuses on the education and training of young people; Caring Hands, which bundles our charitable activities; and the Siemens Arts Program, which fosters culture and the arts.

# Generation21

Our Generation21 program – which supports students and future scientists and engineers as well as schools and universities worldwide – aims to stimulate interest in the natural sciences and technology and attract young people to our Company. We nurture gifted students, sponsor awards for outstanding scientific achievements, support partner schools and educational events, and donate teaching materials. The annual Siemens Westinghouse Competition in Math, Science and Technology, which is organized by the Siemens Foundation in the United States, is an important part of Generation21. The Competition awards more than one million dollars in prizes for exceptional student projects in mathematics and the sciences. The Werner von Siemens Excellence Award has been honoring talented science students, primarily in Central and Eastern Europe, since 1997.

Another part of Generation21, our Europe-wide Join Multimedia Student Competition, is now in its tenth year. The aim of the competition, in which secondary school students design and implement informative and entertaining multimedia presentations, is to familiarize young people with today's advanced technologies. In fiscal 2005, around 32,000 students from 36 countries participated.

**www.siemens.com/generation21**

# Caring Hands

Caring Hands is our worldwide program for people in need. Through the volunteer activities of our employees, organized disaster relief, monetary grants, in-kind donations and expert advice, we provide concrete assistance on a local basis.

**Volunteering** is one of the many ways we express our social commitment. Our employees renovate houses for low-income families, provide counseling to at-risk juveniles, collect money, food and gifts for the needy and participate in projects run by non-profit organizations. In the U.S., Siemens presents annual cash prizes for the best volunteer activities.

**Disaster relief**

As an infrastructure company with a worldwide presence, we can respond to natural disasters quickly and unbureaucratically. To aid the victims of the tsunami that struck Southeast Asia in late December 2004 (see page 62 of this Report), we installed mobile water treatment systems, repaired damaged telecommunications equipment and set up a mobile radio communications center. By the end of March 2005, Siemens employees and retirees worldwide had made cash donations of more than €2.1 million. Including matching funds provided by the Company, we raised a total of €4.7 million for tsunami relief. With this money, Siemens Caring Hands e.V. – in cooperation with other charities – built schools, health centers and community facilities in the disaster zone. We also raised money and carried out relief measures following Hurricane Katrina, which devastated the U.S. Gulf Coast in late August 2005. These activities were coordinated by Siemens Corporation in the U.S. – which matched employee contributions and supplied water treatment systems, medical equipment and power generators to the areas affected. By the end of fiscal 2005, the Company and its employees had raised about $2.8 million for the storm's victims.

**www.siemens.com/responsibility**

We help people help themselves, wherever they are. In Germany, for instance, 170 employees of Siemens Management Consulting (SMC) helped construct a children's home for the Albert-Schweizer-Familienwerk foundation. In China, 36 employees set up a school library. In 2003, we launched a program to encourage employees in Germany to become supporting members of UNICEF. Their regular contributions are used to provide food, water, vaccinations and elementary education for children all around the world. To date, we have transferred employee donations totaling €820,000, and we are now planning to set up similar UNICEF support programs in other countries.

## Culture and the arts

By championing culture and the arts, Siemens is helping unleash the power of creativity throughout society. We sponsor cultural events – for example, at the Salzburg Festival. We also work through the Siemens family foundations and the Siemens Arts Program, with its focus on contemporary art and artists. The Arts Program Team has, among other things, launched a Corporate Cultural Responsibility Project to compile and communicate information on other companies' involvement in the cultural sphere. This year, we also commissioned five contemporary composers to produce works for performance on period instruments by the Freiburger Barockorchester. These works had their worldwide premiere at the Lucerne Festival in 2005.

**www.siemens.com/artsprogram**

# Group Presidents*

**Helmut Gierse**
A&D

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

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

**Christoph Kollatz, Dr. rer. pol.**
SBS

**Thomas Ganswindt, Dr. h. c.**
Com

**Hans M. Schabert**
TS



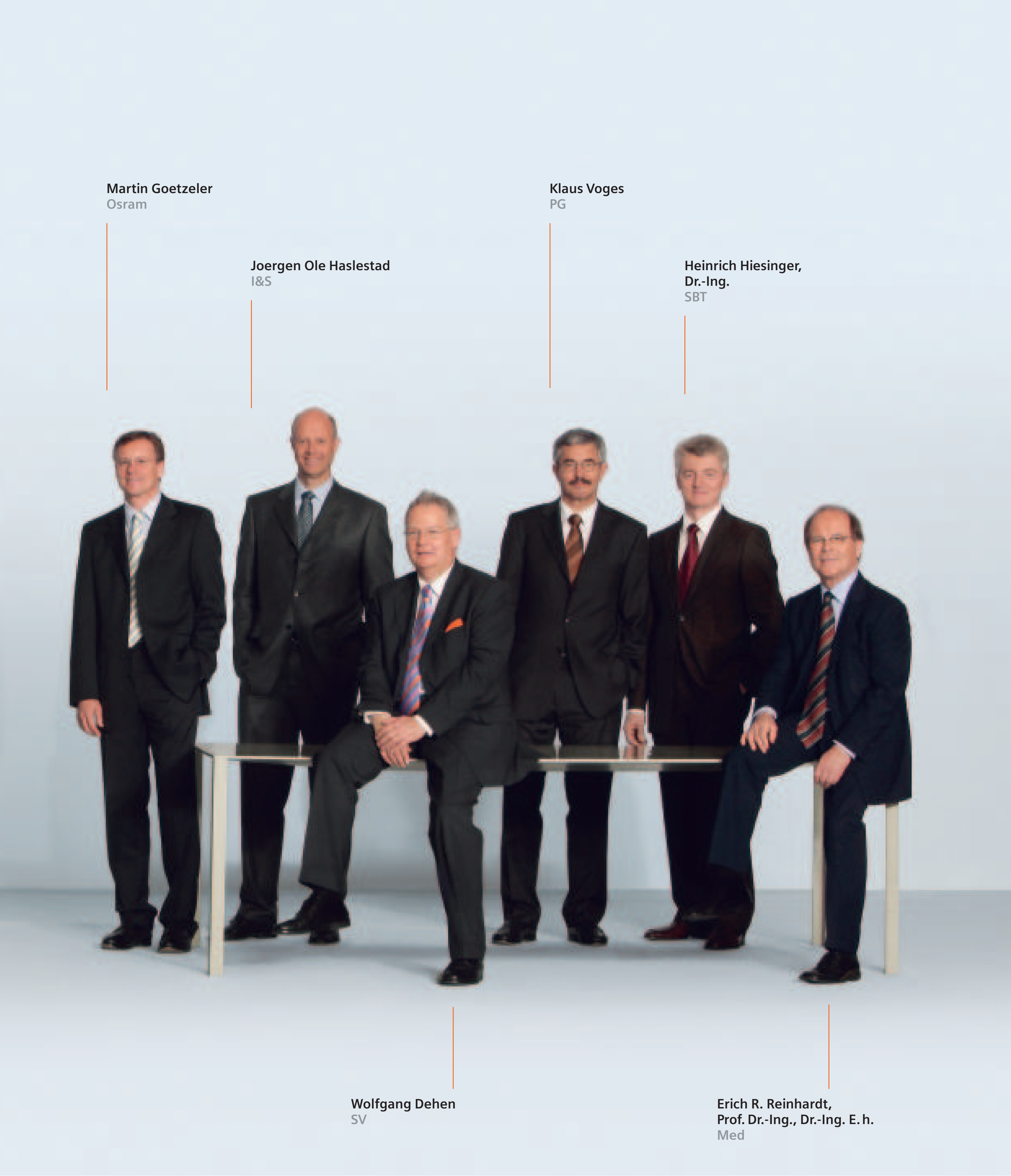
* As of January 1, 2006
For further information, see back cover foldout.

Martin Goetzeler
Osram

Klaus Voges
PG

Joergen Ole Haslestad
I&S

Heinrich Hiesinger, Dr.-Ing.
SBT



Wolfgang Dehen
SV

Erich R. Reinhardt, Prof. Dr.-Ing., Dr.-Ing. E. h.
Med

# Business Areas

Siemens' operations are divided into six business areas:

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

Other Siemens businesses include:

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

The **Information and Communications** business area – comprising the Communications Group and the Siemens Business Services Group – provides a comprehensive spectrum of information and communications solutions.

The **Automation and Control** business area – comprising the Automation and Drives Group, the Industrial Solutions and Services Group, and the Siemens Building Technologies Group – supplies products, systems, solutions and services for industrial and building automation and for airport and postal logistics.

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

The **Transportation** business area comprises the Transportation Systems Group (rail systems) and the Siemens VDO Automotive Group (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, electronic control gear and light management systems.

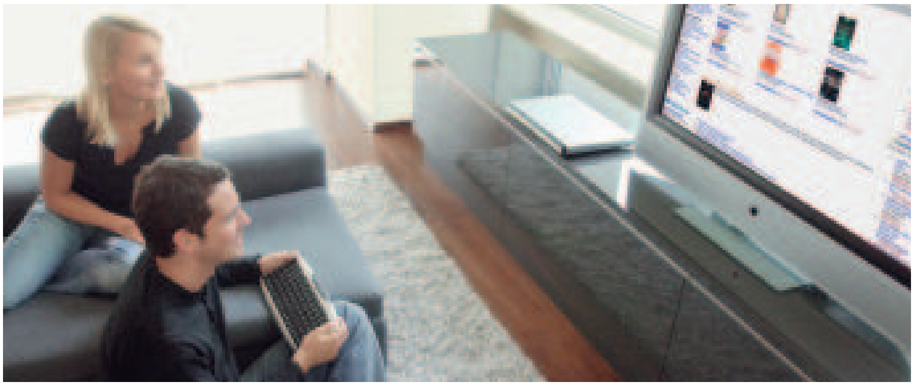
Our **Financing and Real Estate** activities are handled by Siemens Financial Services and Siemens Real Estate.

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

# Information and Communications

## Communications (Com)

Com provides a comprehensive range of innovative solutions for voice and data communications – everything from communications devices and network infrastructures to services for enterprise customers as well as mobile and fixed network operators.



We are one of the world's largest suppliers of telecommunications infrastructure – offering networks, applications, communications devices and services, along with the expertise needed to combine these products into integrated solutions.
One-third of all the fixed network phone calls placed worldwide are processed using Siemens technology. No other company delivers more softswitches – the backbone of Voice over IP technology – for fixed network applications. More than 90 percent of the world's UMTS subscribers communicate using technology from Siemens and our partner NEC. Linking over 88 million workstations for a million customers, we are the No. 1 global supplier of real-time enterprise communications.
We are also the world's leading innovator in convergent technologies. Our convergence solutions for mobile and fixed network applications cover the full range of operators' integration needs. Convergence is also the basis of our market-leading home entertainment solutions and mobile enterprise offerings. In addition, customers benefit from our rich array of services, enabling them to focus on their core business activities.
Our visionary LifeWorks concept provides access to all communications services and applications via a single user interface – regardless of network environment or device. Lifeworks is just one example of how we are making communications simpler and more efficient – for the benefit of our customers.

**www.siemens.com/communications**

# Information and Communications

## Siemens Business Services (SBS)

SBS offers a broad portfolio of multi-vendor IT solutions and services for the private and public sectors.

With roughly 10,000 customers, we are one of the world's leading providers of IT services – offering everything from consulting and systems integration to the management and operation of IT infrastructures and entire business processes. Our solutions give organizations the flexibility, IT security and around-the-clock availability they need, enabling them to cut costs and focus more intensively on their core activities. Leveraging our "services-on-demand" option, our customers – who include governmental authorities, manufacturers, banks, insurers, power utilities, telecoms and media companies – pay only for the time, volume and number of transactions they actually carry out.

We implement tailored solutions based on proven applications and systems. Our "m-parking" solution – which enables motorists to pay for parking by mobile phone – is just one example. This new payment system, which is equipped with mobile radio capability, is already in use in Berlin, Vienna and a dozen other cities. Drivers no longer have to search for a parking voucher machine or rummage for change, and they can easily pay for additional parking time electronically.

**www.siemens.com/sbs**

# Automation and Control

## Automation and Drives (A&D)

A&D provides standard products for the manufacturing and process industries, electrical installation technology, and system- and industry-specific automation solutions.

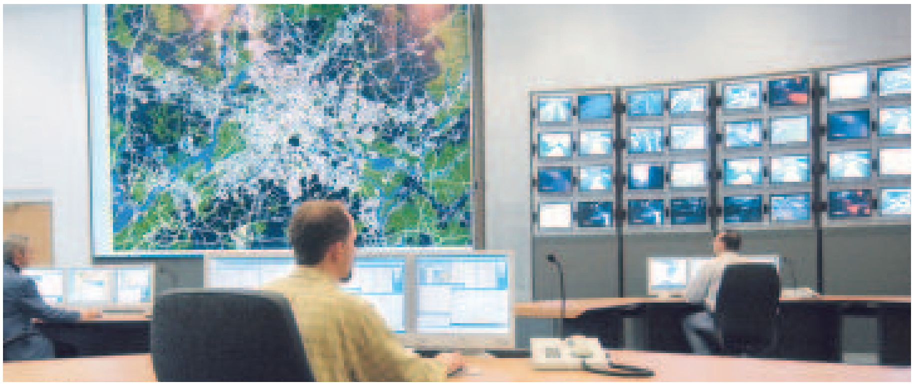
We are the world leader in automation, drives, switchgear and installation technology. Our wide array of offerings encompasses standard products for the manufacturing and process industries, electrical installation technology, systems solutions – for machine tools, for example – and industry solutions, including the automation of complete automobile production lines and chemical plants. We also provide software tools for linking the IT systems used in production and business administration and for optimizing production workflow.
Our Totally Integrated Automation (TIA) and Totally Integrated Power (TIP) solutions comprise a well-integrated, universally adaptable range of products and systems to efficiently automate the entire production process – including energy supply and distribution. These systems can be adapted to all sectors and products. The TIA concept allows for tailored automation solutions perfectly suited to specific production requirements. TIA enables our customers to streamline production workflow, shorten time-to-market and cut production costs while minimizing process complexity and maximizing investment security.
In 2005, we strengthened our competitive position by acquiring two companies: Flender, a leading global manufacturer of mechanical and electrical drive systems, and Robicon Corporation, a top U.S.-based manufacturer of medium-voltage converters for AC motors. In fiscal 2006, the L&A Group's Electronics Assembly Systems Division – the world's leading supplier of automatic placement machines for the electronics industry – will be integrated into our operations.

**www.siemens.com/ad**

# Automation and Control

## Industrial Solutions and Services (I&S)

I&S combines Siemens products and know-how to develop and build systems for industry and infrastructure applications. The Group also services production facilities throughout their entire lifecycle.



As a global supplier of industry and infrastructure solutions, we plan, construct, operate, maintain and modernize production facilities. We combine our products with engineering solutions from other Siemens Groups to build complete plants. Our industry activities help boost the productivity and competitiveness of companies in the metallurgy, pulp and paper, oil and gas, shipbuilding, and open-cast mining industries. Our acquisition of Voest-Alpine Industrieanlagenbau (VAI) has positioned us to offer customers around the world optimal process technologies and solutions for plant construction, operation and modernization. To further develop transportation infrastructures worldwide, our Intelligent Traffic Systems Division is providing innovative traffic management solutions for megacities, conurbations and highway systems. In the area of water treatment and purification, our acquisition of the American company USFilter Corporation has supplemented our automation solutions with a broad range of products, systems and services (including more than 1,100 patented inventions). We are leveraging these offerings to develop solutions for virtually every stage of the water treatment process for both municipal and industrial applications.

In fiscal 2006, we will upgrade our infrastructure solutions by integrating the L&A Group's Postal Automation Division, whose activities include package and freight logistics, as well as its Airport Logistics Division, which provides automation solutions for baggage handling and air cargo.

**www.industry.siemens.com**

## Siemens Building Technologies (SBT)

SBT ensures high levels of comfort and security in its customers' buildings while safeguarding investment value and business processes.

Building users – owners as well as residential and commercial lessees – appreciate a comfortable environment, safe and secure premises, and a high degree of energy efficiency. Our building technologies – encompassing everything from heating, ventilation and climate controls to fire detection and warning systems, emergency evacuation solutions, access controls and closed-circuit TV monitoring – create the technical infrastructure needed to meet these requirements. Together, these technologies maximize performance, cut operating costs and increase building productivity. Our products, components and systems are tailored to our customers' needs. Already in the planning phase, we take a building's entire lifecycle into account. This approach results in cost certainty as well as optimal flexibility for any later modernizations or utilization changes – to protect our customers' investment. As a provider of maintenance, operating and energy management services, we help optimize system performance, reliability and efficiency. Our standardized, scalable modules ensure uniform and consistent building performance. Around-the-clock remote surveillance and remote operation, coupled with the networking of IT-based building operations and customers' business systems (Enterprise Resource Planning), ensure high transparency for operations and costs. Our solutions enable our customers to keep their focus where it belongs – on their core business activities.

**www.sbt.siemens.com**

# Power

## Power Generation (PG)

PG develops and builds components and systems for fossil fuel power plants, wind power systems, and mechanical drives and compressors for industrial applications. Instrumentation and control systems, fuel cell technology and extensive services round out the Group's portfolio.

We are a leader in the global power plant industry. About one-fifth of the world's total installed capacity is generated using Siemens equipment. Our products include components and systems for fossil fuel power plants, wind power systems, turbines, compressors, and complete solutions for industrial plants, particularly in the oil and gas sector. Our instrumentation and control systems are used in all types of power plants. We are a world leader in solid oxide fuel cell (SOFC) development. Through our minority stakes in Framatome ANP and Voith Siemens Hydro, we are also active in the nuclear and hydropower sectors.
Our offerings encompass the engineering, turnkey construction, maintenance, repair and operation of power plants. With some 6,000 technicians and engineers worldwide, we provide local service around the globe.
Our advanced gas turbines have an efficiency rating of more than 58 percent in combined cycle operation, while our steam turbines have set the industry standard with an overall efficiency of more than 48 percent and maximum reliability. Our highly economical generators, which are available in air-, water- and hydrogen-cooled designs, also offer outstanding customer value.

**www.pg.siemens.com**

## Power Transmission and Distribution (PTD)

PTD provides products, systems, services and complete solutions that enable utilities and industry to transport and distribute electricity reliably and economically from the power plant to the consumer.

Our portfolio includes switchgear, transformers, and products and systems whose integrated communications and automation technologies provide outstanding benefit for power grid operators and boost our customers' competitiveness. In Spain, for example, we have developed a specialized design for high-voltage switchgear in cooperation with the power utility and grid operator Red Eléctrica de España. Our solution – which incorporates a design concept from the customer – not only enhances the availability of electricity in the grid but also makes it possible to replace circuit-breaker modules much more quickly and easily than before, without shutting off power or impairing operation.

In southeastern China, we delivered a high-voltage direct-current transmission (HVDC) system six months ahead of schedule, enabling our customer, the State Power South Company, to begin profitable operations earlier than expected. Over a distance of roughly 1,000 kilometers, this interconnector provides for the low-loss transmission of enough electricity to meet the needs of a city the size of Berlin.

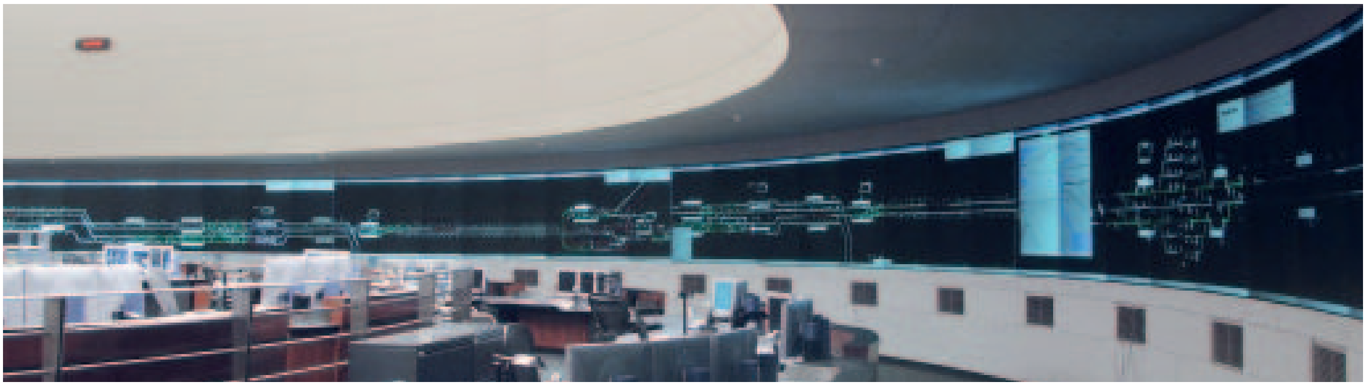
The acquisition of the transmission and distribution activities of VA Technologie, including its production facilities and sales offices, has boosted our market position and global presence, bringing us even closer to our customers. Since this acquisition will also require a substantial expansion of our service business, we plan to add two new facilities to our global network of service centers located near our customers worldwide.

**www.siemens.com/ptd**

# Transportation

## Transportation Systems (TS)

TS supplies vehicles, signaling and control technologies, automation systems, electrification and telecommunications for the railway industry. The Group also manufactures, services, maintains and provides operational support for turnkey rail systems.



Our automation platform for mass transit services supports a wide variety of rail solutions – from intermittent and continuous train control systems to fully automatic train operation. To accommodate sudden fluctuations in passenger flow, cars can be added to or removed from our fully automatic driverless systems at short notice. Thanks to our RUBIN project, Nuremberg, Germany will soon be the world's first city to boast a fully automatic driverless metro line.
Uniform standards for signaling systems and multi-system-capable vehicles are indispensable for cross-border rail transportation. To help make smooth rail service across Europe a reality, we have developed a complete portfolio of standardized components for each stage in the implementation of the new European Train Control System (ETCS). These components will improve network utilization and increase track speeds.

Our Eurosprinter family of multisystem locomotives for passenger and freight trains is compatible with all standard European power systems and can be used in cross-border traffic in 16 countries. In March 2005, we delivered the first three of the 50 high-performance Rh 1216-type locomotives ordered by Austrian rail operator ÖBB. We have also made good progress in eliminating problems with our Combino low-floor light-rail systems.

**www.siemens.com/transportation**

## Siemens VDO Automotive (SV)

SV is a trusted partner of the automotive industry, developing and producing electronic and mechatronic solutions for powertrain systems, interiors, chasses and carbodies. The Group's products are making automobiles safer, more comfortable and more ecofriendly.

Every second car on the road today is equipped with Siemens technology. Our engine control and fuel injection systems minimize fuel consumption and cut emissions. Our advanced driver information and navigation systems make driving easier. Our electronic controls and innovative sensors protect drivers and passengers with a comprehensive network of safety features. For example, our pro.pilot driver assistance system helps prevent accidents while enhancing driving comfort. Our piezo injection systems and hybrid drives maximize driving pleasure and reduce environmental burdens. Our special cockpit designs ensure that drivers are always “in the picture.” And now we have launched yet another trailblazing innovation: the electric parking brake. In the future, cars – like airplanes – will be equipped with electric steering and braking systems that respond much faster in dangerous situations than people can.
With 50,000 employees at more than 130 locations, we are present wherever automobiles are developed and manufactured, enabling car makers and drivers throughout the world to profit from our innovative technologies.

**www.siemensvdo.com**

# Medical

## Medical Solutions (Med)

Med's unique portfolio of innovative products, professional services and management consulting ranges from imaging systems, therapy equipment, molecular diagnostics and hearing instruments to clinical and administrative IT solutions.

As the leading solutions provider in the medical field, we help our customers deliver high-quality, patient-centric healthcare. Our solutions increase efficiency by reducing costs and enhancing the quality of medical treatment. Innovative technologies that improve diagnostic speed and accuracy and boost therapeutic effectiveness – coupled with high-performance IT solutions that optimize workflow and overcome information barriers in hospitals, doctors' offices and entire healthcare enterprises – remain the key to our success. SOMATOM® Definition, the world's fastest computed tomography system, is a prime example of our proven outcomes. Within seconds, the system generates unsurpassed images of the beating heart that can be downloaded into electronic patient files, processed and – with the patient's consent – quickly accessed by healthcare providers. Our technologies optimize processes at every stage – from patient admission, examination and diagnosis to treatment and rehab – and increase the satisfaction of patients and healthcare professionals alike.

Our coordinated approach to Operational Excellence, based on the Company-wide *top*⁺ program, is summed up in our $P^3$ formula: "People, Products, Processes." We aim to ensure top-quality patient-oriented healthcare with the help of optimized development and production processes, innovative and successful products, and highly motivated employees with outstanding qualifications.

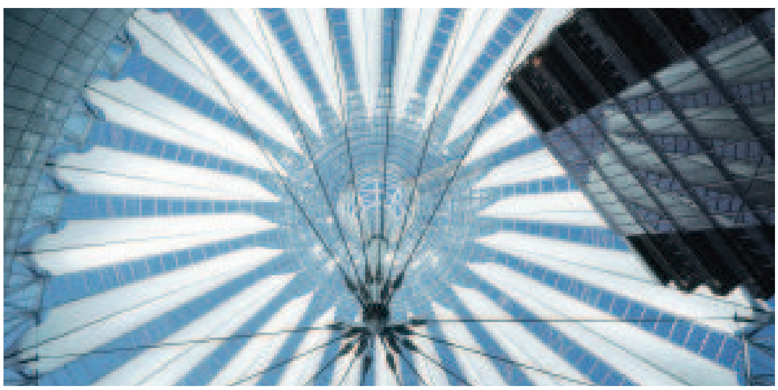
To round out our nuclear medicine business, we have acquired CTI Molecular Imaging and merged it with our existing activities to form the new Molecular Imaging Division (MI).

**www.siemens.com/medical**

# Lighting

## Osram

Osram's product portfolio comprises everything from lamps and optoelectronic semiconductors such as light-emitting diodes (LEDs) to electronic control gear and light management systems.



Our lighting sources have penetrated virtually every sphere of modern life. We illuminate not only living rooms, factory halls, streets and shop windows. Our high-tech lamps and LEDs are also found in display lighting, film projectors, stage lights, the endoscopes used in minimally invasive surgery, and most automobile headlights. Osram, which will celebrate its 100th anniversary in 2006, stands for intelligent lighting solutions. Today, we are a cutting-edge high-tech company with customers in some 150 countries.

Our research and development teams around the world are designing ever more efficient and environmentally friendly light sources. For example, last year we unveiled a new xenon headlight that is completely mercury-free. The growing importance of electronics is a key trend in our business. When lighting systems contain not only lamps but also electronic control gear and electronic systems, energy consumption can be cut by up to 30 percent and lamp service life increased by as much as 50 percent. That's why we develop not only lamps and LEDs but also the associated electronic control gear. Miniaturization is another ongoing trend. One prime example is our Ministar, the world's smallest halogen reflector lamp, which has only one reflector integrated directly into the light source.

In the area of optoelectronic semiconductors, the focus is on high-performance LEDs. Our brightest LED to date, the Osram Ostar, which has an average service life of more than 50,000 hours, is particularly well-suited for use in projector lamps, reading lamps, design lights, safety lights and special-effects applications.

**www.osram.com**

# Financing and Real Estate

## Siemens Financial Services (SFS)

With some 1,700 employees and an international network of companies, SFS offers a broad array of financial solutions in the areas of sales and investment financing, treasury services, fund management and insurance.

Our business has two main pillars. First, we are Siemens' global center of competence for financing and risk management. In this capacity, we are the preferred provider of financial solutions for the Company and its Groups – offering, for example, treasury services, project and export financing, insurance, and pension asset management. We also make equity investments in infrastructure projects in which Siemens is involved.

Second, we provide financial services to external clients – a business that is becoming increasingly important for us. Today, we support a wide range of business-to-business customers – many of whom, like Siemens, are companies with international operations. Here, the focus is on leasing and the related financing of capital goods, receivables financing, fund management offerings, and treasury consulting, including brokerage services for employee-tailored insurance and asset management products.

Our financial expertise, coupled with many years of experience in industry and technology, enables us to offer our customers unique advantages. Concentrating on the fields we know best – information and communications, medical technology, transportation systems, power generation, and plant engineering and construction – we partner with customers to develop innovative financial solutions to meet their specific business and industry needs.

**www.siemens.com/sfs**

# Siemens Real Estate (SRE)

As Siemens' real estate arm and an international specialist in office and industrial real estate, SRE manages, develops, buys and sells real estate. It also provides consulting and other services.

We have been managing Siemens' real estate holdings at some 3,000 locations worldwide since 1994. Our portfolio encompasses office, production, storage and specialist properties. We also offer internal and external customers office and industrial space – supported by a full range of services – in six technology parks. Our activities focus on the profit-oriented management and development of Siemens' real estate assets and the provision of cost-effective space for Company operations. In addition to cutting costs by optimizing real estate utilization, we also maximize earnings from properties. Our professional services include renting and leasing; contract, space and service management; regional site and space planning; real estate and site evaluation; worksite concepts such as the workplace management solution that we launched in 2004; portfolio management; commercialization; land and building development; and architecture and project management. Our major projects currently include lead management of the construction of new Siemens headquarters complexes in Beijing and Moscow.
We also advise and support the Siemens Groups in all real estate-related matters. Worldwide, we are directly responsible for about 19 million square meters of land and some ten million square meters of commercial real estate. We also manage about 8.5 million square meters of land and buildings belonging to the Siemens Groups. With more than 30 companies and business units, we are active on five continents, making us one of the largest corporate real estate organizations in the world.

**www.siemens.com/realestate**

# Affiliates

## BSH Bosch und Siemens Hausgeräte GmbH

The market leader in Western Europe and one of the world's top domestic appliance manufacturers, BSH is a successful global company with more than 34,000 employees and 30 production facilities in Europe, Asia, the U.S. and Latin America.

We offer an extensive range of household appliances and network-capable products for the home of the future. In addition to Bosch and Siemens – the best-selling names in domestic appliances in Europe – we manufacture products for specialty brands like Neff and Gaggenau as well as for regional brands such as Balay in Spain and Pitsos in Greece, whose appliances are tailored to national culinary traditions. By continuously developing new products and refining old ones, we are constantly improving the performance, convenience and user friendliness of our offerings. Coupled with our long-standing emphasis on quality, this ongoing process of innovation, which is supported by a worldwide network of centers of competence, also benefits the environment.

Some 95 percent of the environmental burdens attributable to household appliances are generated during operation rather than production. That's why the most important contribution that we can make to environmental protection is to develop products that consume fewer natural resources. And here the figures speak for themselves. Since 1990, we have, for example, substantially reduced energy consumption in all our appliances. Our refrigerators and freezers now consume two-thirds less electricity than earlier models, and our dishwashers and washing machines use about a third less. By transferring this know-how throughout our global company, we are helping set uniform environmental standards worldwide.

**www.bsh-group.com**

## Fujitsu Siemens Computers (Holding) BV

Fujitsu Siemens Computers, a joint venture of Fujitsu Ltd. and Siemens AG, is Europe's leading IT manufacturer, offering enterprise customers and individual users a broad array of advanced IT products, services and infrastructure solutions.

With our innovative, high-quality IT offerings, we are making a vital contribution to the success of our customers. Our extensive portfolio – ranging from handheld computers, tablet PCs, notebooks, desktops, workstations, and Intel and Unix servers to mainframes, storage solutions and enterprise-class IT infrastructure solutions – addresses the needs of large corporations, small to medium-sized companies and individual users alike. As a trusted IT partner, we work closely with our customers, tailoring our IT solutions to their needs.
With our focus on the future-oriented fields of mobility and business critical computing, we give our customers an edge by providing innovative mobile solutions and efficient, flexible IT infrastructures for key business processes. To offer complete best-in-class IT business solutions, we bundle our core competencies with the know-how of over 2,600 leading technology, software and service partners. Our computer production facilities are the most advanced in Europe. Our plant in Augsburg, Germany, for example, has won a European Best Factory Award for its process excellence and customer and supplier intimacy.
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 and Siemens.

**www.fujitsu-siemens.com**

Digital Healthcare

# Customer benefit

"Linked to ensure optimized and seamless intercommunication, Siemens' fully networked systems are improving healthcare and benefiting our patients."

**Wayne A. Sensor**
**CEO, Alegent Health, Nebraska, USA**

The future of healthcare is digital. High-precision imaging systems detect diseases such as cancer long before they pose a threat. Portable minilabs identify infections and allergies in record time. Personalized smart cards, electronic patient records and knowledge databases streamline processes across the entire healthcare enterprise.

**Alegent Health, Nebraska, USA**

# Increased efficiency and improved care at lower cost

The healthcare industry faces many challenges today as it aims to cut costs, boost efficiency, enhance patient safety and well-being, and protect patient data while ensuring its portability. As an industry leader in delivering healthcare solutions at the leading edge of care, Siemens is well-positioned to address these challenges. We help our customers optimize workflow across departments and streamline processes for diagnosing and treating illnesses such as coronary artery disease, strokes and cancer.

**A clear overview across the continuum of care**

When state-of-the-art imaging systems give physicians quick, efficient access to patient data, diseases can be detected earlier and treatments better tailored to patients' needs. The SOMATOM® Definition computed tomography (CT) system is the world's first dual-source CT system. With two X-ray tubes and detectors, it can produce amazingly sharp images even at high heart rates – with as much as 50% less radiation exposure compared to traditional CT scans . The MAGNETOM Espree™ magnetic resonance imaging (MRI) system offers speed and superior image quality, combined with a spacious design for greater patient comfort.
With its acquisition of CTI Molecular Imaging, Inc. in May 2005, Siemens combined its nuclear medicine activities with CTI to form a new Molecular Imaging Division. This unit focuses on positron emission tomography (PET) and single photon emission computed tomography (SPECT) technologies; preclinical imaging for research and pharmaceutical purposes; and applications and post-processing for molecular imaging.
Siemens is also continuing to develop computer-based technologies such as *syngo* LungCare, a software program that assists the physician in confirming the presence of lung lesions.
Bringing it all together is Soarian®, Siemens' healthcare information technology (IT) solution. Soarian is the only healthcare IT system that incorporates a workflow engine – the same technology used to improve efficiency and accuracy in manufacturing. This comprehensive solution helps healthcare professionals provide safe, efficient, patient-centric care.

**Information is just a drop away**

Other trendsetting technologies include Siemens' quicklab system – a "lab-on-a-chip" that will enable clinicians to provide accurate diagnoses directly at the point-of-care in less than half an hour by checking a single drop of body fluid (such as blood or saliva) for pathogens like bacteria and viruses. This credit card-sized system, which is still in the development phase, will also be able to analyze a patient's DNA and detect genetic structures that can lead to certain types of disease. Using this innovative technology, doctors will be able to identify a patient's predisposition to certain health problems and initiate preventive measures that are tailored to the patient's personal profile. Quicklab is still subject to research and therefore a work in progress.

**Smart cards for health**

The inhabitants of Italy's Lombardy region are benefiting from an innovative health card solution developed by a consortium of IT firms, including Siemens Informatica, which is a joint venture of Siemens Business Services and Telecom Italia. Siemens Informatica and Siemens Communications are responsible for the smart card, its operating and security system and its interface with healthcare applications.
The customer, Lombardia Informatica, expects to save €100 million a year, in part because the system will help prevent card misuse. Patients arriving for a doctor's appointment present their card and identify themselves with a PIN. Prescriptions are then transmitted to a database, from which they may be retrieved by a specified pharmacy. Unless warned by the system of adverse interactions with other patient medications, the pharmacist fills the prescription, which can then be picked up at the pharmacy.

# IT integration and outstanding patient care

Improved patient care begins with the optimization and coordination of healthcare workflow. Lakeside Hospital in Omaha, Nebraska, which opened its doors in the summer of 2004, is proof that digitally driven "smart" hospitals can support the delivery of patient-centric care. One of the most technologically integrated hospitals in the world, Lakeside was designed and built from the ground up to incorporate the latest Siemens healthcare IT, networking and imaging systems.

**Ten-year alliance with Siemens**

In 2002, Alegent Health and Siemens entered a ten-year alliance with the aim of standardizing the technological infrastructure at all nine Alegent hospitals and all 100 Alegent service centers. The agreement covers diagnostic, lighting, building control, fire safety, security and IT systems – resulting in unparalleled synergies.

One of the first facilities to benefit from the alliance between Alegent Health and Siemens was the new Lakeside Hospital. From admission to discharge, all patient information – diagnostic images, treatment and medication, lab results, and billing and insurance information – is entered in an electronic health record (EHR). This central database can be accessed from anywhere in the hospital. Physicians can take tablet PCs with them on their rounds to pull up test results and review them with their patients – one reason why patient satisfaction at Lakeside has reached unprecedented levels. In addition, a growing number of Lakeside physicians now review patients' charts and, if necessary, check their real-time vital signs before heading for the hospital in order to determine which patients require immediate attention.

Two leading-edge systems from Siemens are at the heart of this comprehensive approach to healthcare information management: the new-generation Soarian® healthcare IT solution, and the Picture Archiving and Communications System (PACS).

Soarian supports patient-centric care by integrating clinical, financial, diagnostic and administrative processes. It boasts three innovative features. First, it manages processes across the entire enterprise through workflow management tools. Second, its smart user interface simplifies use and accelerates training. And third, its integrated decision management tool uses embedded analytics to measure a healthcare organization's productivity. In addition, Soarian seamlessly integrates images and data to facilitate informed decision-making, thereby improving care delivery, increasing staff satisfaction and streamlining processes.

**Health portals for patients**

Access to Lakeside's facilities and medical records is managed by means of electronic ID badges, passwords, and/or biometric key pads. Soarian software ensures that the hospital's handling of access to patient information complies with the strict regulations established by the U.S. Health Insurance Portability and Accountability Act (HIPAA). Given the precision with which access to electronic health records can be controlled, plans are evolving to give patients themselves and – with patient authorization – specified doctors secure access to a patient's electronic healthcare data. This development will lead to electronic patient portals and make health information truly accessible anytime and from anywhere. It will also mark the beginning of a new trend in which patients are active members of the healthcare team.

RFID

# Transparency

"Our partnership with Siemens is helping us expand our leading position through innovative logistics solutions based on RFID technology."

**Monika Oßwald**
**Business Logistics Manager**
**SCA Hygiene Products AG, Munich**


In the future, many items of everyday life – such as clothes, cars and tickets to sporting events – will carry individual electronic ID tags. This innovative labeling technology will cut costs substantially by increasing transparency all along the value chain.

# Objects with a personality

Individualization – a defining trend in today's society – is now spreading throughout industry. In the fields of logistics and production, for example, pallets and containers are being equipped with an electronic memory that endows them with their own individual "personalities." Based on radio frequency identification (RFID) transponders (see box), this new technology is driving innovation in a wide variety of fields: RFID transponders are making healthcare more efficient and patient-friendly, enhancing security at public events, reducing logistics costs, helping detect defective products and minimizing losses from waste, theft and counterfeiting.

**Looking inside the package**

Electronic RFID transponders or "tags," which can be read in a fraction of a second by a special write/read device, can be attached to all kinds of goods. Their readability – unlike that of conventional bar codes – is not impaired by scratches or dirt. They also carry much more information and can be overwritten with new data. Because the tags are read by radio signals, goods can be identified even when enclosed in packaging. Siemens has been refining this technology for more than 20 years and has already delivered more than 250,000 write/read devices worldwide. Experts predict that RFID technology will boom over the next few years as the tags and write/read devices become more powerful and are increasingly integrated into merchandise management systems. Applications include logistics management and goods tracking for complex production processes such as those used in the pharmaceutical, automotive and foodstuffs industries and in the retail sector. Even hospital patients are now reaping the benefits of RFID technology: Tags embedded in patient wristbands enable physicians to quickly access a patient's complete medical history.

**Leading supplier of RFID solutions**

As one of the world's leading single-source suppliers of RFID technology, we provide solutions for all industries along the value chain. For example, our Dematic subsidiary offers material flow solutions, and our Automation and Drives Group develops transponders and write/read devices. Siemens Business Services provides process consulting, integrates RFID technology into customers' IT systems and manages and operates installed solutions for RFID projects. We are a member of the METRO Group's Future Store Initiative, which develops and implements RFID application scenarios. We have bundled our RFID-related activities in a cross-Group initiative monitored by a special RFID Technology Development Board. Our portfolio encompasses a wide range of products and services – including write/read devices, RFID tags, software for systems integration, interfaces to enterprise resource planning (ERP) systems, process analysis and optimization, and complete logistics solutions tailored to specific customer needs. Our goal is to create added customer value by integrating RFID solutions into existing processes.

**RFID transponder**

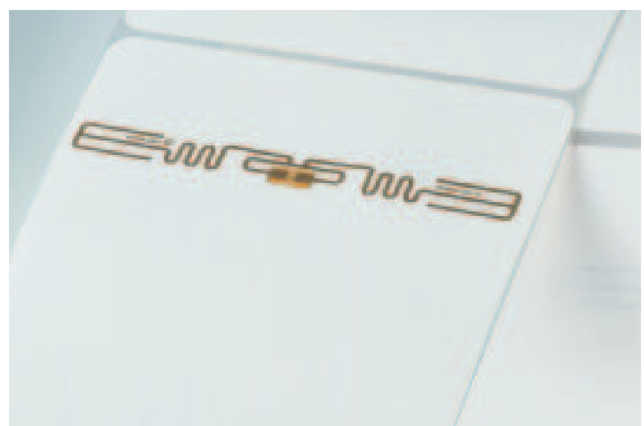
The word "transponder" is a combination of "transmit" and "responder." Also called an RFID "tag" or "smart chip," a transponder is a microchip with a transmitter, receiver and antenna – all embedded in a carrier unit. Applications for RFID technology are virtually limitless. For example, state-of-the-art libraries are using RFID systems to expedite the lending and tracking of media. At ski resorts, RFID transponders embedded in ski passes are facilitating lift access. And at sports stadiums, tickets equipped with these tags are speeding up admission.

# Complete transparency all the way to the shopping cart

SCA is a global paper manufacturing and processing company that produces absorbent hygiene products such as paper towels and tissues, packaging solutions and printing paper. The company develops customized products for consumers, healthcare facilities, industry and the retail trade.
As part of a pilot project launched in early 2005, SCA is leveraging our expertise in RFID solutions to help optimize its production of hygiene products and its delivery of goods to the METRO Group. For SCA, the aim of the project is to promote transparency all along its value chain by increasing process efficiency. This, in turn, will reduce SCA's storage and transportation costs across the board – from production to delivery.

### High rate of read accuracy

In the initial phase of the pilot project, SCA's team and our experts analyzed and tested the feasibility, cost-efficiency and applicability of RFID technology in SCA's logistics operations, completing this task in just seven weeks. The next phase involved integrating an RFID solution into the Swedish paper producer's day-to-day processes. In February 2005, an RFID system went into operation at SCA's warehouse and delivery center for hygiene products in Mannheim, Germany.
About 200 trucks loaded with pallets leave the SCA facility every day. This level of activity places high demands on the integration of RFID technology into the company's processes and on the read accuracy of the ultra-high frequency transponders. When the system was first put into service, the read accuracy of the RFID tags, which are directly attached to the pallets, was nearly 100 percent (99.7 percent). When, as part of the pilot project, deliveries are made to METRO stores in the German towns of Neuss and Mülheim/Ruhr, radio tags are used not only for hygiene products but for all SCA products included in the delivery. These tags automatically trigger the entry of data registering the goods' receipt. SCA considers it especially important to leverage cutting-edge technology and efficiency-enhancing processes in its logistics operations. And this was reason enough for the paper producer to enter into a partnership with us – a full-range provider of RFID technology and consulting services.
SCA is benefiting from our expertise in more ways than one. Not only is a single-source RFID solution that incorporates transponders with invariably high rates of read accuracy being deployed at the company. With this innovative technology, SCA can also considerably shorten the time required to move pallets from back-room storage to the retailer's sales floor – thanks in no small measure to the complete transparency of the company's entire value chain. In addition, the RFID system makes it possible to improve the accuracy of deliveries, streamline the overall delivery process and trace products following customer inquiries. In short,



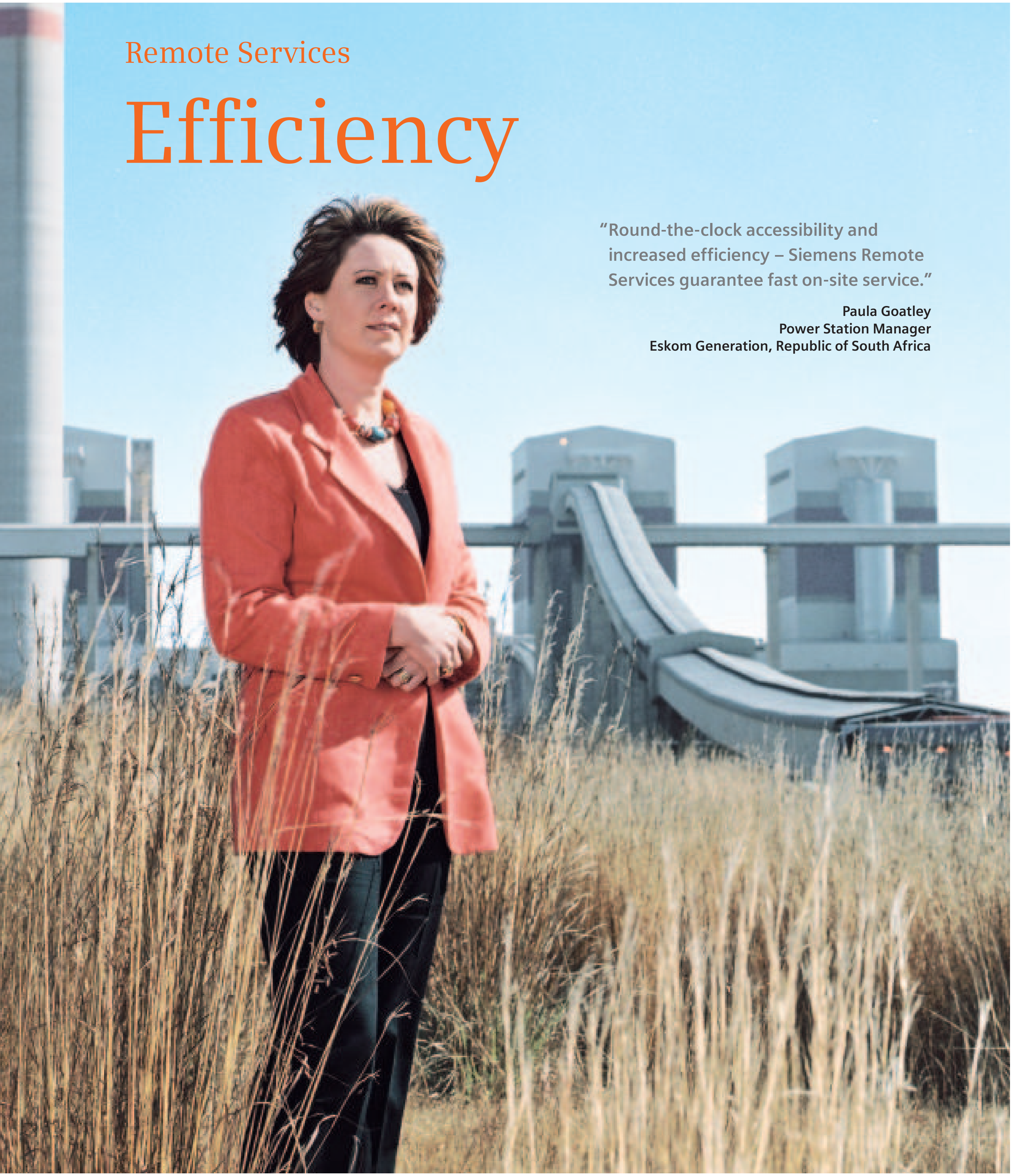
SCA's partnership with Siemens will position the company to expand its leading market position through the use of innovative RFID solutions.

## Remote Services

# Efficiency

"Round-the-clock accessibility and increased efficiency – Siemens Remote Services guarantee fast on-site service."

**Paula Goatley**
**Power Station Manager**
**Eskom Generation, Republic of South Africa**




When it comes to competitiveness, a company's ability to access its equipment and systems quickly is a decisive factor. That's why we offer remote services to customers in nearly all of our business areas. We deliver fast, efficient and – above all – highly secure support to maximize the availability of our customers' equipment, systems and plants while also cutting their costs.

**Remote Expert Center, Karlsruhe, Germany**

# It's the data that travels, not the experts

Whether for power plants, heating systems in high-rise buildings, computed tomography systems in hospitals, giant dragline excavators for digging oil sand, or electric locomotives – we are a leading-edge provider of remote services. It would be hard to find a plant, system or piece of equipment for which monitoring and optimization cannot be implemented remotely. Via a data line or wireless transmission, specialists at a distant expert center can monitor operations, just as if they were on site. Our professionals often detect system malfunctions before the customer even notices them. And remote service is not just about correcting errors. It is also ideal for performing routine maintenance, software updates and system optimization based on an evaluation of production data.

**Worldwide maintenance network**

Our Power business area is responsible for operating several Remote Expert Centers (RECs). Our REC in Karlsruhe, Germany, for example, services over 300 instrumentation and control systems for power plants around the world. About half of these systems are covered under service contracts with the end customer. The center is staffed by a team of experts – systems and applications specialists – with experience in systems development and commissioning. Using remote tools, these professionals can access installed systems all the way down to the bit-and-byte level. At the same time, they have a direct overview of a plant's entire operations – as if they were in the control room themselves. This enables them to assist a plant's engineers with configurations, modifications and, if necessary, error diagnostics before the plant is commissioned. Our experts also provide support for on-site technicians responsible for subsequent servicing. In addition, the Karlsruhe center offers around-the-clock plant maintenance and modification services for contract customers.

At our Power Diagnostics Centers – located in Orlando, Florida and Erlangen, Germany – we monitor the operation of some 190 gas turbines around the world. Our wide-ranging, efficient implementation of remote services is built not only on technical expertise but also on synergy effects – powerful communications technologies using high bandwidths, extensive systems networking, and advanced sensors that reliably capture all operating data.

To further strengthen our remote services offerings, we are developing a company-wide service platform – a global information and communications portal that will provide experts from our various Groups with uniform, extremely secure access to the equipment and systems being serviced.

**Networking is driving remote services**

The remote maintenance segment – along with other associated support services – is expected to experience strong growth in the coming years, evolving into a highly profitable business that is largely independent of economic cycles. However, remote services cannot be efficiently implemented unless the machines and systems involved are able to communicate with one another – via fixed networks, wireless connections or satellites. Our wireless modules, which are capable of integrating almost any object into a network, are driving developments in the area of wireless machine-to-machine (M2M) communications. In 2003, wireless M2M connections for electrical meters, alarm systems, vending machines, elevators, gasoline pumps, industrial controls, trains, cars and trucks numbered slightly less than 20 million. This figure is expected to increase 15-fold, to over 300 million, by 2008.

# Rapid response when maintenance is required

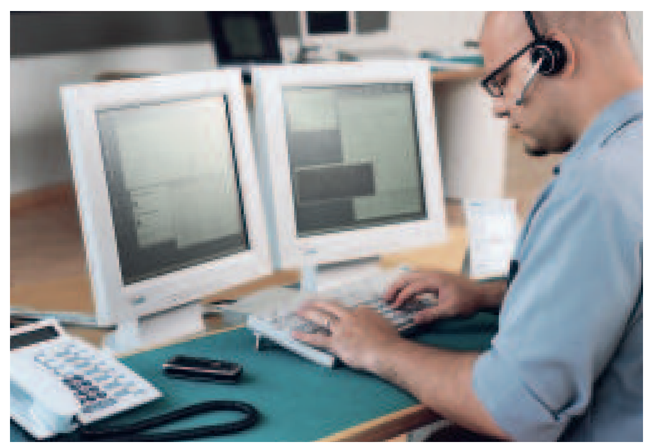
Although the process control technology found in power plants today is highly reliable, errors can always occur – and they can be expensive. When production is affected or downtimes ensue, losses of up to €100,000 per day can quickly be incurred.

**Service based on need**

When the process control system in a power plant malfunctions, time is of the essence. That's why our Remote Expert Center (REC) in Karlsruhe boasts more than 40 specialists who are available 24/7, just a click away, ready to serve customers around the world. Via a data line, our professionals can – after obtaining the customer's permission – view a plant's entire instrumentation and control system, discuss problems with on-site technicians and, if necessary, remotely install new software. All of our diagnostic centers transmit data over standard telephone networks (modem) as well as via the Internet (virtual private networks) – ensuring accessibility at any time, from any location.
Data security is always our top priority. Firewalls and encryption systems are standard. Plant operators can cut the connection themselves after a diagnosis has been made and the problem solved.
The support offered by Siemens Remote Services is not limited to diagnosing and eliminating malfunctions, however. For instance, we are also a market leader in instrumentation and control system upgrades.

**Remote upgrades**

The Majuba power plant near Amersfoort, South Africa, just a few kilometers from Johannesburg, provides a prime example of this type of cooperation. Operated by Eskom, the country's sole energy supplier, the Majuba facility is a coal-fired plant with six blocks and a capacity of 4,110 megawatts. Under a service contract with our Karlsruhe REC, technicians at the Majuba plant can call on our specialists for immediate support whenever a problem arises. At the end of 2004, the center was awarded a contract to standardize and upgrade the plant's instrumentation and control system to state-of-the-art standards. The upgrade was implemented by a single on-site specialist who had around-the-clock access to the requisite expertise, thanks to support from Karlsruhe.
Our professionals at the REC and their on-site counterparts form a virtual team, with all the advantages that this type of cooperation offers. The work load is shared; team members support each other and benefit from one another's complementary areas of expertise; REC



specialists are called in only when necessary; and costly business trips are a thing of the past. This kind of teamwork enables upgrades like the one in Majuba to be carried out quickly and cost-effectively.

## Water

# Availability

"Siemens is playing a vital role in Singapore's drive to become a global hydrohub."

**Kenneth Tan,**
**Director, Services Cluster**
**Singapore Economic Development Board**

High population density and rapid economic growth characterize many megacities around the globe. While the demand for clean water is enormous in such teeming metropolitan areas, resources are often scarce. Challenges of this magnitude call for innovative solutions of the kind we're implementing in Singapore, a city-state of more than four million people.

The Kranji NEWater Reclamation Plant, Singapore

# Thirst-quenching innovations

Population growth worldwide is driving the demand for clean water and accelerating the pace of urbanization. In today's exploding megacities – where potable water supplies and wastewater disposal lag behind the pace of development – water shortages are already a fact of life. The need for major investment in infrastructure – such as water and wastewater treatment plants and water lines – is particularly great in Asia.
In many countries, water-supply bottlenecks are hindering not only urban development but also industrial production. One promising focus for future investment entails making better use of municipal and industrial wastewater to help maintain the flow of clean water.
To address these challenges, we acquired USFilter, giving us access to an innovative product portfolio of process technologies and services that includes more than 1,100 patented inventions. Offerings encompass a wide range of solutions and systems, including biological treatment processes, advanced dual-membrane microfiltration technology, purification processes, and intelligent water management systems. At over 200,000 water and wastewater treatment installations worldwide, our technology is enabling customers to comply with strict government requirements and high industry standards. Our extremely efficient systems are helping protect the environment and conserving resources for future generations by producing clean water at low cost and with minimal energy consumption while foregoing chemical treatment methods.
Among the many innovative technologies we provide to conserve water are recycling solutions – which can prove especially valuable for regions with inadequate water supplies. Using so-called reclamation technology, process water from households and industry is treated for reuse, minimizing the consumption of precious groundwater. This trailblazing approach is of particular benefit to industry. Companies that require a great deal of ultrapure water, such as semiconductor manufacturers, can exploit this alternative source of water, thereby conserving resources. We have successfully implemented a water-recycling solution in Singapore (see next page and photo on page 61).
We are now leveraging our global sales network to market innovative processes such as membrane, UV and ozone technologies from USFilter's portfolio in roughly 190 countries, tailoring our solutions to country-specific requirements. With our comprehensive expertise in electrical engineering, our in-depth understanding of industry needs and our advanced automation solutions, we are poised to be a major player in the drive to optimize water use worldwide. Our efforts are helping increase the supply of this valuable commodity for people and industry all around the globe.

### Mobile clarification systems

If an emergency such as a water system failure or a natural disaster interrupts drinking water supplies, we can provide quick help. Mobile clarification trailers supplied by Siemens can be on the scene anywhere in the U.S. within only 48 hours, transforming contaminated water into potable water. These powerful systems were deployed, for example, following the hurricanes that devastated the U.S. Gulf Coast in the fall of 2005.

**UV radiation lamp kills bacteria**

Germ-free drinking water can be a matter of life and death in industrialized and developing countries alike. A mobile water purification device from Radium, a Siemens company, destroys bacteria in water quickly and safely by emitting low-pressure ultraviolet radiation. A special germicidal lamp is immersed in, say, a 20-liter container of water and switched on. High-energy UV radiation penetrates the bacteria cells' nuclei, destroying their genetic material. Within about 15 minutes, the germs are rendered harmless without the use of chemicals. The device can be used in containers of up to 1,000 liters, with irradiation time dependent on water quantity.

# A sustainable source of water for the future

Singapore faces a formidable challenge – the city-state requires large quantities of clean water but has few natural water resources. In view of this situation, the government has set an ambitious goal: to achieve self-sufficiency in potable water. One target is to meet 20 percent of Singapore's daily drinking water requirements with reclaimed wastewater. Together with our subsidiary USFilter, we are playing a major role in helping bring this project to fruition.

**Overcoming water shortages**

A joint study commissioned by Singapore's Public Utilities Board (PUB) and its Ministry of Environment and Water Resources (ENV) in 1998 determined that supply bottlenecks could be overcome by reclaiming wastewater. Following the study's recommendations, Singapore built a pilot reclamation plant with a treatment capacity of more than 10,000 cubic meters of water per day. Innovative filtration and UV technologies from USFilter were used to treat wastewater at the plant, which went into operation in May 2000. After the plant's performance had been evaluated, the quality of the water it produced was assessed over a two-year period using, for example, physical and chemical analyses. The experts concluded that the water reclaimed at the pilot plant was safe for drinking and that it fulfilled all the requirements for drinking water established by the World Health Organization (WHO) and the United States Environmental Protection Agency (EPA). The plant's combination of microfiltration, reverse osmosis, and UV technologies acts as a multiple-stage barrier to chemical contaminants and pathogens.

**The Kranji NEWater Reclamation Plant – A trendsetting solution in water recycling**

The pilot plant's impressive performance convinced Singapore's government to place an order with USFilter for the construction of a full-scale water reclamation facility. Operated by Singapore's Public Utilities Board, the Kranji NEWater Reclamation Plant can produce 40,000 cubic meters of clean water every day.

Featuring filtration and UV technologies from USFilter, the Kranji plant is a leading-edge solution in water recycling – a concept that is gaining in significance as costs for treating water from conventional supplies rise and natural water resources become scarcer and scarcer. The water reclaimed at the Kranji NEWater plant is used primarily for non-potable industrial applications. Now that industry can use this recycled water, industrial demand for drinking water will decline, helping conserve the city-state's resources. By the year 2012, the Kranji plant will supply about 210 million liters of reclaimed water directly to industry each day. Singapore will soon have a sustainable source of water right in its own back yard.

Dear Shareholders,

The Chairman of the Supervisory Board, Karl-Hermann Baumann, resigned from the Board at the close of the Annual Shareholders' Meeting of Siemens AG on January 27, 2005. The Board's shareholder representatives thanked him for his many years of commitment and for his successful efforts on behalf of the Company. They also approved my membership on the Supervisory Board. I was elected Chairman of the Supervisory Board at its ensuing meeting. I thanked the members for the confidence they had placed in me. I assured them and I assure you, the shareholders of Siemens, that I will bring all my experience to bear and do everything in my power to fulfill the duties of my new position – to provide supervision and advice.

In fiscal 2005, the Supervisory Board focused intensively and at even shorter intervals than before on the Company's situation and prospects as well as on a number of specific issues. The Managing Board provided us with timely and comprehensive information on a regular basis. We were involved in major Company decisions. In addition to five regular meetings in fiscal 2005, we held two extraordinary telephone conferences and used a written voting process to make further decisions regarding changes in our business portfolio. The Managing Board also informed us in writing about important developments. As Chairman of the Supervisory Board, I was kept up-to-date on major issues and upcoming management decisions.

**Business portfolio optimization**

Ever since its founding, Siemens has aimed to be a pacesetter in technological progress and a world leader in the field of electrical engineering and electronics. In response to the kind of fundamental changes which have always characterized our dynamic market, our Company, too, has had to continuously develop and adapt to ever-new challenges. In the mid-1990s, we defined an active portfolio policy focused on attaining leading positions in fields poised for long-term growth while divesting other, less-promising activities. In short, we see Siemens as a living organism in which portfolio optimization is always on the agenda. This view also shapes the work of the Supervisory Board.

In fiscal 2005, we discussed acquisitions with a total value of over €3 billion, approving those transactions for which – due to their size – our consent was required. These portfolio-strengthening moves were in the areas of communications technology, industrial systems, power generation and distribution, and medical engineering.

Withdrawal from the mobile phone business was a major item on our agenda. We discussed the difficult situation in this business at several regular meetings and, in a telephone conference on June 6, 2005, decided to accept a Managing Board proposal to sell our mobile phone unit to Taiwan's BenQ. The Managing Board had sought a solution that would offer advantages for our employees and locations as well as for our customers and investors. We are convinced that BenQ is the right partner from all these perspectives.

At our April meeting, we received a detailed report on the structural changes taking place in the markets for telecommunications equipment. These markets are experiencing a major technological transformation. In addition, telecoms operators and their suppliers are consolidating their activities. We will concern ourselves very intensively with these developments in the future.

We were also involved in major decisions to restructure our loss-making company Siemens Business Services GmbH & Co. OHG (SBS) and to prune our business portfolio in the area of logistics systems:

- The Managing Board explained to us that SBS would require a two-pronged approach. On the one hand, it will be necessary to eliminate operating losses incurred primarily in product-related low-end services. The key steps here – the sale of selected activities, together with rationalization measures – have already been initiated. The second prong is a strategic reorientation. Our deliberations in this regard have not yet been completed.
- The Logistics and Assembly Systems Group (L&A) was dissolved at the beginning of fiscal 2006. Its three successful divisions – Postal Automation, Airport Logistics and Electronic Assembly Systems – have been integrated into our Industrial Solutions and Services Group and our Automation and Drives Group. L&A's Industry and Distribution Logistics Division, including its material handling products business, has been placed in a separate company. This business will operate on the market in a new constellation – possibly involving partners.

**Medium-term action program**

At our April meeting, the Managing Board defined the topics that will be the focus of our efforts over the next two years. Under the heading Fit*4*More, four main action areas have been established: Performance and Portfolio, Operational Excellence, People Excellence, and Corporate Responsibility.

Our planned measures in the area of Performance and Portfolio have become the focus of attention for internal and external observers. Here the aim is to create a growth-oriented business portfolio. Plans call for the Company's business volume to grow roughly twice as fast as the global economy over the next few years. We want at least half of this growth to be organic – that is, generated by our current businesses – with the remainder to come from targeted acquisitions.

Second, the medium-term margin targets that we set in agreement with our operating Groups in 2000 are to be fully implemented. Seven Groups (Automation and Drives, Medical Solutions, Power Generation, Siemens VDO Automotive, Osram, Power Transmission and Distribution, and Siemens Financial Services) have already reached their targets. These Groups occupy world-leading positions, posting earnings that compare favorably with those of the best in their industries. For three Groups (Siemens Building Technologies, Industrial Solutions and Services, and Transportation Systems), we have been pursuing strategies that should lead to further continuous improvement in their earnings situation. Over the last few months, we have also set a new course for our Communications and Siemens Business Services Groups.

**Group- and Region-specific issues**

In fiscal 2005, as in previous years, the regular meetings of the Supervisory Board were devoted not only to Company-wide matters. We also gave the individual Groups an opportunity to explain their activities in detail. Between November 2004 and November 2005, the following Groups reported to the Supervisory Board: Automation and Drives, Siemens Financial Services, Medical Solutions, Siemens VDO Automotive, Communications, Power Generation, and Transportation Systems.

The operations of the remaining Groups had been intensively discussed in fiscal 2004. Like all our activities, these operations are also reviewed as part of our quarterly reporting system and in connection with special issues. The latter include project management – a topic of critical importance for the Groups involved in major infrastructure businesses. A special Company-wide initiative has been set up to drive this issue, and we received a report on its content and progress to date.

The Supervisory Board regularly discusses Siemens' regional strategy. In 2005, we concentrated primarily on the Company's activities in the high-growth markets of North America and Asia-Pacific and in our European home market as well as on the new opportunities created by the eastern expansion of the European Union. We also receive special presentations on the Company's regional focus. In November 2004 and November 2005, we considered developments in Latin America and the Middle East.

**Corporate governance**

The Supervisory Board regularly deals with the implementation and further development of the Company's corporate governance principles. In fiscal 2005, we concerned ourselves in particular with the revised version of the German Corporate Governance Code of June 2, 2005.

In November 2004 and July 2005, the Supervisory Board met without the Managing Board in attendance. In the July session, the Supervisory Board discussed its operational efficiency and the division of duties between the full Supervisory Board and its committees. At our meeting on November 9, 2005, the Supervisory Board determined that Siemens AG – in accordance with the Company's Declaration of Conformity – had complied with the recommendations of the German Corporate Governance Code in fiscal 2005. As stated in the Declaration of Conformity approved by the Supervisory Board in fiscal 2004, Siemens complied with all of the Code's recommendations, with one exception: Our directors and officers liability (D&O) insurance policy had no deductible. However, we eliminated this exception as of October 1, 2005 and therefore approved a declaration stating our full conformity with the Code at our November meeting.

Further information on corporate governance at the Company and a detailed report on the level and structure of remuneration paid to members of the Supervisory and Managing Boards appear on pages 72–87 of this Report.

**Committee meetings**

The Chairman's Committee remained in close contact with the Managing Board between the five regular meetings held during fiscal 2005. As one of the Supervisory Board's four committees, the Chairman's Committee met five times to address personnel matters relating primarily to the Group executive managements, issues relating to 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 for the U.S. Securities and Exchange Commission (SEC). During the year, the 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 of the Sarbanes-Oxley Act (SOA) regarding internal control systems.

In January 2005, the Audit Committee elected Gerhard Cromme to succeed Karl-Hermann Baumann as Chairman of the Audit Committee. Mr. Cromme had previously been elected by the Supervisory Board to succeed Josef Ackermann on the Audit Committee. The Audit Committee met five times during the year, sometimes without the Managing Board in attendance, to evaluate its own activities and review its bylaws.

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 the ensuing 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 the year ended September 30, 2005, 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. Public Company Accounting Oversight Board (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 December 7, 2005, 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 €1.35 per share entitled to a dividend. In addition, we approve the proposal that the amount attributable to treasury stock be carried forward.

**Changes in the composition of the Supervisory and Managing Boards**

As I have mentioned, changes were made in the Company's management in fiscal 2005. Karl-Hermann Baumann resigned as Chairman of the Supervisory Board for reasons of age, and I succeeded him. As stipulated by the Board's bylaws, I then became a member of all Supervisory Board committees. As planned, Klaus Kleinfeld succeeded me as President and Chief Executive Officer of Siemens AG at the close of the Annual Shareholders' Meeting on January 27, 2005. Mr. Kleinfeld had already been appointed Vice President of the Managing Board on August 1, 2004. We wish him and the Managing Board every success for the future. The Supervisory Board will continue to do everything in its power to safeguard the Company's long-term success.

Berlin and Munich, December 7, 2005
For the Supervisory Board

Dr. Heinrich v. Pierer
Chairman

# Corporate Governance Report

In keeping with its traditions, Siemens continues to place a high priority on corporate governance. Siemens fully complies with the recommendations of the German Corporate Governance Code (Codex), which was first issued in 2002 and later expanded in May 2003 and in June 2005. Our prior exception is no longer applicable, since our Managing Board and Supervisory Board have implemented a deductible in our directors and officers (D&O) liability insurance for Managing and Supervisory Board members by way of a contractual commitment with their respective members.

At their meetings on November 8 and 9, 2005, the Managing Board and the Supervisory Board of Siemens AG, respectively, discussed compliance with the recommendations of the Codex, in particular with regard to the amendments of June 2, 2005. Based on these deliberations, the Boards approved the Declaration of Conformity (with the Codex) which is set forth below (on page 77 of this Report) and posted on our website and updated as necessary. Siemens voluntarily complies with all of the Codex's non-obligatory suggestions, with only minor exceptions.

www.siemens.com/corporate_governance

Our listing on the New York Stock Exchange (NYSE) subjects us to certain U.S. capital market laws (including the Sarbanes-Oxley Act [SOA]) and regulations of the U.S. Securities and Exchange Commission (SEC) and rules of the NYSE. To facilitate our compliance with the SOA, we have, among other things, established a Disclosure Committee (comprised of nine central department heads) that is responsible for reviewing certain financial and non-financial information before it is made public and advising the Managing Board in its decisions about disclosure. We have also introduced procedures that require our Group and subsidiary managements to certify various matters, providing a basis on which our CEO and CFO certify our financial statements to the SEC. Consistent with the SOA, Siemens has also implemented procedures for handling accounting complaints and a Code of Ethics for Financial Matters.

Disclosure Committee

Certification Procedures

**Management and Control Structure – The Supervisory Board**

As a German stock corporation, Siemens is subject to German corporate law and has a two-tier management and oversight structure, consisting of an 11 member Managing Board and a 20 member Supervisory Board. The German Codetermination Act requires that the Company's shareholders and its employees each select one-half of the Supervisory Board's members.

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; nevertheless, our sales and purchases of products and/or services to or from such companies are transacted on arm's length bases. We believe that these dealings do not compromise the independence of the associated Supervisory Board members.

Duties of the Supervisory Board

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.

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.

Chairman's Committee

The **Chairman's Committee** performs the collective tasks of a nominating, compensation and corporate governance committee. In particular, it makes proposals regarding the appointment of Managing Board members.

Audit Committee

The **Audit Committee** consists of three shareholder representatives and two employee representatives. The Supervisory Board monitors the independence of the members of the committee and sees to it that they have special knowledge and experience in the application of accounting principles and internal control processes. The Audit Committee oversees the appropriateness and the effectiveness of the Company's external and internal accounting processes. Together with the independent auditors, it also reviews the Company's financial statements prepared quarterly and annually by management. On the basis of the independent auditors' report on 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. In addition, the Audit Committee monitors the independence, qualifications, rotation and performance of the independent auditors and performs the other functions required of it under the SOA.

Committees of the Supervisory Board

The **Mediation Committee** submits proposals to the Supervisory Board in the event that the Supervisory Board cannot reach the two-thirds majority required to appoint a Managing Board member.

The **Ownership Rights Committee** is responsible for decisions regarding the exercise of Siemens' shareholder rights in other companies.

**The Managing Board**

The Managing Board, as the Company's top management body, is obligated to promote the interests of the Company at all times and to drive sustainable growth in company value. Its nine-member Corporate Executive Committee cooperates with the President and CEO to define overall Company policies and is also responsible for determining the Company's strategic orientation, planning and finalizing the Company's budget, allocating resources, and monitoring the executive management of each Group. The Managing Board also prepares the Company's quarterly reports, the annual, stand-alone financial statements of Siemens AG and the Consolidated Financial Statements of Siemens. The Managing Board cooperates closely with the Supervisory Board, informing it regularly, promptly and fully on all issues related to Company strategy and strategy implementation, planning, business development, financial position, earnings and risks.

Duties of the Managing Board

**Directors' dealings of Managing Board and Supervisory Board**

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 purchases or sales of shares or options of Siemens AG if the total amount of transactions of a board member and any closely associated person is at least €5,000 during any calendar year. The following transactions were executed in fiscal 2005 and reported to Siemens:

| Trading Day | Name | Function | Security | WKN/ISIN | Trade | Number of Securities | Price in € | Comment |
|---|---|---|---|---|---|---|---|---|
| 8/1/2005 | Johannes Feldmayer | Managing Board member | Siemens Share | 7236101 | Sale | 12,000 | 64.05 | Sale in the context of the Siemens Stock Option Plan 2001 |
| 8/1/2005 | Johannes Feldmayer | Managing Board member | Siemens Share | 7236101 | Sale | 3,900 | 64.05 | Sale in the context of the Siemens Stock Option Plan 1999 |
| 8/12/2005 | Klaus Wigand | Supervisory Board member | Siemens Share | 7236101 | Sale | 4,000 | 64.53 | Sale in the context of the Siemens Stock Option Plan 2001 |
| 9/12/2005 | Rudi Lamprecht | Managing Board member | Siemens Share | 7236101 | Sale | 8,625 | 64.25 | Sale in the context of the Siemens Stock Option Plan 1999 |

These transactions were duly published on the Company's Internet website at www.siemens.com/directors-dealings.

**Shareholder relations**

Four times each year, Siemens AG reports to its shareholders regarding its business development, financial position and earnings. An ordinary Annual Shareholders' Meeting normally takes place within the first four months of each fiscal year. The Managing Board facilitates shareholder participation in the meeting through electronic communications – in particular the Internet – and enables shareholders who are unable to attend the meeting to vote by proxy.

Among other things, the Annual Shareholders' Meeting decides 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 are implemented by the Managing Board. Shareholders may submit counter-proposals 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 €100,000 or more may also demand a special judicial review of particular decisions.

As part of our investor relations activities, the CEO, the CFO and individual members of the Groups' executive management 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.

**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. Our Business Conduct Guidelines establish 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 also been implemented. 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.

**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.

**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 has to comply with the German Stock Corporation Act (the Stock Corporation Act) and the Codetermination Act and generally follows the recommendations of the German Corporate Governance Code. Furthermore, Siemens complies with applicable rules and regulations of those markets on which its securities are listed, such as the NYSE, and also voluntarily complies with many of the NYSE requirements that by their terms apply only to U.S. domestic issuers.

The significant differences between our governance practices and those of U.S. 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. 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 Codetermination 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** – 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 Siemens' 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** – In contrast to the NYSE Standards, which 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 combined the functions of a nominating, compensation and corporate governance committee in the Chairman's Committee. 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.

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 subject to the full NYSE Standards. Yet, 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.

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. Similarly, 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 approved in 2001 by our shareholders. This approval expires after 5 years, at which time it can be renewed. Similarly, under German law, share buy-backs generally require the prior authorization by shareholders. Such approval was provided at our January 27, 2005 Annual Shareholders' Meeting, and this matter will generally be voted upon annually.

**Declaration of Conformity with the Codex**

Declaration of Conformity

At their meetings on November 8 and 9, 2005, 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 fully complies with the recommendations of the German Corporate Governance Code (Codex) in the version of June 2, 2005 and will also fully comply with them in the future. Since the last Declaration of Conformity dated November 10, 2004, Siemens AG complied with the Codex in the version of May 21, 2003 except in one respect (our D&O insurance included no deductible). This exception is inapplicable since October 1, 2005.

Berlin and Munich, November 9, 2005

Siemens Aktiengesellschaft
Managing Board Supervisory Board

# Compensation Report

The Compensation 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.

The Compensation Report is based on the recommendations and suggestions of the German Corporate Governance Code and comprises data that, in accordance with the requirements of the German Commercial Code (HGB) as amended by the new Act on the Disclosure of Managing Board Remuneration (VorstOG), are an integral part of the Notes to Consolidated Financial Statements pursuant to § 314 of the HGB or of Management's discussion and analysis pursuant to § 315 of the HGB.

Therefore, the information explained in the Compensation Report is not additionally presented in the Notes to Consolidated Financial Statements or in Management's discussion and analysis.

**1. Managing Board remuneration**

The Chairman's Committee of the Supervisory Board is responsible for determining the remuneration of the members of the Managing Board. The Committee comprises Dr. Heinrich v. Pierer (Chairman of the Supervisory Board), and Dr. Josef Ackermann and Ralf Heckmann (both Deputy Chairmen of the Supervisory Board).

The remuneration of the 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 reflects each Managing Board member's responsibilities and performance. The level of Board 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 2005 it had four components: (i) a fixed salary, (ii) a variable bonus that the Chairman's Committee may adjust by up to 20 percent of the amount of target attainment, (iii) stock-based compensation, and (iv) a pension benefit arrangement. The fixed salary and the bonus are based on target aggregate compensation that comprises 50 percent fixed and 50 percent variable remuneration. The target compensation is reviewed 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 variable bonus is based on the level of 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 (for details on EVA as a performance measure, see Management's discussion and analysis, on pages 106 ff.). One half of the bonus is paid as an annual bonus and 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), the amount of which depends on the average attainment of EVA targets over a three-year period. In any year, 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 paid 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. In addition, the LT bonus for those Managing Board members is paid out fully in cash.

- The third component of Managing Board remuneration for fiscal year 2005 is stock-based compensation determined by the Chairman's Committee of the Supervisory Board. It 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 (for details on the Siemens Stock Option Plans, see the Notes to Consolidated Financial Statements, pages 201 ff.), and of a commitment to issue or transfer shares of Siemens AG (stock awards). The Supervisory Board may restrict or cap the exercise of stock options in the event of extraordinary, unforeseen changes in the market price of the Siemens stock.
- Under the Siemens Defined Contribution Benefit Plan (BSAV), members of the Managing Board receive contributions, the individual amounts of which are determined annually on the basis of a percentage of their respective target annual compensation established by the Chairman's Committee of the Supervisory Board. A portion of these contributions is accounted for by funding of pension commitments earned prior to transfer to the BSAV. In addition, special contributions may be granted on the basis of individual decisions.

Employment contracts with Managing Board members generally do not include any explicit severance commitment in the event of an early resignation from office. Severance may be payable, however, under an individually agreed termination arrangement.

However, members of the Managing Board who were appointed to the Managing Board before October 1, 2002 have a contractual right to receive transitional payments for twelve months after leaving the Managing Board. The transitional payments generally amount to the fixed salary of the year of resignation and the average of variable bonuses paid for the last three fiscal years before resignation. In single cases, the transitional payments equal a one-year target compensation.

In the event of a change of control – i.e., if one or several shareholders acting jointly or in concert acquire a majority of the voting rights in Siemens AG and exercise a controlling influence, or if Siemens AG becomes a dependent enterprise as a result of entering into an enterprise contract within the meaning of § 291 of the German Stock Corporation Act (AktG), or if Siemens AG is to be merged into an existing corporation or other entity – any member of the Managing Board has the right to terminate the contract of employment if such change of control results in a substantial change in position (e.g. due to a change in corporate strategy or a change in the Managing Board member's duties and responsibilities). If this right of termination is exercised, the Managing Board member will receive a severance payment which amounts to the target annual compensation applicable at the time of contract termination for the remaining contractual term of office, but at least for a period of three years. In addition, non-monetary benefits are settled by a cash payment equal to five percent of the severance payment. No severance payments are made if the Managing Board member receives benefits from third parties in connection with a change of control. A right of termination does not exist if the change of control occurs within a period of twelve (12) months prior to a Managing Board member's retirement.

At its meeting on November 9, 2005, 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 targets set at the start of the fiscal year.

For the fiscal year 2005, the aggregate cash compensation amounted to €20.9 million (2004: €26.7 million) and total remuneration amounted to €28.0 million (2004: €33.4 million), representing a decrease of 21.7 percent and 16.2 percent, respectively.

The following compensation was determined for the members of the Managing Board for fiscal year 2005:

| (Amounts in €)[1] | | Cash compensation | Fair value of stock-based compensation | Total |
|---|---|---|---|---|
| Dr. Heinrich v. Pierer[2] | 2005 | 958,389 | 244,414 | 1,202,803 |
| | *2004* | *3,560,053* | *1,077,993* | *4,638,046* |
| Dr. Klaus Kleinfeld[2] | 2005 | 2,323,193 | 946,911 | 3,270,104 |
| | *2004* | *2,679,904* | *641,286* | *3,321,190* |
| Johannes Feldmayer | 2005 | 1,821,301 | 716,666 | 2,537,967 |
| | *2004* | *2,339,465* | *719,638* | *3,059,103* |
| Dr. Thomas Ganswindt[3] | 2005 | 1,764,948 | 641,515 | 2,406,463 |
| | *2004* | *1,634,261* | *149,990* | *1,784,251* |
| Prof. Dr. Edward G. Krubasik | 2005 | 1,832,685 | 716,666 | 2,549,351 |
| | *2004* | *2,278,056* | *719,638* | *2,997,694* |
| Rudi Lamprecht[3] | 2005 | 1,730,431 | 625,190 | 2,355,621 |
| | *2004* | *1,741,472* | *149,990* | *1,891,462* |
| Heinz-Joachim Neubürger | 2005 | 1,822,925 | 716,666 | 2,539,591 |
| | *2004* | *2,260,585* | *719,638* | *2,980,223* |
| Dr. Jürgen Radomski | 2005 | 1,818,389 | 716,666 | 2,535,055 |
| | *2004* | *2,252,307* | *719,638* | *2,971,945* |
| Dr. Uriel J. Sharef | 2005 | 1,831,833 | 716,666 | 2,548,499 |
| | *2004* | *2,264,607* | *719,638* | *2,984,245* |
| Prof. Dr. Klaus Wucherer | 2005 | 1,822,218 | 716,666 | 2,538,884 |
| | *2004* | *2,261,306* | *719,638* | *2,980,944* |
| Prof. Dr. Erich R. Reinhardt[4] | 2005 | 1,756,836 | 200,034 | 1,956,870 |
| | *2004* | *1,823,818* | *149,990* | *1,973,808* |
| Prof. Dr. Claus Weyrich[4] | 2005 | 1,381,990 | 150,007 | 1,531,997 |
| | *2004* | *1,649,402* | *129,989* | *1,779,391* |
| **Total** | **2005** | **20,865,138** | **7,108,067** | **27,973,205** |
| | ***2004*** | ***26,745,236*** | ***6,617,066*** | ***33,362,302*** |

(1) The fair value of stock-based compensation shown in this table relates to stock options and stock awards granted in November 2005 and 2004 for fiscal year 2005 and 2004, respectively.
(2) Effective January 27, 2005, Dr. Heinrich v. Pierer was elected to the Supervisory Board of Siemens AG. Dr. Klaus Kleinfeld was appointed to succeed Dr. Heinrich v. Pierer as CEO and President of the Managing Board of Siemens AG, effective January 27, 2005.
(3) Dr. Thomas Ganswindt and Rudi Lamprecht were appointed full members of the Managing Board of Siemens AG and elected to the Corporate Executive Committee, effective October 1, 2004.
(4) Deputy members of the Managing Board.

The following table describes the details of cash compensation:

| (Amounts in €) | | Cash compensation: Salary | Annual bonus | LT-Bonus cash option | Other[1] | Total |
|---|---|---|---|---|---|---|
| Dr. Heinrich v. Pierer[2] | 2005 | 405,000 | 299,257 | 244,445 | 9,687 | 958,389 |
| | *2004* | *1,215,000* | *1,581,250* | *738,078* | *25,725* | *3,560,053* |
| Dr. Klaus Kleinfeld[2] | 2005 | 950,040 | 768,794 | 571,883 | 32,476 | 2,323,193 |
| | *2004* | *762,627* | *883,116* | *510,387* | *523,774* | *2,679,904* |
| Johannes Feldmayer | 2005 | 755,040 | 571,280 | 466,627 | 28,354 | 1,821,301 |
| | *2004* | *755,040* | *1,006,200* | *469,639* | *108,586* | *2,339,465* |
| Dr. Thomas Ganswindt[3] | 2005 | 755,040 | 571,280 | 391,452 | 47,176 | 1,764,948 |
| | *2004* | *500,040* | *602,617* | *480,380* | *51,224* | *1,634,261* |
| Prof. Dr. Edward G. Krubasik | 2005 | 755,040 | 571,280 | 466,627 | 39,738 | 1,832,685 |
| | *2004* | *755,040* | *1,006,200* | *469,639* | *47,177* | *2,278,056* |
| Rudi Lamprecht[3] | 2005 | 755,040 | 571,280 | 375,136 | 28,975 | 1,730,431 |
| | *2004* | *550,020* | *575,240* | *589,982* | *26,230* | *1,741,472* |
| Heinz-Joachim Neubürger | 2005 | 755,040 | 571,280 | 466,627 | 29,978 | 1,822,925 |
| | *2004* | *755,040* | *1,006,200* | *469,639* | *29,706* | *2,260,585* |
| Dr. Jürgen Radomski | 2005 | 755,040 | 571,280 | 466,627 | 25,442 | 1,818,389 |
| | *2004* | *755,040* | *1,006,200* | *469,639* | *21,428* | *2,252,307* |
| Dr. Uriel J. Sharef | 2005 | 755,040 | 571,280 | 466,627 | 38,886 | 1,831,833 |
| | *2004* | *755,040* | *1,006,200* | *469,639* | *33,728* | *2,264,607* |
| Prof. Dr. Klaus Wucherer | 2005 | 755,040 | 571,280 | 466,627 | 29,271 | 1,822,218 |
| | *2004* | *755,040* | *1,006,200* | *469,639* | *30,427* | *2,261,306* |
| Prof. Dr. Erich R. Reinhardt[4] | 2005 | 525,030 | 506,841 | 692,671 | 32,294 | 1,756,836 |
| | *2004* | *500,040* | *607,153* | *686,692* | *29,933* | *1,823,818* |
| Prof. Dr. Claus Weyrich[4] | 2005 | 450,000 | 344,205 | 562,285 | 25,500 | 1,381,990 |
| | *2004* | *450,000* | *606,250* | *565,922* | *27,230* | *1,649,402* |
| **Total** | **2005** | **8,370,390** | **6,489,337** | **5,637,634** | **367,777** | **20,865,138** |
| | ***2004*** | ***8,507,967*** | ***10,892,826*** | ***6,389,275*** | ***955,168*** | ***26,745,236*** |

(1) Other compensation includes non-cash benefits in the form of company cars of €282,112 (2004: €275,832), subsidized insurance of €85,665 (2004: €85,331), and accommodation and moving expenses of €0.00 (2004: €594,005).
(2) Effective January 27, 2005, Dr. Heinrich v. Pierer was elected to the Supervisory Board of Siemens AG. Dr. Klaus Kleinfeld was appointed to succeed Dr. Heinrich v. Pierer as CEO and President of the Managing Board of Siemens AG, effective January 27, 2005.
(3) Dr. Thomas Ganswindt and Rudi Lamprecht were appointed full members of the Managing Board of Siemens AG and elected to the Corporate Executive Committee, effective October 1, 2004.
(4) 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 €4.06 (2004: €4.54) per option, which amount was taken as the basis in this table. The stock awards were recorded at the market price of the Siemens stock 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 €57.28 (2004: €55.63).

For fiscal year 2005, the members of the Managing Board received a total of 101,731 (2004: 94,769) stock awards and 315,495 (2004: 296,270) stock options, representing 8.8 percent (2004: 7.8 percent) and 10.4 percent (2004: 10.1 percent), respectively, of the aggregate stock awards and stock options granted for fiscal year 2005.

Accordingly, stock-based compensation was as follows:

| (Amounts in number of units or €) | | Stock-based compensation: Number of units: Stock awards from LT bonus[1] | Other stock awards[1] | Stock-options[2] | Fair values: Stock awards from LT bonus[1] | Other stock awards[1] | Stock options[2] | Total |
|---|---|---|---|---|---|---|---|---|
| Dr. Heinrich v. Pierer[3] | 2005 | 4,267 | – | – | 244,414 | – | – | 244,414 |
| | *2004* | *13,266* | *3,056* | *37,445* | *737,988* | *170,005* | *170,000* | *1,077,993* |
| Dr. Klaus Kleinfeld[3] | 2005 | 9,984 | 3,470 | 43,415 | 571,884 | 198,762 | 176,265 | 946,911 |
| | *2004* | *6,674* | *2,427* | *29,735* | *371,275* | *135,014* | *134,997* | *641,286* |
| Johannes Feldmayer | 2005 | 8,146 | 2,314 | 28,945 | 466,603 | 132,546 | 117,517 | 716,666 |
| | *2004* | *8,442* | *2,247* | *27,535* | *469,628* | *125,001* | *125,009* | *719,638* |
| Dr. Thomas Ganswindt[4] | 2005 | 6,834 | 2,314 | 28,945 | 391,452 | 132,546 | 117,517 | 641,515 |
| | *2004* | *–* | *1,348* | *16,520* | *–* | *74,989* | *75,001* | *149,990* |
| Prof. Dr. Edward G. Krubasik | 2005 | 8,146 | 2,314 | 28,945 | 466,603 | 132,546 | 117,517 | 716,666 |
| | *2004* | *8,442* | *2,247* | *27,535* | *469,628* | *125,001* | *125,009* | *719,638* |
| Rudi Lamprecht[4] | 2005 | 6,549 | 2,314 | 28,945 | 375,127 | 132,546 | 117,517 | 625,190 |
| | *2004* | *–* | *1,348* | *16,520* | *–* | *74,989* | *75,001* | *149,990* |
| Heinz-Joachim Neubürger | 2005 | 8,146 | 2,314 | 28,945 | 466,603 | 132,546 | 117,517 | 716,666 |
| | *2004* | *8,442* | *2,247* | *27,535* | *469,628* | *125,001* | *125,009* | *719,638* |
| Dr. Jürgen Radomski | 2005 | 8,146 | 2,314 | 28,945 | 466,603 | 132,546 | 117,517 | 716,666 |
| | *2004* | *8,442* | *2,247* | *27,535* | *469,628* | *125,001* | *125,009* | *719,638* |
| Dr. Uriel J. Sharef | 2005 | 8,146 | 2,314 | 28,945 | 466,603 | 132,546 | 117,517 | 716,666 |
| | *2004* | *8,442* | *2,247* | *27,535* | *469,628* | *125,001* | *125,009* | *719,638* |
| Prof. Dr. Klaus Wucherer | 2005 | 8,146 | 2,314 | 28,945 | 466,603 | 132,546 | 117,517 | 716,666 |
| | *2004* | *8,442* | *2,247* | *27,535* | *469,628* | *125,001* | *125,009* | *719,638* |
| Prof. Dr. Erich R. Reinhardt[5] | 2005 | – | 1,851 | 23,155 | – | 106,025 | 94,009 | 200,034 |
| | *2004* | *–* | *1,348* | *16,520* | *–* | *74,989* | *75,001* | *149,990* |
| Prof. Dr. Claus Weyrich[5] | 2005 | – | 1,388 | 17,365 | – | 79,505 | 70,502 | 150,007 |
| | *2004* | *–* | *1,168* | *14,320* | *–* | *64,976* | *65,013* | *129,989* |
| **Total** | **2005** | **76,510** | **25,221** | **315,495** | **4,382,495** | **1,444,660** | **1,280,912** | **7,108,067** |
| | ***2004*** | ***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 11, 2009 (awards granted in 2004 on November 12, 2008). Under the stock award agreement, the eligible recipients 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 19, 2007 and November 18, 2010 (stock options issued in 2004 between November 20, 2006 and November 19, 2009) at a price of €74.59 (2004: €72.54) per share under the terms and conditions specified in the 2001 Siemens Stock Option Plan (for details see the Notes to Consolidated Financial Statements, pages 202 ff.).

(3) Effective January 27, 2005, Dr. Heinrich v. Pierer was elected to the Supervisory Board of Siemens AG. Dr. Klaus Kleinfeld was appointed to succeed Dr. Heinrich v. Pierer as CEO and President of the Managing Board of Siemens AG, effective January 27, 2005.

(4) Dr. Thomas Ganswindt and Rudi Lamprecht were appointed full members of the Managing Board of Siemens AG and elected to the Corporate Executive Committee, effective October 1, 2004.

(5) Deputy members of the Managing Board.

**Pension benefit commitments.** With the realignment of the German pension plan of Siemens AG into a Defined Contribution Benefit Plan (BSAV), the system of defined benefits for members of the Managing Board was also replaced with effect from October 1, 2004 by a pension benefit system based on contributions by the Company. Pension benefits earned through September 30, 2004 were not affected. The amount of the contributions to the BSAV is determined annually by the Chairman's Committee of the Supervisory Board.

For fiscal year 2005, the members of the Managing Board were for the first time granted contributions under the BSAV totaling €3.4 million, based on a resolution adopted by the Chairman's Committee of the Supervisory Board on November 9, 2005. Of this amount, €0.8 million relates to the former system and €2.6 million to contributions granted under the BSAV since October 1, 2004.

The projected benefit obligation (PBO) of all pension commitments to members of the Managing Board as of September 30, 2005 amounted to €52.9 million (2004: €56.3 million), which amount is included in Note 21 to the Consolidated Financial Statements.

Former members of the Managing Board and their surviving dependents received pensions, transitional payments and comparable benefits equal to €15.6 million (2004: €13.5 million) for the year ended September 30, 2005.

The projected benefit obligation (PBO) of all pension commitments to former members of the Managing Board and their surviving dependents as of September 30, 2005 amounted to €128.9 million (2004: €111.0 million), which is included in Note 21 to the Consolidated Financial Statements.

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

**2. Supervisory Board remuneration**

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

The current remuneration policies for the Supervisory Board were authorized at the Annual Shareholders' Meeting of January 27, 2005. Details are set out in § 17 of the Articles of Association of Siemens AG.

As a result, the remuneration of Supervisory Board members for fiscal year 2005 includes three components:

- a fixed compensation component,
- a short-term compensation component based on earnings per share, and
- a long-term compensation component based on earnings per share.

In accordance with these remuneration policies, each Supervisory Board member receives fixed compensation of €50,000 per year and short-term variable compensation of €150 per year for each €0.01 of earnings per share as disclosed in the Consolidated Financial Statements in excess of a minimum amount of €1.00. This minimum amount will be increased annually by 10 percent, beginning with the fiscal year starting on October 1, 2005. In addition, long-term compensation in the amount of €50,000 is granted, payable after expiration of the then applicable five-year term of the Supervisory Board. This long-term compensation will only be paid if earnings per share at the end of the Supervisory Board's term of office have increased by more than 50 percent compared to the beginning of the term of office. Earnings per share, on which the calculation of the Supervisory Board's remuneration is based, has to be adjusted for significant extraordinary items. For fiscal year 2005, the Supervisory Board's remuneration was determined on the basis of earnings per share in the amount of €2.52. The Chairman of the Supervisory Board receives double, and each Deputy Chairman 1.5 times, the amounts of the fixed compensation and the short-term variable compensation of an ordinary member. The chairmen of the committees (other than the Chairman's Committee, the Mediation Committee, and the Ownership Rights Committee) each receive an additional 100 percent, the other members of said committees each receive an additional 50 percent of the fixed and the short-term variable compensation. 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 to be paid on their remuneration. The Chairman of the Supervisory Board is provided a company car and an office with secretarial services.

| (Amounts in €) | 2005 Fixed compensation | Short-term variable compensation | Long-term variable compensation | Total | 2004 Fixed compensation[1] | Variable compensation[1] | Fair value of stock-based compensation[1] | Total |
|---|---|---|---|---|---|---|---|---|
| Dr. Karl-Hermann Baumann[2] [3] | 50,000 | 22,800 | – | 72,800 | 18,000 | 220,500 | 6,810 | 245,310 |
| Dr. Heinrich v. Pierer[2] [3] | 93,750 | 42,750 | – | 136,500 | – | – | – | – |
| Ralf Heckmann[3] | 100,000 | 45,600 | – | 145,600 | 12,000 | 147,000 | 6,810 | 165,810 |
| Dr. Josef Ackermann[3] | 83,333 | 38,000 | – | 121,333 | 12,000 | 147,000 | 6,810 | 165,810 |
| Lothar Adler | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| Gerhard Bieletzki | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| John David Coombe | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| Hildegard Cornudet[4] | 50,000 | 22,800 | – | 72,800 | 3,000 | 36,750 | 3,405 | 43,155 |
| Dr. Gerhard Cromme[3] | 87,500 | 39,900 | – | 127,400 | 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 | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| Heinz Hawreliuk[3] | 75,000 | 34,200 | – | 109,200 | 9,000 | 110,250 | 6,810 | 126,060 |
| Berthold Huber[5] | 50,000 | 22,800 | – | 72,800 | 1,500 | 18,375 | 1,703 | 21,578 |
| Prof. Dr. Walter Kröll | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| Wolfgang Müller | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| Georg Nassauer | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| Dr. Albrecht Schmidt | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| Dr. Henning Schulte-Noelle[3] | 75,000 | 34,200 | – | 109,200 | 9,000 | 110,250 | 6,810 | 126,060 |
| Peter von Siemens | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| Jerry I. Speyer | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| Lord Iain Vallance of Tummel | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| Klaus Wigand | 50,000 | 22,800 | – | 72,800 | 6,000 | 73,500 | 6,810 | 86,310 |
| **Total** | **1,264,583** | **576,650** | **–** | **1,841,233** | **150,000** | **1,837,500** | **136,201** | **2,123,701** |

[1] In fiscal year 2004, the compensation of Supervisory Board members was comprised of 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 granted in the form of 1,500 stock appreciation rights (SARs) per year. On the grant date, the SARs had a fair value of €4.54 each, as calculated using the Black-Scholes option pricing model.

[2] Dr. Heinrich v. Pierer, former CEO and President of the Managing Board of Siemens AG, succeeded Dr. Karl-Hermann Baumann as Chairman of the Supervisory Board, effective January 27, 2005.

[3] Each of Dr. Heinrich v. Pierer as Chairman of the Supervisory Board and a member of the Audit Committee; Dr. Josef Ackermann as Deputy Chairman of the Supervisory Board; Dr. Gerhard Cromme as Chairman of the Audit Committee; Ralf Heckmann as Deputy Chairman of the Supervisory Board and a member of the Audit Committee; and Heinz Hawreliuk and Dr. Henning Schulte-Noelle as members of the Audit Committee, received higher fixed and variable compensation. For his period of office on the Supervisory Board, Dr. Karl-Hermann Baumann, as former Chairman of the Supervisory Board and the Audit Committee, also received higher compensation on a pro-rata basis. The same applies to Dr. Josef Ackermann as a former member of the Audit Committee.

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

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

An existing agreement with 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 office with secretarial services for representing the Company at official events in Germany and abroad as well as 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, 2005, members of the Managing Board held a total of 1,104,459 (2004: 1,000,014) Siemens shares and stock options on Siemens shares, representing 0.124 percent (2004: 0.112 percent) of the capital stock of Siemens AG. As of October 15, 2005, members of the Supervisory Board held 185,544 (2004: 18,824) Siemens shares and stock options on Siemens shares, representing 0.021 percent (2004: 0.002 percent) of the capital stock of Siemens AG. These figures do not include 10,786,521 (2004: 16,364,977) shares, or 1.2 percent (2004: 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 38,102,921 (2004: 38,685,250) shares, or some 4.3 percent (2004: 4.3 percent) of the capital stock, over which the vSV has voting control under a power of attorney. Peter von Siemens is authorized to vote these shares as a representative of the founder's family.

**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 permitted 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 with employment functions. In such a case, the Company may, with effect from October 1, 2005, hold members of the Managing Board liable for such loss up to an amount equivalent to 20 percent of the fixed salary. In the same way, each member of the Supervisory Board has individually agreed to be held liable up to an amount equivalent to 20 percent of the fixed compensation component (i.e., a deductible within the meaning of Section 3.8, paragraph 2, of the German Corporate Governance Code).

# Information for shareholders

## Management's discussion and analysis

## Consolidated Financial Statements

# Management's discussion and analysis

## Business overview

### Financial highlights

Fiscal 2005 was a very dynamic year for Siemens. We saw healthy growth, notably double-digit growth in orders, and many of our Groups produced strong profit performances. Siemens also completed one of its busiest years of portfolio changes, gaining new strength in power, medical solutions and industrial automation. Furthermore, we took important steps with respect to our Information and Communications businesses.

**Orders rose 11% to €83.791 billion and sales of €75.445 billion were up 7%.** Orders were higher at every Group in Operations, and sales also rose across the board except at Transportation Systems (TS). Sales growth was driven by international expansion, while orders climbed both domestically and internationally. Acquisitions made a significant contribution to top-line growth for the year. Excluding currency translation effects and the net effect of acquisitions and dispositions, orders rose 7% and sales were up 3% year-over-year.

**Income from continuing operations was €3.058 billion, level with income from continuing operations of €3.450 billion in fiscal 2004, excluding a net benefit of €403 million related to the sale of shares in Infineon Technologies AG and a goodwill impairment.** Income from continuing operations 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. Basic and diluted earnings per share on a continuing basis were €3.43 and €3.29, respectively, compared to €3.87 and €3.71 a year earlier.

**Net income was €2.248 billion, including a negative €810 million related to discontinued mobile devices operations. Net income of €3.405 billion in the prior year also included the €403 million net benefit.** Fiscal 2005 basic and diluted earnings per share were €2.52 and €2.42, respectively, compared to €3.82 and €3.66 a year earlier.

**Group profit from Operations was €4.687 billion, including significant charges in the I&C Groups and the industry logistics businesses formerly of Logistics and Assembly Systems (L&A).** Most Groups continued on track toward their fiscal 2007 earnings objectives, with particularly strong earnings coming from Automation and Drives (A&D), Medical Solutions (Med), Power Generation (PG), Siemens VDO Automotive (SV) and Osram. In contrast, Group profit at Communications (Com) was significantly lower than in the prior year, Siemens Business Services (SBS) posted a substantial loss and the Distribution and Industry Logistics and Material Handling Products divisions incurred charges. These businesses were the primary factors in the decline in Group profit from Operations compared to €5.136 billion in fiscal 2004.

**Net cash used in operating and investing activities was €2.703 billion compared to net cash provided of €3.262 billion in the prior year. On a continuing basis, net cash used in operating and investing activities was €1.489 billion, including a significant increase in cash used for acquisitions and investments to €3.102 billion and €1.496 billion in supplemental cash contributions to Siemens pension plans.** In the prior year, net cash provided by operating and investing activities was €3.015 billion, including lower supplemental pension plan contributions of €1.255 billion more than offset by €1.794 billion in net proceeds from the Infineon share sale.

**Siemens' Managing and Supervisory Boards propose a dividend of €1.35 per share.** The prior-year dividend per share was €1.25.

**Strategic overview**

Siemens' competitive strategy is to innovate through research and development (R&D), optimize its business portfolio to bring that innovation to market on a global basis, and back these efforts with a strong, conservative financial condition.

Siemens is one of the most innovative companies in the world, holding more than 53,000 patents worldwide as well as numerous patent exchange and licensing agreements. Based on patent statistics, Siemens is number one in Germany, number two in Europe, and among the top ten in the U.S. To remain innovative, we invested €5.155 billion in R&D, even more than the €4.650 billion in fiscal 2004.

We continually balance our business portfolio to maintain our leadership in established markets while penetrating new markets. In some cases this involves acquiring complementary technology that enables us to offer more complete solutions. We also use acquisitions to gain scale in new regions. In fiscal 2005, we pursued both strategies, and also exited or reduced our participation in markets where our competitive position did not enable us to achieve growth or profitability goals. Major transactions included the following:

- In December 2004 (the first quarter of fiscal 2005), we entered the fast-growing alternative energy market by acquiring a wind power company, Bonus Energy A/S (Bonus) in Denmark.
- In May 2005, we expanded our position in the growing field of molecular imaging by acquiring CTI Molecular Imaging, Inc. (CTI) in the U.S.
- In July 2005, we strengthened our existing industrial automation portfolio by acquiring Flender Holding GmbH (Flender), a German-based industrial gear manufacturer, and Robicon Corporation (Robicon), a U.S.-based maker of voltage converters for industrial motors.
- In July 2005, we completed the acquisition of VA Technologie AG (VA Tech) of Austria to enhance business opportunities in power transmission and distribution and in industrial engineering.
- In September 2005, we sold our mobile devices business, which lacked the necessary scale to compete effectively in a consolidating market. These business activities are reported in discontinued operations for both the current and prior periods.

We further optimized our business portfolio in fiscal 2005 through a number of smaller acquisitions and divestments. For a detailed discussion of our acquisitions, dispositions and discontinued operations, see "Notes to Consolidated Financial Statements."

Siemens is one of the most global companies in the world. In fiscal 2005, international business accounted for nearly €60 billion in revenues, representing approximately 80% of total sales. In particular, we expanded our business in the Americas and Asia-Pacific at more than twice the gross domestic product (GDP), highlighted by strong demand for our solutions in the U.S. and China. Siemens operates in approximately 190 countries, enabling us to bring our offerings to customers throughout the world.

We maintain a strong, conservative financial position, careful management of net working capital, and transparency for the financial and investment communities. For example, the acquisitions mentioned above entailed significant cash outflows in fiscal 2005, yet our equity ratio remained above 30%. In addition, we have significantly strengthened our pension plans in recent years through substantial supplemental contributions.

## Basis of presentation

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

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 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."

As a result of changes in the Company's management approach, various modifications were made to the Groups. Information and Communication Networks (ICN) and Information and Communication Mobile (ICM), previously separate Groups, were combined to form one Group named Com as of October 1, 2004. As discussed in our "Notes to Consolidated Financial Statements," Com's mobile devices business is reported as discontinued operations and therefore excluded from Com's results. The earlier L&A divisions Distribution and Industry Logistics, as well as Material Handling Products were reclassified to Other Operations as of September 30, 2005. Prior year information has been recast into the new structure for purposes of comparison.

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.

For additional information, see "Notes to Consolidated Financial Statements."

**Siemens**
Consists of the following three components which include the twelve operating Groups (eleven in fiscal 2006) and the two Groups in Financing and Real Estate

**Operations**

- Communications (Com)*
- 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.

** L&A was dissolved as of October 1, 2005. As of this date, Postal Automation and Airport Logistics were integrated into I&S and Electronic Assembly Systems became part of A&D while the Distribution and Industry Logistics division and Material Handling Products were retroactively reported in Other Operations as of September 30, 2005.

## Fiscal 2005 – Results of Siemens

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

| (€ in millions) | 2005 | 2004 |
|---|---|---|
| New orders | 83,791 | 75,789 |
| New orders in Germany | 16,333 | 15,173 |
| New international orders | 67,458 | 60,616 |
| Sales | 75,445 | 70,237 |
| Sales in Germany | 15,685 | 16,223 |
| International sales | 59,760 | 54,014 |

Orders for fiscal 2005 increased 11%, to €83.791 billion from €75.789 billion, on growing demand particularly in Asia-Pacific and the Americas. Sales were €75.445 billion, a 7% increase from €70.237 billion in the prior-year period. Excluding the net effects of acquisitions and dispositions and currency translation effects, sales were up 3% and orders rose 7%.

International sales and orders rose 11%, to €59.760 billion and €67.458 billion, respectively. In Germany, sales declined 3% year-over-year, to €15.685 billion, while orders rose 8%, to €16.333 billion, due primarily to major orders at PG and outsourcing contracts at SBS. In Europe outside Germany, sales for fiscal 2005 rose 7% year-over-year, to €24.429 billion, and orders were nearly level, at €26.150 billion. Within the Americas, sales in the U.S. for the full year increased 10%, to €14.686 billion, and orders rose 15%, to €15.867 billion, as growth from acquisitions more than offset negative currency translation effects. Asia-Pacific sales of €10.057 billion were 12% higher than in fiscal 2004, while orders climbed 23% year-over-year, to €11.918 billion. Within Asia-Pacific, sales in China were up 19%, at €3.202 billion, while orders in China surged 40%, to €4.142 billion.

| (€ in millions) | 2005 | 2004 |
|---|---|---|
| Gross profit on sales | 21,943 | 20,645 |
| as percentage of sales | 29.1% | 29.4% |

Gross profit as a percentage of sales in fiscal 2005 was 29.1% compared to 29.4% in the prior year. Despite this overall margin decline, the majority of the Groups in Operations increased their gross profit in fiscal 2005, led by TS, A&D, SV and I&S. Gross profit at TS in the prior year included significantly higher charges in the Group's rolling stock business. A&D improved gross profit with strong growth at the Industrial Automation and Motion Control divisions, as well as through higher revenues. In fiscal 2005, SV's gross profit primarily benefited from increased revenues and a favorable sales mix. I&S' higher gross profit was mainly due to a full-year contribution of the Group's water systems business. Negative operating results and charges for severance and capacity adjustments led to a significant gross profit decline at SBS.

| (€ in millions) | 2005 | 2004 |
|---|---|---|
| Research and development expenses | (5,155) | (4,650) |
| as percentage of sales | 6.8% | 6.6% |
| Marketing, selling and general administrative expenses | (13,684) | (12,828) |
| as percentage of sales | 18.1% | 18.3% |
| Other operating income (expense), net | (9) | (172) |
| Income from investments in other companies, net | 584 | 1,031 |
| Income from financial assets and marketable securities, net | 297 | 69 |
| Interest income (expense) of Operations, net | (32) | 20 |
| Other interest income, net | 241 | 254 |

R&D expenses increased €505 million in fiscal 2005, to €5.155 billion. This amount was up significantly from €4.650 billion in fiscal 2004. R&D spending as a percentage of sales rose to 6.8% compared to 6.6% in fiscal 2004.

Siemens' marketing, selling and general administrative expenses were €13.684 billion, compared to €12.828 billion in fiscal 2004, driven primarily by higher costs at Com. Expenses at I&S were also higher, due to the water systems acquisition in the prior year. Due to rising sales, marketing, selling and general administrative expenses fell to 18.1% of sales compared to 18.3% in fiscal 2004.

Other operating income (expense), net was a negative €9 million compared to a negative €172 million in fiscal 2004. Included in these amounts were goodwill impairments of €262 million at SBS in fiscal 2005 and €433 million related to airport logistics and distribution and industry logistics activities in fiscal 2004. Gains on sales of real estate, net of €177 million in fiscal 2005 were higher than €64 million in the prior year. The increase in fiscal 2005 was primarily due to significant gains in Operations as well as Financing and Real Estate activities. Gains on sales and disposals of businesses, net, of €49 million, were lower than €182 million in fiscal 2004, which included the sale of Med's Life Support Systems (LSS) business and SBS' sale of a 74.9% interest in its Kordoba KG (Kordoba) banking software business.

Income from investments in other companies, net was €584 million compared to €1.031 billion in the prior year, which included the Infineon share sale gain of €590 million. Income from financial assets and marketable securities, net was €297 million, up from €69 million in fiscal 2004, due primarily to the €208 million gain on the sale of Juniper Networks Inc. (Juniper) shares at Com.

| (€ in millions) | 2005 | 2004 |
|---|---|---|
| Income from continuing operations before income taxes | 4,185 | 4,369 |
| Income taxes | (979) | (767) |
| as percentage of income from continuing operations before income taxes | 23% | 18% |
| Income from continuing operations | 3,058 | 3,450 |
| Income (loss) from discontinued operations, net of income taxes | (810) | (45) |
| Net income | 2,248 | 3,405 |

Income taxes on Siemens' income from continuing operations were 23%, up from 18% in fiscal 2004. In fiscal 2005, our income tax rate was reduced due to a reorganization of certain businesses in the U.S generating previously unrecognized tax deductions. The fiscal 2004 income tax rate benefited from the Infineon share sale gain and related €246 million reversal in deferred tax liabilities. Non-deductible goodwill impairments also impacted the rate in both fiscal years.

For the fiscal year ended September 30, 2005, Siemens reported income from continuing operations of €3.058 billion compared to €3.450 billion due to the factors mentioned above. Based on income from continuing operations, basic and diluted earnings per share were €3.43 and €3.29, respectively, compared to €3.87 and €3.71 a year earlier. Discontinued operations in fiscal 2005 were a negative €810 million due to operating losses, asset impairments, and a loss on the sale of Com's mobile devices business. We do not expect future earnings to be materially impacted by the discontinued mobile devices activities. For additional information with respect to discontinued operations, see "Notes to Consolidated Financial Statements." Net income, which includes discontinued operations, was €2.248 billion. Net income of €3.405 billion a year earlier also includes the €403 net benefit mentioned above. Basic and diluted earnings per share were €2.52 and €2.42, respectively, compared to €3.82 and €3.66 a year earlier.

## Segment information analysis

### Operations

### Information and Communications

### Communications (Com)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2005 | 2004 | Actual | Adjusted* |
| Group profit | 454 | 707 | (36)% | |
| Group profit margin | 3.5% | 5.6% | | |
| Sales | 13,141 | 12,709 | 3% | 2% |
| New orders | 13,802 | 13,031 | 6% | 5% |

* Excluding portfolio effects of 1% on sales and orders.

Com sold its mobile devices business to BenQ of Taiwan in the fourth quarter. Siemens' income statement separates out discontinued operations for both current and prior-year periods in order to focus on continuing operations and provide a consistent basis for comparing financial performance over time. The following discussion conforms to this presentation.

Fiscal 2005 orders at Com rose 6%, to €13.802 billion, and sales increased 3%, to €13.141 billion. The wireless infrastructure market continued to grow, and the Mobile Networks division accounted for much of Com's growth for the year while also making a strong earnings contribution. Group profit for Com overall was €454 million for the year, down from €707 million a year earlier. Group profit for the current year includes significant severance charges. The charges were more than offset by a gain of €208 million on the sale of a portion of Com's shares in Juniper. Com's enterprise business profitability declined compared to the prior-year, in part due to margin pressure associated with demand shifts in the corporate market toward wireless and web-based solutions. The earnings development of Fixed Networks was affected by severance charges and the division recorded a significant loss. As part of its strategic reorientation, in fiscal 2005, Com acquired a wireless local area network (WLAN) company and a software company specializing in internet protocol video aimed at the home entertainment market. Com expects charges in coming quarters for additional capacity adjustments.

### Siemens Business Services (SBS)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2005 | 2004 | Actual | Adjusted* |
| Group profit | (690) | 40 | | |
| Group profit margin | (12.8)% | 0.8% | | |
| Sales | 5,373 | 4,716 | 14% | 5% |
| New orders | 6,531 | 6,293 | 4% | (6)% |

* Excluding portfolio effects of 9% and 10% on sales and orders, respectively.

SBS posted a loss of €690 million in fiscal 2005, due primarily to a goodwill impairment of €262 million in its Operation-Related Services division, severance and capacity adjustment charges totaling €228 million and a decline in profitability resulting from overcapacity and continuing pricing pressure. Group profit in the prior year included a €93 million gain from the sale of 74.9% of Kordoba. SBS realized a gain of €26 million on the sale of its remaining interest in Kordoba in fiscal 2005. Sales and order growth was influenced by outsourcing contracts, partly involving acquisitions. Sales were €5.373 billion, up 14% year-over-year, with approximately half the growth coming from internal business, partly as a result of Siemens' announced plans to concentrate the operation of its IT infrastructure at SBS. Orders were €6.531 billion, an increase of 4% compared to the prior year. As part of its strategic reorientation, SBS divested part of its Product-Related Services activities in Germany, and announced plans to outsource ordinary PC maintenance services worldwide. SBS expects charges in coming quarters for severance and capacity adjustments.

## Automation and Control

### Automation and Drives (A&D)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2005 | 2004 | Actual | Adjusted* |
| Group profit | 1,210 | 1,077 | 12% | |
| Group profit margin | 12.3% | 12.2% | | |
| Sales | 9,844 | 8,829 | 11% | 7% |
| New orders | 10,190 | 8,980 | 13% | 10% |

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

A&D continued to perform at a high level in the growing world market for factory automation solutions, delivering double-digit growth in earnings, sales and orders in fiscal 2005. Group profit rose 12% to €1.210 billion, primarily due to strong profit growth at the Industrial Automation and Motion Control divisions. A&D also significantly expanded its business base, making two of Siemens' larger acquisitions of the fiscal year. The Group acquired Flender, a leading industrial gear maker, in order to strengthen its ability to offer complete drive systems. A&D also acquired Robicon, a leading manufacturer of motor voltage converters, to complement its existing technology and gain access to new customers in strategic industrial sectors in Europe, Asia and the Americas. Including these acquisitions, fiscal 2005 sales for A&D climbed 11% year-over-year, to €9.844 billion, and orders increased 13%, to €10.190 billion. Within these totals, A&D expanded in all regions, particularly in Asia-Pacific and the Americas. Effective with the beginning of fiscal 2006, A&D includes Siemens' Electronics Assembly Systems division, which was formerly part of L&A.

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

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2005 | 2004 | Actual | Adjusted* |
| Group profit | 139 | 95 | 46% | |
| Group profit margin | 2.6% | 2.2% | | |
| Sales | 5,390 | 4,290 | 26% | 6% |
| New orders | 5,686 | 4,356 | 31% | 15% |

* Excluding currency translation effects of (1)% on sales and orders, and portfolio effects of 21% and 17% on sales and orders, respectively.

I&S contributed Group profit of €139 million in fiscal 2005, up 46% from €95 million a year earlier. Profit growth was due primarily to a full-year contribution from the Group's water systems business, acquired in the fourth quarter of fiscal 2004. Group profit at I&S also benefited from Group-wide earnings improvements. Sales climbed 26% for the year, to €5.390 billion, including the water systems business and revenues from I&S' portion of the VA Tech acquisition. These acquisitions also contributed strongly to the year's 31% growth in orders, which reached €5.686 billion. On a regional basis, I&S offset weak revenues in Germany with faster growth internationally, particularly in Asia-Pacific, where rapidly industrializing economies require infrastructure engineering expertise. Demand continues to rise for systems and services that address the purification, distribution and efficient use of water for both civic and industrial applications. We expect that integrating its portion of the VA Tech acquisition will be a significant management focus at I&S in fiscal 2006. Effective with the beginning of fiscal 2006, I&S includes Siemens' Postal Automation and Airport Logistics divisions, which were formerly part of L&A.

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

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2005 | 2004 | Actual | Adjusted* |
| Group profit | 69 | 45 | 53% | |
| Group profit margin | 4.7% | 3.2% | | |
| Sales | 1,472 | 1,419 | 4% | 8% |
| New orders | 2,015 | 1,799 | 12% | 16% |

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

Following an intensive analysis by the Managing Board, the Company announced in the fourth quarter of fiscal 2005, the carve-out of the Distribution and Industry Logistics, as well as of the Materials Handling Products divisions of L&A into a separate legal entity, named Dematic. These activities have been retroactively reported in Other Operations for the periods presented. As a result, the Managing Board decided to dissolve L&A effective with the beginning of fiscal 2006. As a consequence, the Airport Logistics division and Postal Automation division were transferred to I&S and the Electronics Assembly Systems division was transferred to A&D.

Group profit of €69 million in fiscal 2005 was up 53% from €45 million a year earlier, on Group-wide earnings improvements. While Electronics Assembly Systems was profitable in fiscal 2004, Postal Automation and Airport Logistics posted losses, including charges related to excess capacity and project cost overruns. Sales rose 4% to €1.472 billion, including growing revenues in the Airport Logistics division. Orders climbed 12%, to €2.015 billion, driven by a major order in the Postal Automation division.

### Siemens Building Technologies (SBT)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2005 | 2004 | Actual | Adjusted* |
| Group profit | 181 | 108 | 68% | |
| Group profit margin | 4.1% | 2.5% | | |
| Sales | 4,415 | 4,247 | 4% | 3% |
| New orders | 4,518 | 4,358 | 4% | 4% |

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

SBT posted €181 million in Group profit in fiscal 2005, a 68% improvement built on greater capacity utilization. In fiscal 2005, all divisions at SBT contributed improved earnings and Group profit rose in all four quarters compared to the corresponding period a year earlier. Sales and orders both rose 4%, to €4.415 billion and €4.518 billion, respectively, particularly including growth in the Security Systems division.

## Power

### Power Generation (PG)

| (€ in millions) | Year ended September 30, 2005 | 2004 | % Change Actual | Adjusted* |
|---|---|---|---|---|
| Group profit | 951 | 961 | (1)% | |
| Group profit margin | 11.8% | 12.8% | | |
| Sales | 8,061 | 7,527 | 7% | 3% |
| New orders | 10,964 | 9,243 | 19% | 14% |

* Excluding currency translation effects of (1)% on sales and orders, and portfolio effects of 5% and 6% on sales and orders, respectively.

Fiscal 2005 orders climbed 19% at PG, to €10.964 billion for the year, fueled by PG's integration of Bonus, a wind power business acquired in the first quarter, and large fossil power plant contracts in the Middle East, Europe, Germany and the Commonwealth of Independent States (C.I.S.). The Group's 7% increase in sales, to €8.061 billion, also benefited from the Bonus acquisition. The wind power sector is growing at double-digit rates, primarily from demand in developed nations. Sales growth was complemented by the industrial applications business. PG delivered €951 million in Group profit in fiscal 2005, close to the level a year earlier. Cancellation gains were €58 million compared to €47 million a year earlier. Group profit contributions from joint ventures were higher than in the prior year, including continued earnings from PG's joint venture Framatome in Europe and first-time contributions from PG's joint ventures in China. The Group's earnings margin was negatively impacted by ongoing changes in sales mix, including faster growth in PG's industrial business relative to its fossil power generation business.

### Power Transmission and Distribution (PTD)

| (€ in millions) | Year ended September 30, 2005 | 2004 | % Change Actual | Adjusted* |
|---|---|---|---|---|
| Group profit | 212 | 238 | (11)% | |
| Group profit margin | 5.0% | 6.6% | | |
| Sales | 4,250 | 3,611 | 18% | 3% |
| New orders | 5,283 | 3,863 | 37% | 26% |

* Excluding currency translation effects of (1)% on orders, and portfolio effects of 15% and 12% on sales and orders, respectively.

PTD delivered €212 million in Group profit in fiscal 2005, after integration costs related to its portion of Siemens' VA Tech acquisition, charges related to a project in the C.I.S., and charges for capacity adjustments at a transformer facility in Germany. Sales and orders benefited from Siemens' acquisition of VA Tech, the majority of which was allocated to PTD, and full-year results from Trench Electric Holding, acquired late in the prior year and integrated in fiscal 2005. Sales increased 18%, to €4.250 billion, and orders surged 37%, to €5.283 billion, also on the strength of Group-wide growth, particularly in the High Voltage division. These acquisitions add capacity to PTD at a time of rising demand for long-distance, low-loss power transmission, particularly in China. We expect that integrating its portion of the VA Tech acquisition will be a significant management focus at PTD in fiscal 2006.

## Transportation

### Transportation Systems (TS)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2005 | 2004 | Actual | Adjusted* |
| Group profit | 45 | (434) | | |
| Group profit margin | 1.1% | (10.1)% | | |
| Sales | 4,190 | 4,310 | (3)% | (3)% |
| New orders | 4,599 | 4,321 | 6% | 6% |

* Excluding currency translation effects.

TS recorded Group profit of €45 million in fiscal 2005 and continued to stabilize its operations. For comparison, the loss of €434 million a year earlier included significantly higher charges in the Group's rolling stock business, primarily related to the Combino low-floor trams but also for other projects. While sales for the year came in at €4.190 billion, 3% below the prior-year level, orders rose 6%, to €4.599 billion. TS continued to expand its orders outside its traditional markets in Germany and other European countries, particularly in Asia-Pacific where the increasing number of large cities with growing populations gives rise to greater demand for urban transit systems. Demand in the German market continued to decline in fiscal 2005, as a result of reduced government funding of rail transportation systems. Margin pressures continued to intensify on an industry-wide basis, due to increases in competition, privatization, and customer requirements.

### Siemens VDO Automotive (SV)

| | Year ended September 30, | | % Change | |
|---|---|---|---|---|
| (€ in millions) | 2005 | 2004 | Actual | Adjusted* |
| Group profit | 630 | 562 | 12% | |
| Group profit margin | 6.6% | 6.2% | | |
| Sales | 9,610 | 9,001 | 7% | 2% |
| New orders | 9,787 | 9,029 | 8% | 3% |

* Excluding portfolio effects of 5% on sales and orders.

SV increased its fiscal 2005 Group profit 12%, to €630 million, leveraging a larger revenue base with a more favorable sales mix. The Group also continued to realize significant benefits from on-going cost-cutting and efficiency measures in a slower-growing automotive market. Sales were up 7%, to €9.610 billion, primarily due to full-year consolidation of a U.S. unit acquired in the middle of fiscal 2004 to meet rising demand for advanced automotive electronics and to strengthen its position in the U.S. market. The same factors accounted for a broad-based 8% increase in orders, to €9.787 billion for the year.

## Medical

### Medical Solutions (Med)

| (€ in millions) | Year ended September 30, 2005 | 2004 | % Change Actual | Adjusted* |
|---|---|---|---|---|
| Group profit | 976 | 1,046 | (7)% | |
| Group profit margin | 12.8% | 14.8% | | |
| Sales | 7,626 | 7,072 | 8% | 9% |
| New orders | 8,641 | 8,123 | 6% | 8% |

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

Med contributed €976 million in Group profit in fiscal 2005. For comparison, Group profit in fiscal 2004 included €118 million in gains from portfolio transactions early in the year, primarily the sale of Med's LSS business. Diagnostics imaging solutions led growth for the year, driven by new innovative products and applications. Sales rose 8%, to €7.626 billion, and orders were up 6% year-over-year, to €8.641 billion. In fiscal 2005, Med acquired CTI, its joint venture partner for positron emission tomography (PET) systems. This transaction strengthens Med's ability to discover, develop and deliver solutions in the growing field of molecular imaging.

## Lighting

### Osram

| (€ in millions) | Year ended September 30, 2005 | 2004 | % Change Actual | Adjusted* |
|---|---|---|---|---|
| Group profit | 465 | 445 | 4% | |
| Group profit margin | 10.8% | 10.5% | | |
| Sales | 4,300 | 4,240 | 1% | 3% |
| New orders | 4,300 | 4,240 | 1% | 3% |

* Excluding currency translation effects of (2)% on sales and orders.

Osram's Group profit in fiscal 2005 was €465 million, up 4% year-over-year despite rising energy and materials costs. The Group responded with productivity increases and higher revenues from high-end products used in advanced lighting applications. Sales rose to €4.300 billion for the year despite negative currency translation effects.

**Other Operations**
Other Operations consist of centrally held equity investments, joint ventures and other operating businesses not related to a Group. With the announced carve-out of the Dematic businesses mentioned above, their results are included in Other Operations on a retroactive basis to maintain a meaningful comparison with prior years. In fiscal 2005, these businesses contributed approximately €1 billion in sales, a 11% decrease compared to the prior year. Group profit from Other Operations was €45 million compared to €246 million in the prior year, which included a negative €43 million from the Dematic businesses. In the current period, these activities impacted results through asset impairments of €98 million, project charges and higher operating losses. In addition, earnings from joint ventures were also lower year-over-year.

**Corporate items, pensions and eliminations**
Corporate items, pensions and eliminations totaled a negative €1.072 billion in fiscal 2005, compared to a negative €1.206 billion in fiscal 2004. Within the total, corporate items accounted for a negative €537 million. For comparison, the negative €450 million in corporate items a year earlier included the pre-tax Infineon gain of €590 million, partly offset by a €433 million goodwill impairment related to airport logistics and distribution and industry logistics activities acquired from Atecs Mannesmann in 2001. Centrally carried pension expense was €519 million compared to €729 million a year earlier. This decrease was due primarily to supplemental pension funding, which increased pension plan assets and expected absolute returns, and lower amortization of unrecognized net losses in the current year compared to the prior-year period. We expect centrally carried pension expense to increase in fiscal 2006 due to a reduction in the discount rate assumption at September 30, 2005.

## Financing and Real Estate

### Siemens Financial Services (SFS)

| | Year ended September 30, | | |
|---|---|---|---|
| (€ in millions) | 2005 | 2004 | % Change |
| Income before income taxes | 319 | 250 | 28% |
| Total assets | 10,148 | 9,055 | 12% |

Income before income taxes at SFS in fiscal 2005 was €319 million, up from €250 million a year earlier. The increase year-over-year was due primarily to a special dividend related to an investment, a gain from the sale of an investment, and a gain on a 51% stake in the real estate funds management business of Siemens Kapitalanlagegesellschaft mbH (SKAG), partially offset by an increase in reserves on accounts receivables. The increase in assets at SFS compared to the prior year stems primarily from the expansion of the Equipment and Sales Financing business in Europe and the Americas. In fiscal 2005, this expansion included the acquisition of Broadcastle plc, a U.K. financial services firm with activities in the U.K. healthcare sector.

### Siemens Real Estate (SRE)

| | Year ended September 30, | | |
|---|---|---|---|
| (€ in millions) | 2005 | 2004 | % Change |
| Income before income taxes | 144 | 106 | 36% |
| Sales | 1,621 | 1,578 | 3% |
| Total assets | 3,496 | 3,455 | 1% |

Income before income taxes at SRE was €144 million compared to €106 million a year earlier, which included termination costs associated with a major development project in Germany. Sales rose 3%, to €1.621 billion, primarily due to an increase in international business. Results at SRE were adjusted to reflect a small effect related to discontinued operations.

### Eliminations, reclassifications and Corporate Treasury

Income before taxes from eliminations, reclassifications and Corporate Treasury was €298 million compared to €224 million a year earlier. The difference was due mainly to higher income from interest rate hedging activities not qualifying for hedge accounting.

## EVA performance

During fiscal 2005, 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.

As the two major business components of Siemens - Operations compared to Financing and Real Estate - are fundamentally different from each other, we use two types of EVA calculations: the industry concept in the case of Operations Groups and the financial concept in the case of Financing and Real Estate.

In the case of *Operations Groups*, we use Group profit as the base measure and apply a flat tax rate for calculating the 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 risk associated with the particular business.

The underlying assumptions of our EVA calculations are continuously reviewed. As a result of the shift in the market value debt-to-equity ratio together with the sustainable changes in our business environment - particularly with respect to the interest rate, the market risk and the tax law - an adaptation of key assumptions for our EVA calculation was initiated at the beginning of fiscal year 2005. The following table illustrates the current and the former percentages of our cost of debt, our flat tax rate and our debt-to-equity ratio at a fair value:

| | Assumptions | |
|---|---|---|
| | new | old |
| Cost of debt | 4.7% | 5.3% |
| Flat tax rate | 30% | 35% |
| Market value of equity as a percentage of total capital | 80% | 85% |
| Market value of debt as a percentage of total capital | 20% | 15% |

These assumptions and the effective market risk for our Operations Groups result in the following figures of Weighted Average Cost of Capital (WACC):

| | WACC | |
|---|---|---|
| | new | old |
| **Operations Groups** | | |
| Communications (Com) | 8.5% | 10% |
| Siemens Business Services (SBS) | 7.5% | 10% |
| Automation and Drives (A&D) | 6.5% | 9% |
| Industrial Solutions and Services (I&S) | 7% | 9% |
| Logistics and Assembly Systems (L&A) | 7% | 9% |
| Siemens Building Technologies (SBT) | 7% | 8% |
| Power Generation (PG) | 7% | 9% |
| Power Transmission and Distribution (PTD) | 7% | 9% |
| Transportation Systems (TS) | 7% | 9% |
| Siemens VDO Automotive (SV) | 7% | 9% |
| Medical Solutions (Med) | 7% | 9% |
| Osram | 6.5% | 8% |

In order to determine the capital charge for each Operations Group, the respective percentage is applied against the average net operating assets. Average net operating assets were determined on a monthly basis, principally based on net capital employed.

In the case of *Financing and Real Estate*, we use the financial concept to calculate the EVA. As the base measure we use income before income taxes and apply the above mentioned flat tax rate to arrive at the 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. Since the cost of debt is already considered within the income before income taxes, the cost of capital is only based on equity components. The EVA for Corporate Treasury is calculated similarly to Financing and Real Estate.

The cost of risk-oriented equity of the Financing and Real Estate Groups was also adjusted to the changes in our business environment. The following table illustrates the current and the former percentages of our cost of equity:

| | Cost of equity | |
|---|---|---|
| | new | old |
| **Financing and Real Estate Groups** | | |
| Siemens Financial Services (SFS) | 7.5% | 9.75% |
| Siemens Real Estate (SRE) | 6.5% | 8% |

At the beginning of the fiscal year 2005, the EVA calculation based on our component model was further improved for the Operations Groups. This occurred by also applying the financial concept to the pensions, which are centrally held.

Other organizations that use EVA as a measure of financial performance may define and calculate EVA differently. To better enable comparison of the current performance with the performance of the previous year, all EVA figures of fiscal 2004 presented below are based on the assumptions of fiscal year 2005.

Based on continuing operations, Siemens created EVA of €1.311 billion in fiscal 2005 compared to €1.720 billion a year earlier. Including discontinued operations, EVA was €414 million in fiscal 2005. For comparison, EVA of €1.620 billion in the prior year included the Infineon gain and goodwill impairment mentioned above.

**Economic Value Added (EVA) calculation**
For the fiscal years ended September 30, 2005 and 2004[1]

| | Siemens | | Eliminations, reclassifications and Corporate Treasury | | Operations | | Financing and Real Estate | |
|---|---|---|---|---|---|---|---|---|
| (€ in millions) | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| **Income from continuing operations** | **3,058** | **3,450** | **228** | **185** | **2,475** | **2,972** | **355** | **293** |
| Minority interest | 148 | 152 | – | – | 148 | 152 | – | – |
| Income taxes[2] | 979 | 767 | 70 | 39 | 801 | 665 | 108 | 63 |
| **Income from continuing operations before income taxes** | **4,185** | **4,369** | **298** | **224** | **3,424** | **3,789** | **463** | **356** |
| Other interest income (expense) of Operations, net | 191 | 141 | – | – | 191 | 141 | – | – |
| Taxes and financial adjustments | (1,094) | (1,001) | (90) | (67) | (902) | (842) | (102) | (92) |
| **Net operating profit from continuing operations after taxes** | **3,282** | **3,509** | **208** | **157** | **2,713** | **3,088** | **361** | **264** |
| | Sept. 30, 2005 | Sept. 30, 2004 | Sept. 30, 2005 | Sept. 30, 2004 | Sept. 30, 2005 | Sept. 30, 2004 | Sept. 30, 2005 | Sept. 30, 2004 |
| **Total assets** | **86,205** | **79,518** | **(8,553)** | **(343)** | **81,454** | **67,927** | **13,304** | **11,934** |
| Other asset related and miscellaneous reconciling items (see table segment information) | – | – | – | – | (59,787) | (49,821) | – | – |
| Financial adjustments | – | – | – | – | 927 | 1,114 | – | – |
| Pension adjustment and average calculation[3] | – | – | – | – | 3,133 | 3,950 | – | – |
| Liabilities[4] | – | – | – | – | – | – | (11,401) | (9,999) |
| **Average net operating assets for Operations (continuing operations) / allocated equity for Financing and Real Estate** | **–** | **–** | **–** | **–** | **25,727** | **23,170** | **1,903** | **1,935** |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Net operating profit from continuing operations after taxes | 3,282 | 3,509 | 208 | 157 | 2,713 | 3,088 | 361 | 264 |
| Capital charge[5] | (1,971) | (1,789) | (13) | (11) | (1,825) | (1,644) | (133) | (134) |
| **EVA from continuing operations** | **1,311** | **1,720** | **195** | **146** | **888** | **1,444** | **228** | **130** |
| EVA from discontinued operations | (897) | (100) | – | – | (897) | (99) | – | (1) |
| **EVA from continuing and discontinued operations** | **414** | **1,620** | **195** | **146** | **(9)** | **1,345** | **228** | **129** |

(1) To conform with to the current year presentation EVA of fiscal 2004 has been calculated according to the assumptions used in fiscal 2005. For further information see discussion above.
(2) 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.
(3) 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. The average net operating assets of discontinued operations have been eliminated for both fiscal years.
(4) As a result of allocated equity, liabilities are also partly allocated.
(5) Capital charge for **Eliminations, reclassifications and Corporate Treasury** is risk-determined.

## Dividend

Siemens AG, the parent company of businesses discussed in this report, recorded net income under German accounting principles (HGB) of €1.451 billion for fiscal 2005 compared to €2.181 billion in the previous year.

At the Annual Shareholders' Meeting scheduled for January 26, 2006, the Managing Board, in agreement with the Supervisory Board, will submit the following proposal: to pay €1.35 per share as a dividend, which aggregates to an expected total payout of €1.203 billion. The prior-year dividend was €1.25 per share.



## Liquidity and capital resources

### Cash flow

The following discussion presents an analysis of Siemens' cash flows for the fiscal years ended September 30, 2005 and 2004. The first table below presents net cash flow for continuing and discontinued operations in which net cash flow from discontinued operations is explained in more detail. The second table, which focuses only on continuing operations, then analyzes net cash flow for Siemens' components.

| | Continuing operations | | Discontinued operations | | Continuing and discontinued operations | |
|---|---|---|---|---|---|---|
| | Year ended September 30, | | | | | |
| (€ in millions) | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Net cash provided by (used in): | | | | | | |
| Operating activities | 4,217 | 4,704 | (1,096) | 376 | 3,121 | 5,080 |
| Investing activities | (5,706) | (1,689) | (118) | (129) | (5,824) | (1,818) |
| **Net cash provided by (used in) operating and investing activities** | **(1,489)** | **3,015** | **(1,214)** | **247** | **(2,703)** | **3,262** |

On a continuing basis, net cash used in operating and investing activities was €1.489 billion in the current year compared to net cash provided of €3.015 billion in fiscal 2004. Discontinued operations used net cash in operating and investing activities of €1.214 billion, compared to net cash provided of €247 million in fiscal 2004. The change of €1.461 billion year-over-year is due primarily to higher net working capital and higher operating losses in fiscal 2005. In line with contractual terms of the sale of the mobile devices business, coming quarters will include additional net cash outflows totaling approximately €500 million related to the disposition of mobile devices operations, including payments related to a product platform transition and costs associated with securing intellectual property. In total, including continuing and discontinued operations, net cash used in operating and investing activities was €2.703 billion, compared to net cash provided of €3.262 billion in fiscal 2004.

| Continuing operations | Operations | | SFS, SRE and Corporate Treasury* | | Siemens | |
|---|---|---|---|---|---|---|
| | Year ended September 30, | | | | | |
| (€ in millions) | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Net cash provided by (used in): | | | | | | |
| Operating activities | 3,565 | 3,635 | 652 | 1,069 | 4,217 | 4,704 |
| Investing activities | (4,787) | (1,394) | (919) | (295) | (5,706) | (1,689) |
| **Net cash provided by (used in) operating and investing activities – continuing operations** | **(1,222)** | **2,241** | **(267)** | **774** | **(1,489)** | **3,015** |

* Also includes eliminations and reclassifications.

Operations provided net cash from operating activities of €3.565 billion in fiscal 2005, close to the level of €3.635 billion a year earlier. Within Operations, net inventories increased across most of the Groups in both the current and prior periods. PG, TS and PTD led the increase in fiscal 2005 while the rise a year earlier was driven by Com and TS. The increase at PG and PTD, as well as Com in fiscal 2004, was attributable to order growth. Higher inventories at TS in the prior year were primarily due to the use of advance project payments not being replenished with current payments from orders. Both the current and prior-year period included significant supplemental cash contributions to Siemens' pension plans of €1.496 billion and €1.255 billion, respectively. Corporate Treasury and Financing and Real Estate activities also contributed a significant portion of the difference between the periods under review. The change year-over-year primarily involves reduced effects from hedging of intracompany financing, due to increased use of externally raised financing in local currencies, while the prior-year period included repayment of a €247 million vendor note related to the earlier disposal of various businesses. For Siemens, net cash provided by operating activities from continuing operations in fiscal 2005 was €4.217 billion, compared to net cash provided of €4.704 billion a year earlier.

Operations used net cash in investing activities from continuing operations of €4.787 billion in the current period compared to net cash used of €1.394 billion a year earlier. The major factor in the change year-over-year was a significant increase in outflows for acquisitions and investments, to €3.000 billion. Major acquisitions and investments included the following: VA Tech, whose activities were allocated primarily to PTD and I&S, for a total of €514 million, net of €535 million cash acquired; CTI at Med for €734 million, net of €60 million cash acquired; Flender and Robicon at A&D, and Bonus at PG, in total for approximately €1.2 billion. Fiscal 2004 included €822 million in cash used for the USFilter acquisition at I&S. Also contributing to the total change was €1.794 billion in net proceeds from the sale of Infineon shares in the prior year, while the current period includes €263 million from Com's sale of a portion of its shares in Juniper. To support business growth, capital expenditures in Operations increased year-over-year and SFS had higher cash outflows for investing activities primarily due to a build-up of leasing assets. For Siemens, net cash used in investing activities from continuing operations in fiscal 2005 was €5.706 billion, compared to net cash used of €1.689 billion a year earlier.

Net cash used in financing activities for Siemens in fiscal 2005 was €1.403 billion compared to €3.108 billion in fiscal 2004. Both periods included cash outflows for notes exchangeable into Infineon shares which came due in fiscal 2005. These cash outflows contributed to repayments of debt totaling €848 million in fiscal 2005 and €1.564 billion in fiscal 2004. The current period also includes net proceeds from the issuance of short-term debt, primarily commercial paper. In fiscal 2005, Siemens' shareholders benefited as we paid €1.112 billion in dividends, up from €978 million in the year earlier.

### 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.

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. It applies to senior unsecured obligations with an original maturity of less than 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 24, 2005 classified the liquidity profile of the Company as "very healthy."

**Capital resources**

Capital resources at September 30, 2005 included €8.121 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, 2005, Corporate Treasury managed approximately 81% of Siemens' cash and cash equivalents. Corporate Treasury carefully manages investments of cash and cash equivalents subject to strict credit requirements and counterparty limits. In addition, €1.789 billion is held in marketable securities, including shares in Infineon, Juniper and Epcos AG (Epcos).

Our shareholders' equity at September 30, 2005 was €27.117 billion, an increase of €262 million since September 30, 2004. 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 26, 2006. Such stock may be sold via a stock exchange; or (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 or former 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 shall be authorized to transfer treasury stock repurchased by the Company to members of the Managing Board of Siemens AG as stock-based compensation with a waiting period of at least two years.

Our principal source of Company financing is cash flow from operating and investing activities. In fiscal 2005, net cash provided by operating activities from continuing operations totaled €4.217 billion. In fiscal 2005, as part of our growth strategy, we incurred significant cash outflows due to various acquisitions. As a result of these acquisitions, as well as higher capital expenditures and higher supplemental cash contributions to Siemens' pension trusts, cash flow from operating and investing activities from continuing operations was a negative €1.489 billion in fiscal 2005.

We have two credit facilities at our disposal, which are available in the unlikely event that we are unable to access commercial paper or medium-term notes markets. Our credit facilities at September 30, 2005 consisted of €4.602 billion in unused committed lines of credit. In fiscal 2005, we renewed our U.S.$3.0 billion multi-currency revolving credit facility and increased it to a U.S.$5.0 billion syndicated multi-currency revolving credit facility expiring March 2012 provided by a syndicate of international banks. In addition, we established a revolving credit facility for an aggregate amount of €450 million expiring in September 2012 provided by a domestic bank. The latter replaces our €750 million revolving credit facility due in June 2008, which we terminated in fiscal 2005. None of our credit facilities contain a material adverse change provision of the type typically found in facilities of such nature.

We also have two commercial paper programs, under which we typically issue commercial paper 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 of €3.0 billion in the euro market. The amount outstanding under these commercial paper programs was €1.484 billion at September 30, 2005.

In addition, the Company has a medium-term note program of €5.0 billion. The amount outstanding under this program was €966 million at September 30, 2005. The Company is in the process of updating the listing particulars of its medium-term note program on the basis of a new European Union Directive in fiscal 2006.

None of our commercial paper and medium-term note programs or our credit facilities contains 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.

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 financial flexibility and limiting repayment risks.

**Capital requirements**

Capital requirements include scheduled debt service and regular capital spending and cash requirements. €3.999 billion of debt, including €1.484 billion of commercial paper, is scheduled to become due in fiscal 2006. We plan capital expenditures for property, plant and equipment for fiscal 2006 to be above current depreciation expense of €2.328 billion for fiscal 2005.

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 of fiscal 2004.

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

The following table summarizes contractual obligations for future cash outflows as of September 30, 2005:

| (€ in millions) | Total | Payments due by period<br>Less than 1 year | 1–3 years | 4–5 years | After 5 years |
|---|---|---|---|---|---|
| Debt | 12,435 | 3,999 | 2,968 | 2,763 | 2,705 |
| Purchase obligations | 10,456 | 8,912 | 1,132 | 324 | 88 |
| Operating leases | 2,681 | 628 | 924 | 546 | 583 |
| **Total contractual cash obligations** | **25,572** | **13,539** | **5,024** | **3,633** | **3,376** |

**Debt** – At September 30, 2005, Siemens had €12.435 billion of short- and long-term debt, of which €3.999 billion will become due within the next 12 months. Included in short-term debt is €1.484 billion 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, 2005, the weighted average maturity of our bonds and notes due after one year was 4.15 years. At September 30, 2004, total debt was €11.219 billion. Further information about the components of debt is given in "Notes to Consolidated Financial Statements."

Debt for Siemens at September 30, 2005 consisted of the following:

| (€ in millions) | Short-Term | Long-Term | Total |
|---|---|---|---|
| Notes and bonds | 1,625 | 6,826 | 8,451 |
| Loans from banks | 673 | 613 | 1,286 |
| Other financial indebtedness | 1,612 | 733 | 2,345 |
| Obligations under capital leases | 89 | 264 | 353 |
| **Total debt** | **3,999** | **8,436** | **12,435** |

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.

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 relevant 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, 2005, €8.971 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, 2005, the Financing and Real Estate component additionally held €386 million in short-term and €521 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, issued €2.5 billion of 1% exchangeable notes due in 2005. In August 2005, Siemens redeemed the remaining outstanding amount of principal €596 million.

In fiscal 2005, the Company acquired Flender including its outstanding debt. Following the acquisition, Siemens announced a cash tender offer with respect to Flender's €250 million 11% senior notes due in 2010. We subsequently repurchased an aggregate principal amount of €176 million of the notes outstanding.

The capital structure of the Financing and Real Estate component at September 30, 2005 and 2004 consisted of the following:

| (€ in millions) | September 30, 2005 SFS | September 30, 2005 SRE | September 30, 2004 SFS | September 30, 2004 SRE |
|---|---|---|---|---|
| Assets | 10,148 | 3,496 | 9,055 | 3,455 |
| Allocated equity | 983 | 920 | 1,015 | 920 |
| Total debt | 8,529 | 1,349 | 7,245 | 1,420 |
| *Therein intracompany financing* | 8,041 | 930 | 6,975 | 1,061 |
| *Therein debt from external sources* | 488 | 419 | 270 | 359 |
| Debt to equity ratio | 8.68 | 1.47 | 7.14 | 1.54 |

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 banking standards. 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, 2005, the Company had €10.456 billion in purchase obligations. Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and which specify 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, 2005, the Company had a total of €2.681 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 €499 million as of September 30, 2005 and to costs associated with the removal of leasehold improvements at the end of the lease term, amounting to €43 million as of September 30, 2005. 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, 2005, the undiscounted amount of maximum potential future payments for guarantees was €1.793 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 €362 million as of September 30, 2005. 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 €829 million as of September 30, 2005. Furthermore, the Company has provided indemnification in connection with dispositions of certain business entities, which protects the buyer from certain tax, legal, and other risks related to the purchased business entity. These other guarantees were €602 million as of September 30, 2005. 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 (VIEs), 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."

**Pension plan funding**
The projected benefit obligation (PBO) of Siemens' principal pension plans, which considers future compensation increases, amounted to €25.0 billion on September 30, 2005 compared to €20.8 billion on September 30, 2004. The fair value of plan assets as of September 30, 2005 was €21.5 billion compared to €17.7 billion on September 30, 2004. 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 12.4% or €2.392 billion, the aggregate return on plan assets between the last measurement dates amounted to 11.9% or €2.289 billion. On September 30, 2005, the combined funding status of Siemens principal pension plans showed an underfunding of €3.5 billion compared to an underfunding of approximately €3.1 billion at the end of the prior fiscal year. A reduction in the discount rate assumption at September 30, 2005 increased Siemens' PBO. This more than offset an increase in plan assets resulting from supplemental and regular contributions, plus the higher than expected actual return on plan assets.

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, we implemented new pension plans in some of our major subsidiaries including Germany, the U.S. and the UK. The benefits of these new plans are based predominantly on contributions made by the Company and, to a minor extent, the effects of longevity, inflation adjustments and compensation increases. 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."

## Overview financial position

As of September 30, 2005, total assets increased by €6.687 billion to €86.205 billion compared to total assets of €79.518 billion as of September 30, 2004. This growth of 8% was mainly due to major acquisitions in the current year which include: CTI at Med, VA Tech, primarily integrated into PTD and I&S, and A&D's acquisition of Flender. Increases in assets from acquisitions more than offset the sale of assets to BenQ, as part of the mobile devices divestment. The remaining assets and liabilities for these discontinued operations are classified as held for sale and will be transferred in fiscal 2006.

Current assets at the respective balance sheet dates were as follows:

| | September 30, | |
|---|---|---|
| (€ in millions) | 2005 | 2004 |
| Cash and cash equivalents | 8,121 | 12,190 |
| Marketable securities | 1,789 | 1,386 |
| Accounts receivable, net | 17,122 | 15,470 |
| Inventories, net | 12,812 | 11,358 |
| Deferred income taxes | 1,484 | 1,144 |
| Assets held for sale | 245 | – |
| Other current assets | 5,230 | 4,398 |
| Total current assets | 46,803 | 45,946 |

Cash and cash equivalents totaled €8.121 billion at September 30, 2005. The decrease of €4.069 billion was primarily due to cash outflows associated with the acquisitions and investments mentioned above, and supplemental contributions to our pension plans totaling €1.496 billion. Marketable securities were higher primarily due to the reclassification of Juniper shares from Long-term investments in fiscal 2005. Due to the sale of Juniper shares in fiscal 2005, additional shares became available-for-sale securities and accordingly reclassified to short-term. Accounts receivable, net was €17.122 billion at the end of fiscal 2005 reflecting mainly an increase from the VA Tech and Flender acquisitions. The increase in Inventories, net of €1.454 billion was driven by growing business volume as well as acquisitions. Other current assets totaled €5.230 billion at the end of fiscal 2005 and include VA Tech's hydropower activities which will be sold to comply with a European antitrust ruling.

Long-term assets at the respective balance sheet dates were as follows:

| | September 30, | |
|---|---|---|
| (€ in millions) | 2005 | 2004 |
| Long-term investments | 3,768 | 4,122 |
| Goodwill | 8,930 | 6,476 |
| Other intangible assets, net | 3,107 | 2,514 |
| Property, plant and equipment, net | 12,012 | 10,683 |
| Deferred income taxes | 6,321 | 4,811 |
| Other assets | 5,264 | 4,966 |
| Total long-term assets | 39,402 | 33,572 |

Goodwill increased by €2.454 billion, to €8.930 billion at September 30, 2005, attributable primarily to the major acquisitions of VA Tech, which contributed €1.027 billion, CTI of €525 million, and Flender with €452 million. Fiscal 2005 also included goodwill impairments totaling €279 million, including €262 million related to SBS. Higher Other intangible assets also were impacted by the above acquisitions. Property, plant and equipment, net rose by €1.329 billion, to €12.012 billion, reflecting both capital investments for future growth and acquisitions.

Current and long-term liabilities at the respective balance sheet dates were as follows:

| | September 30, | |
|---|---|---|
| (€ in millions) | 2005 | 2004 |
| Short-term debt and current maturities of long-term debt | 3,999 | 1,434 |
| Accounts payable | 10,171 | 9,326 |
| Accrued liabilities | 10,169 | 9,240 |
| Deferred income taxes | 1,938 | 1,522 |
| Liabilities held for sale | 289 | – |
| Other current liabilities | 13,267 | 11,850 |
| Total current liabilities | 39,833 | 33,372 |
| | | |
| Long-term debt | 8,436 | 9,785 |
| Pension plans and similar commitments | 4,917 | 4,392 |
| Deferred income taxes | 427 | 569 |
| Other accruals and provisions | 4,819 | 4,016 |
| Total long-term liabilities | 18,599 | 18,762 |

Short-term debt and current maturities of long-term debt totaled €3.999 billion, an increase of €2.565 billion from the prior year-end. This increase mainly resulted from our 5.0% 2001/2006 euro bonds becoming current which were reported in Long-term debt in fiscal 2004. The current year amount also includes the issuance of commercial paper as well as repayments of notes exchangeable into Infineon shares which came due in fiscal 2005. An Accounts payable increase of €845 million, to €10.171 billion, was mainly driven by the acquisitions in fiscal 2005. Other current liabilities of €13.267 billion include billings on long-term construction contracts and payroll related liabilities. The increase year-over-year also related to acquisitions in fiscal 2005. The increase of €525 million in Pension plans and similar commitments is primarily the result of a higher additional minimum liability and funding, as well as the effect from a lower discount rate at September 30, 2005. Accrued liabilities rose by €929 million, to €10.169 billion, principally due to increased employee related costs and tax liabilities.

Shareholders' equity and total assets were as follows:

| | September 30, | |
|---|---|---|
| (€ in millions) | 2005 | 2004 |
| Total shareholders' equity | 27,117 | 26,855 |
| Equity ratio | 31% | 34% |
| Total assets | 86,205 | 79,518 |

Total shareholders' equity rose €262 million, to €27.117 billion at the end of fiscal 2005. The increase results from net income of €2.248 billion, less dividend payments of €1.112 billion and changes in other comprehensive income of negative €919 million in fiscal 2005. These changes were significantly impacted by the change in the minimum pension liability. Due to the overall increase in total assets, the equity ratio decreased by 3 percentage points, to 31%.

For additional information, see "Notes to Consolidated Financial Statements."

## Subsequent events

L&A has been dissolved as of October 1, 2005. As of this date, Postal Automation and Airport Logistics have been integrated into I&S and Electronic Assembly Systems became part of A&D.

After the close of fiscal 2005, Siemens sold its remaining 22.8 million shares of Juniper for net proceeds of €465 million. The share sale is expected to result in a pre-tax gain of €356 million.

## Critical accounting estimates

We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our significant accounting policies, as described in "Notes to Consolidated Financial Statements," are essential to understanding our reported results of operations and financial condition. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. Such critical accounting estimates could change from period to period and have a material impact on financial condition or results of operations. Critical accounting estimates could also involve estimates where management reasonably could have used a different estimate in the current accounting period. Management cautions that future events often vary from forecasts and that estimates routinely require adjustment.

**Revenue recognition on long-term construction contracts** – Our Groups, particularly Com, 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 and vice versa. As of September 30, 2005 and 2004, Siemens recorded a total valuation allowance for accounts receivable of €981 million and €918 million, 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.

**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, 2005 and 2004, Siemens had total goodwill of €8.930 billion and €6.476 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, measured against the accumulated benefit obligation (ABO), of certain pension plans at their respective measurement dates, an additional minimum liability may result, which is generally recorded net of deferred income tax assets in accumulated other comprehensive income. If an additional minimum liability has to be recorded, the amount will be determined at the respective measurement date on a plan-by-plan basis. 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 2006 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 €255 (€328) million. A one percentage point change in the assumption for expected return on plan assets would result in a decrease (increase) of €200 million. A one percentage point increase (decrease) in the rates of compensation increase and pension progression would result in a combined increase (decrease) of €313 (€265) million. If more than one of these assumptions were changed simultaneously, the cumulative 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."

**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 risks which could have a material adverse effect on our financial condition or results of operations. The risks we describe here are not necessarily the only ones we face. Additional risks not known to us or that we currently consider immaterial may also impair our business operations.

**Business risks**

Our business environment is influenced by conditions in the domestic and global economies. Numerous factors, such as global political conflicts, including situations in the Middle East and other regions, continue to impact macroeconomic parameters and the international capital markets. The uncertainty of economic and political conditions can impact the demand for our products and services and can also make our budgeting and forecasting more difficult.

Our Groups in the Information and Communications business area are particularly affected by market conditions in the telecommunications and information technology industries. In addition, SV and Osram are suppliers to the automotive industry, and their sales and profitability could be negatively impacted by the financial condition of their automotive customers. Furthermore, the demand for products of our Groups is linked to consumer demand for automobiles, which may be adversely impacted by the continuing uncertain economic environment. Competition in the distribution and logistics industry, including price competition, has remained strong due to weakened demand and excess capacities.

In light of these economic conditions, in fiscal year 2005, we continued our strategic reorientation and cost-cutting initiatives across our business Groups but particularly at Com, SBS and L&A. These include reducing headcount, adjusting existing capacities through consolidation of business activities and manufacturing facilities, as well as streamlining product portfolios. These measures impact our earnings results, and any future 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. Some industries in which we operate are undergoing consolidation, which may result in stronger competitors and a change in our relative market position. In some of our markets new products must be developed and introduced rapidly in order to capture available opportunities, and this can lead to quality problems. Our operating results depend to a significant extent on our ability to adapt to changes in the market and reduce the costs of producing high-quality new and existing products. Any inability to do so could have a material adverse effect on our financial condition or results of operations.

The markets in which our businesses operate experience rapid and significant changes due to the introduction of innovative technologies. To meet our customers' needs in these businesses, 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 Com, SBS, Med and SV. For example, Com is continuously involved in developing marketable components, products and systems, such as for a new generation of wireless communications technology. Introducing such new offerings requires a significant commitment to R&D, which may not always result in success. Our sales and profits may suffer if we invest in technologies that do not function as expected or are not accepted in the marketplace as anticipated, if our products or systems are not brought to market in a timely manner, or as they become obsolete.

Our strategy includes divesting our interests in some business areas and strengthening others through portfolio measures, including 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. Strategic alliances may also pose risks for us because we compete in some business areas with companies with which we have strategic alliances. Our divesting activities could have a negative impact on our results of operations and cash flow. In addition, we may incur significant acquisition, administrative and other costs in connection with these transactions, including costs related to integration of acquired or restructured businesses. There can be no assurance that any of the businesses we acquire can be successfully integrated or that they will perform well once integrated. Acquisitions may also lead to substantial increases in long-lived assets, including goodwill. Write-downs of these assets due to unforeseen business developments may materially and adversely affect our earnings. Particularly Med, SV and PG have significant amounts of goodwill.

**Operational risks**

A majority of our operating Groups, including Com, 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 profit margins realized on such fixed-priced contracts may vary from original estimates as a result of changes in costs and productivity over their term. We sometimes bear the risk of quality problems, cost overruns or contractual penalties caused by unexpected technological problems, unforeseen developments at the project sites, performance problems with our subcontractors or other logistic difficulties. Certain of our multi-year contracts also contain demanding installation and maintenance requirements, in addition to other performance criteria relating to timing, unit cost requirements and compliance with government regulations, which, if not satisfied, could subject us to substantial contractual penalties, damages, non-payment or contract termination. There can be no assurance that all of our fixed-priced contracts can be completed profitably. For additional information, see Critical Accounting Estimates above.

Our value chain comprises all the steps in our operations, from R&D, to production, marketing and sales. Operational failures in our value chain processes could result in quality problems or potential product, labor safety, regulatory or environmental risks. Such risks are particularly present in relation to our production facilities, which are located all over the world and have a high degree of organizational and technological complexity. From time to time, some of the products we sell have quality issues resulting from the design or manufacture of such products, or from the software integrated into them. Such operational failures or quality issues could have a material adverse effect on our financial condition or results of operations.

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 for or pass on our increased costs to customers, such price increases could have a material adverse impact on our financial results.

**Supplier risks**

We rely on third parties to supply us with parts, components and services. Using third parties to manufacture, assemble and test our products reduces our control over manufacturing yields, quality assurance, product delivery schedules and costs. The third parties that supply us with parts and components also have other customers and may not have sufficient capacity to meet all of their customers' needs, including ours, during periods of excess demand. Component supply delays can affect the performance of certain of our operating Groups. Although we work closely with our suppliers to avoid supply-related problems, there can be no assurance that we will not encounter supply problems in the future or that we will be able to replace a supplier that is not able to meet our demand. These shortages and delays could materially harm our business. Unanticipated increases in the price of components due to market shortages or other reasons could also adversely affect the performance of certain of our business Groups.

**Human resource risks**

Competition for highly qualified management and technical personnel remains intense in the industries in which our business Groups operate. In many of our business areas, we further intend to extend our service businesses significantly, for which we will need highly skilled employees. Our future success depends in part on our continued ability to hire, assimilate and retain engineers and other qualified personnel. There can be no assurance that we will continue to be successful in attracting and retaining highly qualified employees in the future, and any inability to do so could have a material adverse effect on our business.

**Regulatory and legal risks**

Changes in regulatory requirements, tariffs and other trade barriers and price or exchange controls could impact our sales and profitability and make the repatriation of profits difficult. In addition, the uncertainty of the legal environment in some regions could limit our ability to enforce our rights. We expect that sales to emerging markets will continue to be an increasing portion of total sales, as our business naturally evolves and as developing nations and regions around the world increase their demand for our offerings. Emerging market operations present several risks, including volatility in gross domestic product, civil disturbances, economic and governmental instability, the potential for nationalization of private assets, and the imposition of exchange controls. In particular, the Asian markets are important for our long-term growth strategy and our sizeable operations in China are influenced by a legal system that is still developing and is subject to change. The demand for many of the products of our business Groups, particularly those that derive their revenue from large projects, can be affected by expectations of future demand, prices and gross domestic product in the markets in which those Groups operate. If any of these risks or similar risks associated with our international operations were to materialize, it could have a material adverse effect on our business.

Some of the industries in which we operate in are highly regulated. Med, for example, is subject to the restrictive regulatory requirements of the U.S. Food and Drug Administration (FDA). Current and future environmental and other government regulations, or changes thereto, may result in significant increases in our operating or product costs. We could also face liability for damage or remediation for environmental contamination at the facilities we design or operate. We accrue for environmental risks when it is probable that an obligation has been incurred and the amount can be reasonably estimated. With regard to certain environmental risks, we maintain liability insurance at levels that our management believes are appropriate and consistent with industry practice. We may incur environmental losses beyond the limits, or outside the coverage, of such insurance and such losses may have a material adverse effect on the results of our operations or financial condition and our provisions for environmental remediation may not be sufficient to cover the ultimate losses or expenditures.

We are subject to numerous risks relating to legal proceedings to which we are currently a party or that could develop in the future. In the ordinary course of our business we become party to lawsuits, including suits involving allegations of improper delivery of goods or services, product liability, product defects, quality problems and intellectual property infringement. There can be no assurance that the results of these or other legal proceedings will not materially harm our business, reputation or brand. We maintain liability insurance for certain legal risks at levels our management believes are appropriate and consistent with industry practice. We accrue for litigation risks when it is probable that an obligation has been incurred and the amount can be reasonably estimated. We may incur losses relating to litigation beyond the limits, or outside the coverage, of such insurance and such losses may have a material adverse effect on the results of our operations or financial condition, and our provisions for litigation related losses may not be sufficient to cover our ultimate loss or expenditure.

**Credit risks**

We provide to our customers various forms of direct and indirect financing in connection with large projects such as those undertaken by Com, PG and TS. For example, financing of GSM or UMTS wireless network equipment for Com customers who lack established credit histories may cause special credit risks for us. We also finance a large number of smaller customer orders, through for example, the leasing of telephone systems and medical equipment, in part, through SFS. SFS also incurs credit risk by financing third-party equipment. We also sometimes take a security interest in the projects we finance. We may lose money if any of our customers are not able to pay us, if the value of the property that we have taken a security interest in declines, if interest rates or foreign exchange rates fluctuate, or if the projects in which we invest are unsuccessful and such losses could have a material adverse effect on our financial condition and results of operations.

**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 marketable 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, we use derivative instruments.

Siemens has no material commodity price risk resulting from derivative instruments. SFS uses credit default swaps to protect against credit risks stemming from its receivable purchase business. Credit default swaps are excluded from this market risk analysis, since risk categories like credit risk, liquidity risk and operational risk are not analyzed in this disclosure. SFS holds a minor foreign exchange trading portfolio which is subject to tight limits and as of September 30, 2005 has a value-at-risk close to zero. 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 which oversees all of our operations. Our CFO 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 enables management to make judgments regarding the risk positioning of the company as a whole. Sensitivity analysis provides an approximate quantification of our exposure in the event that 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, 2005 was €1.841 billion, with our 18.2% interest in Infineon, our 12.5% interest in Epcos and our 4.1% interest in Juniper representing a significant portion of such investments. An adverse move in equity prices of 20% as of September 30, 2005 would reduce the value of these investments by €368 million. The decrease from a hypothetical reduction of €444 million as of September 30, 2004 is primarily due to the partial divestiture of Juniper shares.

**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 and purchase 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 foreign currency exposure generally as balance sheet items and firm commitments which are denominated in foreign currencies, as well as foreign currency denominated cash inflows 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, 2005 (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 | Other |
|---|---|---|---|
| Net foreign exchange transaction exposure as a percentage of the total | 78% | 12% | 10% |

Our group-wide guidelines require each entity to monitor and manage their foreign currency transaction exposure. Based on a guideline developed by our Corporate Finance department, the entities are required to hedge operational 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, 2005, a parallel 10% negative alteration of all foreign currencies would have resulted in a decline in euro value of €35 million in future cash flows whereas such 10% alteration at September 30, 2004 would have resulted in a decline in euro value of €61 million in future cash flows. Such decline in euro values of future cash flows might reduce the unhedged portion of revenues but would also 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 changes, 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 fair value sensitivity or 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 on whether 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 rate 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 €168 million at September 30, 2005, increasing from €106 million at September 30, 2004, assuming a 100 basis point increase. This increase was mainly attributable to altering the refinancing strategy from variable to fixed interest rate positions.

Our cash flow interest rate risk on our variable interest rate portfolio was €2 million at September 30, 2005 and €47 million at September 30, 2004 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, Corporate 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**

The Regulation of the European Parliament and Council on the application of IFRS was adopted in July 2002. In accordance with the Regulation publicly traded European Union 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 list debt securities only or which apply internationally accepted standards other than IFRS due to a listing outside the European Union. Accordingly, the latter particularly applies to companies listed on the New York Stock Exchange (such as Siemens) and which prepare their consolidated financial statements under U.S. GAAP. In Germany, the Bilanzrechtsreformgesetz (BilReG) implemented the option to defer mandatory IFRS-application in October 2004. As a result, Siemens is required to prepare consolidated financial statements in accordance with IFRS in fiscal 2008 for the first time (fiscal year commencing on October 1, 2007).

However, Siemens plans to prepare and publish IFRS financial statements as of and for the two years ended September 30, 2006 as supplemental information early in fiscal 2007. At the same time, those financial statements will serve as basis for Siemens' IFRS reporting beginning with the first quarter of fiscal 2007. Accordingly, Siemens' opening IFRS balance sheet will be as of October 1, 2004 (the date of transition).

**Impact of differences between IFRS and U.S. GAAP**

In September 2002, focusing on the 2005 IFRS adoption date in Europe, the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) added a joint short-term convergence project to their agendas aimed at removing a number of individual differences in the near-term. On a long-term basis, the IASB and the FASB are closely collaborating to reduce or eliminate remaining differences through a series of joint projects and through jointly coordinating future task force programs. The Boards also agreed to work together through their respective interpretive bodies in converging interpretation and application issues. Siemens supports further convergence of IFRS and U.S. GAAP. For that purpose, Siemens submits comments on Exposure Drafts, makes recommendations on urgent accounting matters and participates in field visits.

Although progress has been and is being made in considerably reducing differences between the two sets of standards, significant differences remain at present, for example, pertaining to the treatment of R&D costs, pension accounting, reversal of impairment losses, discounting of provisions or goodwill impairment tests. The effects of such differences may vary by entity or industry.

The adoption of IFRS is expected to have a limited impact on comparability or consistency of Siemens' financial reporting. Based on current U.S. GAAP and IFRS standards, differences with a significant impact on our consolidated financial statements are expected to be limited and will primarily relate to the following:

**Research and development costs** – U.S. GAAP generally requires R&D 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 – Convertible instruments** – Under U.S. GAAP, convertible instruments whose terms and conditions grant the issuer the right to settle the option in cash upon conversion are treated as a unit and are recorded as a liability in the consolidated financial statements. The conversion right is not accounted for separately. Under IFRS, a compound financial instrument with a cash settlement option is divided into separate liability components at inception. The conversion right component is considered a derivative instrument which is reported as a liability at fair value. The residual liability component representing the debt obligation is measured at fair value at inception and will accrete subsequently due to the recognition of imputed discount calculated on the carrying amount of the residual liability component at the beginning of each year.

**Pension accounting – Fresh start** – In accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, Siemens will not retrospectively apply the provisions of IAS 19 Employee Benefits to its defined benefit (DB) pension plans since their respective inception dates. Accordingly the net pension liability or asset for each DB pension plan will be based on the actuarially determined defined benefit obligation (DBO) less the fair value of qualifying pension assets as of October 1, 2004. Differences to the recorded amounts under U.S. GAAP will be reflected in opening retained earnings. Due to the significance of unrecognized losses incurred by Siemens in prior years, we anticipate the effect of this "fresh start" to result in the most significant impact from our IFRS adoption on our financial position and results of operations.

## 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**.

## Outlook

With our view towards fiscal 2007, we will continue to rigorously execute on our Fit4More program and expect that the necessary strategic reorientation measures will affect, positively and negatively, our income and cash flow throughout fiscal 2006. We intend to make Siemens fit for the future, including a further strengthening of our leadership in strategic markets.

*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 such 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 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, 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 expected, anticipated, intended, planned, believed, sought, estimated 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.*

## Controls and procedures

**Disclosure controls and procedures (SOA 302)**
For its fiscal year 2005, Siemens performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (Sarbanes-Oxley Act (SOA) Section 302). Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in the Form 20-F and filed with the U.S. Securities and Exchange Commission is recorded, processed, summarized and reported timely. The evaluation was performed with the participation of our key corporate senior management, senior management of each business Group, and under the supervision of the CEO, Dr. Klaus Kleinfeld, and the CFO, Heinz-Joachim Neubürger, who sign the appropriate certificates. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, rather than absolute, assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the foregoing, the Company's management, including the CEO and CFO, concluded that Siemens' disclosure controls and procedures were effective as of September 30, 2005.

**Management's annual report on internal control over financial reporting (SOA 404)**
The management of Siemens is responsible for establishing and maintaining adequate internal control over financial reporting. Siemens' internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment of the effectiveness of Siemens' internal control over financial reporting as of September 30, 2005 excludes, in accordance with applicable guidance provided by the Securities and Exchange Commission, various acquisitions completed in fiscal 2005. For further information on significant acquisitions excluded see "Notes to Consolidated Financial Statements, Note 3 aa)." Total assets and revenues of these acquisitions constituted less than 9% and 3%, respectively, of the related Consolidated Financial Statement line item as of and for the year ended September 30, 2005.

Siemens management assessed the effectiveness of the company's internal control over financial reporting, in accordance with the requirements of SOA 404, as of September 30, 2005. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control – Integrated Framework."

Based on the assessment under these criteria, Siemens management has concluded that, as of September 30, 2005, the company's internal control over financial reporting was effective.

Management's assessment as well as the effectiveness of internal control over financial reporting as of September 30, 2005 have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, an independent registered public accounting firm ("KPMG"), as stated in their report at the end of this Annual Report.

**Changes in internal control over financial reporting**

In addition, there have been no changes in the company's internal control over financial reporting that occurred during fiscal year 2005, which have materially affected or are reasonably likely to materially affect the company's internal control over financial reporting.

# Consolidated Statements of Income

For the fiscal years ended September 30, 2005 and 2004 (in millions of €, per share amounts in €)

| | | Siemens | |
|---|---|---|---|
| | Note | 2005 | 2004 |
| Net sales | | 75,445 | 70,237 |
| Cost of sales | | (53,502) | (49,592) |
| Gross profit on sales | | 21,943 | 20,645 |
| Research and development expenses | | (5,155) | (4,650) |
| Marketing, selling and general administrative expenses | | (13,684) | (12,828) |
| Other operating income (expense), net | **3, 4** | (9) | (172) |
| Income from investments in other companies, net | **5** | 584 | 1,031 |
| Income (expense) from financial assets and marketable securities, net | **6** | 297 | 69 |
| Interest income (expense) of Operations, net | **7** | (32) | 20 |
| Other interest income (expense), net | **7** | 241 | 254 |
| Income from continuing operations before income taxes | | 4,185 | 4,369 |
| Income taxes[(1)] | **8** | (979) | (767) |
| Minority interest | | (148) | (152) |
| Income from continuing operations | | 3,058 | 3,450 |
| Income (loss) from discontinued operations, net of income taxes | | (810) | (45) |
| Net income | | 2,248 | 3,405 |
| Basic earnings per share | **29** | | |
| Income from continuing operations | | 3.43 | 3.87 |
| Loss from discontinued operations | | (0.91) | (0.05) |
| Net income | | 2.52 | 3.82 |
| Diluted earnings per share | **29** | | |
| Income from continuing operations | | 3.29 | 3.71 |
| Loss from discontinued operations | | (0.87) | (0.05) |
| Net income | | 2.42 | 3.66 |

(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 | |
|---|---|---|---|---|---|
| 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| (1,677) | (1,517) | 74,969 | 69,627 | 2,153 | 2,127 |
| 1,677 | 1,517 | (53,383) | (49,372) | (1,796) | (1,737) |
| – | – | 21,586 | 20,255 | 357 | 390 |
| – | – | (5,155) | (4,650) | – | – |
| (1) | (1) | (13,395) | (12,545) | (288) | (282) |
| (87) | (76) | (136) | (192) | 214 | 96 |
| – | – | 492 | 972 | 92 | 59 |
| 92 | 24 | 255 | 70 | (50) | (25) |
| – | – | (32) | 20 | – | – |
| 294 | 277 | (191) | (141) | 138 | 118 |
| 298 | 224 | 3,424 | 3,789 | 463 | 356 |
| (70) | (39) | (801) | (665) | (108) | (63) |
| – | – | (148) | (152) | – | – |
| 228 | 185 | 2,475 | 2,972 | 355 | 293 |
| – | – | (814) | (47) | 4 | 2 |
| 228 | 185 | 1,661 | 2,925 | 359 | 295 |

# Consolidated Balance Sheets

As of September 30, 2005 and 2004 (in millions of €)

| | | Siemens | |
|---|---|---|---|
| | Note | 9/30/05 | 9/30/04 |
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | 8,121 | 12,190 |
| Marketable securities | **9** | 1,789 | 1,386 |
| Accounts receivable, net | **10** | 17,122 | 15,470 |
| Intracompany receivables | | – | – |
| Inventories, net | **11** | 12,812 | 11,358 |
| Deferred income taxes | **8** | 1,484 | 1,144 |
| Assets held for sale | | 245 | – |
| Other current assets | **12** | 5,230 | 4,398 |
| Total current assets | | 46,803 | 45,946 |
| Long-term investments | **13** | 3,768 | 4,122 |
| Goodwill | **14** | 8,930 | 6,476 |
| Other intangible assets, net | **15** | 3,107 | 2,514 |
| Property, plant and equipment, net | **16** | 12,012 | 10,683 |
| Deferred income taxes | **8** | 6,321 | 4,811 |
| Other assets | **17** | 5,264 | 4,966 |
| Other intracompany receivables | | – | – |
| Total assets | | 86,205 | 79,518 |

| | | | |
|---|---|---|---|
| **Liabilities and shareholders' equity** | | | |
| Current liabilities | | | |
| Short-term debt and current maturities of long-term debt | **20** | 3,999 | 1,434 |
| Accounts payable | | 10,171 | 9,326 |
| Intracompany liabilities | | – | – |
| Accrued liabilities | **18** | 10,169 | 9,240 |
| Deferred income taxes | **8** | 1,938 | 1,522 |
| Liabilities held for sale | | 289 | – |
| Other current liabilities | **19** | 13,267 | 11,850 |
| Total current liabilities | | 39,833 | 33,372 |
| Long-term debt | **20** | 8,436 | 9,785 |
| Pension plans and similar commitments | **21** | 4,917 | 4,392 |
| Deferred income taxes | **8** | 427 | 569 |
| Other accruals and provisions | **22** | 4,819 | 4,016 |
| Other intracompany liabilities | | – | – |
| | | 58,432 | 52,134 |
| Minority interests | | 656 | 529 |
| Shareholders' equity | **23** | | |
| Common stock, no par value<br>Authorized: 1,113,295,461 and 1,113,285,711 shares, respectively<br>Issued: 891,085,461 and 891,075,711 shares, respectively | | 2,673 | 2,673 |
| Additional paid-in capital | | 5,167 | 5,121 |
| Retained earnings | | 26,583 | 25,447 |
| Accumulated other comprehensive income (loss) | | (7,305) | (6,386) |
| Treasury stock, at cost 9,004 and 250 shares, respectively | | (1) | – |
| Total shareholders' equity | | 27,117 | 26,855 |
| Total liabilities and shareholders' equity | | 86,205 | 79,518 |

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

| | Eliminations, reclassifications and Corporate Treasury | | Operations | | Financing and Real Estate | |
|---|---|---|---|---|---|---|
| | 9/30/05 | 9/30/04 | 9/30/05 | 9/30/04 | 9/30/05 | 9/30/04 |
| | | | | | | |
| | | | | | | |
| | 6,603 | 11,251 | 1,471 | 908 | 47 | 31 |
| | – | 8 | 1,772 | 1,361 | 17 | 17 |
| | (6) | (8) | 12,758 | 11,275 | 4,370 | 4,203 |
| | (15,489) | (12,257) | 15,362 | 12,251 | 127 | 6 |
| | (4) | (2) | 12,744 | 11,295 | 72 | 65 |
| | (178) | 61 | 1,580 | 1,018 | 82 | 65 |
| | – | – | 245 | – | – | – |
| | 506 | 710 | 3,746 | 2,793 | 978 | 895 |
| | (8,568) | (237) | 49,678 | 40,901 | 5,693 | 5,282 |
| | – | – | 3,463 | 3,790 | 305 | 332 |
| | – | – | 8,799 | 6,394 | 131 | 82 |
| | – | – | 3,092 | 2,501 | 15 | 13 |
| | – | 1 | 8,217 | 7,242 | 3,795 | 3,440 |
| | 1,541 | 1,133 | 4,743 | 3,598 | 37 | 80 |
| | 106 | 44 | 1,836 | 2,217 | 3,322 | 2,705 |
| | (1,632) | (1,284) | 1,626 | 1,284 | 6 | – |
| | (8,553) | (343) | 81,454 | 67,927 | 13,304 | 11,934 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | 3,049 | 850 | 564 | 451 | 386 | 133 |
| | (1) | (3) | 9,965 | 9,109 | 207 | 220 |
| | (15,998) | (7,449) | 9,134 | 1,703 | 6,864 | 5,746 |
| | 115 | 6 | 9,898 | 9,055 | 156 | 179 |
| | (475) | (282) | 2,203 | 1,528 | 210 | 276 |
| | – | – | 289 | – | – | – |
| | 222 | 452 | 12,768 | 11,173 | 277 | 225 |
| | (13,088) | (6,426) | 44,821 | 33,019 | 8,100 | 6,779 |
| | 6,937 | 8,538 | 978 | 750 | 521 | 497 |
| | – | – | 4,917 | 4,392 | – | – |
| | (26) | 184 | 274 | 274 | 179 | 111 |
| | 91 | 25 | 4,310 | 3,586 | 418 | 405 |
| | (2,467) | (2,664) | 284 | 457 | 2,183 | 2,207 |
| | (8,553) | (343) | 55,584 | 42,478 | 11,401 | 9,999 |
| | – | – | 656 | 529 | – | – |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | – | – | 25,214 | 24,920 | 1,903 | 1,935 |
| | (8,553) | (343) | 81,454 | 67,927 | 13,304 | 11,934 |

Consolidated Financial Statements

# Consolidated Statements of Cash Flow

For the fiscal years ended September 30, 2005 and 2004 (in millions of €)

| | Siemens | |
|---|---|---|
| | 2005 | 2004 |
| Cash flows from operating activities | | |
| Net income | 2,248 | 3,405 |
| Adjustments to reconcile net income to cash provided | | |
| Minority interest | 158 | 166 |
| Amortization, depreciation and impairments | 3,426 | 3,344 |
| Deferred taxes | (628) | (309) |
| (Gains) on sales and disposals of businesses and real estate, net | (226) | (246) |
| (Gains) on sales of investments, net | (49) | (612) |
| (Gains) on sales and impairments of marketable securities, net | (239) | (47) |
| Loss (income) from equity investees, net of dividends received | (277) | (287) |
| Change in current assets and liabilities | | |
| (Increase) decrease in inventories, net | (717) | (941) |
| (Increase) decrease in accounts receivable, net | 27 | (866) |
| Increase (decrease) in outstanding balance of receivables sold | (7) | 133 |
| (Increase) decrease in other current assets | 248 | 661 |
| Increase (decrease) in accounts payable | 89 | 857 |
| Increase (decrease) in accrued liabilities | (144) | 302 |
| Increase (decrease) in other current liabilities | 39 | (323) |
| Supplemental contributions to pension trusts | (1,496) | (1,255) |
| Change in other assets and liabilities | 669 | 1,098 |
| Net cash provided by (used in) operating activities – continuing and discontinued operations | 3,121 | 5,080 |
| **Net cash provided by (used in) operating activities – continuing operations** | **4,217** | **4,704** |
| Cash flows from investing activities | | |
| Additions to intangible assets and property, plant and equipment | (3,544) | (2,764) |
| Acquisitions, net of cash acquired | (2,450) | (1,477) |
| Purchases of investments | (652) | (374) |
| Purchases of marketable securities | (34) | (106) |
| (Increase) decrease in receivables from financing activities | (511) | (247) |
| Increase (decrease) in outstanding balance of receivables sold by SFS | – | – |
| Proceeds from sales of long-term investments, intangibles and property, plant and equipment | 977 | 2,639 |
| Proceeds from sales and dispositions of businesses | 34 | 325 |
| Proceeds from sales of marketable securities | 356 | 186 |
| Net cash provided by (used in) investing activities – continuing and discontinued operations | (5,824) | (1,818) |
| **Net cash provided by (used in) investing activities – continuing operations** | **(5,706)** | **(1,689)** |
| Cash flows from financing activities | | |
| Proceeds from issuance of common stock | – | 4 |
| Purchase of common stock | (219) | – |
| Proceeds from re-issuance of treasury stock | 173 | – |
| Repayment of debt | (848) | (1,564) |
| Change in short-term debt | 711 | (469) |
| Dividends paid | (1,112) | (978) |
| Dividends paid to minority shareholders | (108) | (101) |
| Intracompany financing | – | – |
| Net cash provided by (used in) financing activities | (1,403) | (3,108) |
| Effect of exchange rates on cash and cash equivalents | 37 | (113) |
| Net increase (decrease) in cash and cash equivalents | (4,069) | 41 |
| Cash and cash equivalents at beginning of period | 12,190 | 12,149 |
| Cash and cash equivalents at end of period | 8,121 | 12,190 |
| Supplemental disclosure of cash paid for: | | |
| Interest | 441 | 385 |
| Income taxes | 1,093 | 746 |

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

| | Eliminations, reclassifications and Corporate Treasury | | Operations | | Financing and Real Estate | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | | | | | | |
| | 228 | 185 | 1,661 | 2,925 | 359 | 295 |
| | | | | | | |
| | – | – | 158 | 166 | – | – |
| | – | – | 3,001 | 2,951 | 425 | 393 |
| | (5) | (12) | (614) | (278) | (9) | (19) |
| | – | – | (98) | (222) | (128) | (24) |
| | – | – | (49) | (612) | – | – |
| | – | (12) | (239) | (33) | – | (2) |
| | – | – | (263) | (293) | (14) | 6 |
| | | | | | | |
| | – | – | (709) | (962) | (8) | 21 |
| | 148 | (658) | (143) | (208) | 22 | – |
| | (28) | 65 | 21 | 68 | – | – |
| | 113 | 107 | 140 | 276 | (5) | 278 |
| | (1) | (6) | 103 | 827 | (13) | 36 |
| | (39) | – | (39) | 210 | (66) | 92 |
| | (332) | 129 | 321 | (409) | 50 | (43) |
| | – | – | (1,496) | (1,255) | – | – |
| | (47) | 156 | 709 | 857 | 7 | 85 |
| | 37 | (46) | 2,464 | 4,008 | 620 | 1,118 |
| | **37** | **(46)** | **3,565** | **3,635** | **615** | **1,115** |
| | | | | | | |
| | – | – | (2,871) | (2,328) | (673) | (436) |
| | – | – | (2,369) | (1,472) | (81) | (5) |
| | – | – | (631) | (367) | (21) | (7) |
| | (12) | (20) | (8) | (86) | (14) | – |
| | (81) | 569 | – | – | (430) | (816) |
| | 28 | (65) | – | – | (28) | 65 |
| | – | 19 | 641 | 2,357 | 336 | 263 |
| | – | – | 12 | 306 | 22 | 19 |
| | 20 | 104 | 321 | 67 | 15 | 15 |
| | (45) | 607 | (4,905) | (1,523) | (874) | (902) |
| | **(45)** | **607** | **(4,787)** | **(1,394)** | **(874)** | **(902)** |
| | | | | | | |
| | – | – | – | 4 | – | – |
| | – | – | (219) | – | – | – |
| | – | – | 173 | – | – | – |
| | (596) | (1,270) | (231) | (266) | (21) | (28) |
| | 1,065 | (414) | (270) | (170) | (84) | 115 |
| | – | – | (1,112) | (978) | – | – |
| | – | – | (108) | (101) | – | – |
| | (5,112) | 1,115 | 4,738 | (765) | 374 | (350) |
| | (4,643) | (569) | 2,971 | (2,276) | 269 | (263) |
| | 3 | (86) | 33 | (26) | 1 | (1) |
| | (4,648) | (94) | 563 | 183 | 16 | (48) |
| | 11,251 | 11,345 | 908 | 725 | 31 | 79 |
| | 6,603 | 11,251 | 1,471 | 908 | 47 | 31 |
| | | | | | | |
| | | | | | | |
| | | | | | | |

# Consolidated Statements of Changes in Shareholders' Equity

For the fiscal years ended September 30, 2005 and 2004 (in millions of €)

| | Common stock | Additional paid-in-capital | Retained earnings |
|---|---|---|---|
| Balance at October 1, 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 |
| Net income | – | – | 2,248 |
| Change in currency translation adjustment | – | – | – |
| Change in unrealized gains and losses | – | – | – |
| Total comprehensive income | – | – | 2,248 |
| Dividends paid | – | – | (1,112) |
| Issuance of common stock and stock-based compensation | – | 60 | – |
| Purchase of common stock | – | – | – |
| Re-issuance of treasury stock | – | (14) | – |
| Balance at September 30, 2005 | 2,673 | 5,167 | 26,583 |

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 | Total AOCI | Treasury shares at cost | Total |
| (827) | 83 | 83 | (6,390) | (7,051) | – | 23,715 |
| – | – | – | – | – | – | 3,405 |
| (249) | – | – | – | (249) | – | (249) |
| – | 77 | (28) | 865 | 914 | – | 914 |
| (249) | 77 | (28) | 865 | 665 | – | 4,070 |
| – | – | – | – | – | – | (978) |
| – | – | – | – | – | – | 50 |
| – | – | – | – | – | (106) | (106) |
| – | – | – | – | – | 106 | 104 |
| (1,076) | 160 | 55 | (5,525) | (6,386) | – | 26,855 |
| – | – | – | – | – | – | 2,248 |
| 483 | – | – | – | 483 | – | 483 |
| – | (13) | (144) | (1,245) | (1,402) | – | (1,402) |
| 483 | (13) | (144) | (1,245) | (919) | – | 1,329 |
| – | – | – | – | – | – | (1,112) |
| – | – | – | – | – | – | 60 |
| – | – | – | – | – | (219) | (219) |
| – | – | – | – | – | 218 | 204 |
| (593) | 147 | (89) | (6,770) | (7,305) | (1) | 27,117 |

# Segment Information (continuing operations)

As of and for the fiscal years ended September 30, 2005 and 2004 (in millions of €)

| | New orders (unaudited) | | External sales | | Intersegment sales | | Total sales | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Operations Groups | | | | | | | | |
| Communications (Com)[5] | 13,802 | 13,031 | 12,823 | 12,258 | 318 | 451 | 13,141 | 12,709 |
| Siemens Business Services (SBS) | 6,531 | 6,293 | 3,964 | 3,598 | 1,409 | 1,118 | 5,373 | 4,716 |
| Automation and Drives (A&D) | 10,190 | 8,980 | 8,537 | 7,569 | 1,307 | 1,260 | 9,844 | 8,829 |
| Industrial Solutions and Services (I&S) | 5,686 | 4,356 | 4,350 | 3,147 | 1,040 | 1,143 | 5,390 | 4,290 |
| Logistics and Assembly Systems (L&A)[6] | 2,015 | 1,799 | 1,386 | 1,297 | 86 | 122 | 1,472 | 1,419 |
| Siemens Building Technologies (SBT) | 4,518 | 4,358 | 4,301 | 4,174 | 114 | 73 | 4,415 | 4,247 |
| Power Generation (PG) | 10,964 | 9,243 | 8,042 | 7,505 | 19 | 22 | 8,061 | 7,527 |
| Power Transmission and Distribution (PTD) | 5,283 | 3,863 | 3,930 | 3,292 | 320 | 319 | 4,250 | 3,611 |
| Transportation Systems (TS) | 4,599 | 4,321 | 4,146 | 4,284 | 44 | 26 | 4,190 | 4,310 |
| Siemens VDO Automotive (SV) | 9,787 | 9,029 | 9,591 | 8,987 | 19 | 14 | 9,610 | 9,001 |
| Medical Solutions (Med) | 8,641 | 8,123 | 7,577 | 6,969 | 49 | 103 | 7,626 | 7,072 |
| Osram | 4,300 | 4,240 | 4,222 | 4,143 | 78 | 97 | 4,300 | 4,240 |
| Other Operations[7] | 3,236 | 3,215 | 1,770 | 2,050 | 1,352 | 1,242 | 3,122 | 3,292 |
| **Total Operations Groups** | **89,552** | **80,851** | **74,639** | **69,273** | **6,155** | **5,990** | **80,794** | **75,263** |
| Reconciliation to financial statements | | | | | | | | |
| Corporate items, pensions and eliminations | (6,293) | (7,202) | 77 | 208 | (5,902) | (5,844) | (5,825) | (5,636) |
| Other interest expense | – | – | – | – | – | – | – | – |
| Other assets related and miscellaneous reconciling items | – | – | – | – | – | – | – | – |
| **Total Operations (for columns Group profit/Net capital employed, i.e. Income before income taxes/Total assets)** | **83,259** | **73,649** | **74,716** | **69,481** | **253** | **146** | **74,969** | **69,627** |
| Financing and Real Estate Groups | | | | | | | | |
| Siemens Financial Services (SFS) | 542 | 562 | 464 | 453 | 78 | 109 | 542 | 562 |
| Siemens Real Estate (SRE) | 1,621 | 1,578 | 265 | 303 | 1,356 | 1,275 | 1,621 | 1,578 |
| Eliminations | (10) | – | – | – | (10) | (13) | (10) | (13) |
| **Total Financing and Real Estate** | **2,153** | **2,140** | **729** | **756** | **1,424** | **1,371** | **2,153** | **2,127** |
| **Eliminations, reclassifications and Corporate Treasury** | **(1,621)** | **–** | **–** | **–** | **(1,677)** | **(1,517)** | **(1,677)** | **(1,517)** |
| **Siemens** | **83,791** | **75,789** | **75,445** | **70,237** | **–** | **–** | **75,445** | **70,237** |

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

(6) L&A's Distribution and Industry Logistics (DI) as well as Material Handling Products (MHP) divisions were reclassified to *Other Operations* as of September 30, 2005. Prior year information was reclassified for comparability purposes.

(7) *Other Operations* primarily refer to certain centrally-held equity investments and other operating activities not associated with a Group.

(8) 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] | |
|---|---|---|---|---|---|---|---|---|---|
| 2005 | 2004 | 9/30/05 | 9/30/04 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | | | | | | | | | |
| 454 | 707 | 1,883 | 2,134 | 655 | 390 | 509 | 443 | 433 | 486 |
| (690) | 40 | 296 | 632 | (258) | (263) | 340 | 428 | 516 | 213 |
| 1,210 | 1,077 | 3,570 | 1,951 | 333 | 1,026 | 1,182 | 312 | 245 | 209 |
| 139 | 95 | 1,563 | 1,003 | 324 | (725) | 55 | 892 | 95 | 47 |
| 69 | 45 | 302 | 501 | 224 | (81) | 32 | 23 | 23 | 23 |
| 181 | 108 | 1,453 | 1,359 | 122 | 195 | 149 | 75 | 104 | 127 |
| 951 | 961 | 2,625 | 1,997 | 239 | 687 | 556 | 214 | 196 | 181 |
| 212 | 238 | 1,869 | 1,162 | 19 | 102 | 161 | 228 | 84 | 73 |
| 45 | (434) | 584 | 49 | (551) | (495) | 185 | 83 | 57 | 65 |
| 630 | 562 | 3,823 | 3,542 | 341 | 1,030 | 623 | 515 | 427 | 394 |
| 976 | 1,046 | 3,685 | 3,173 | 396 | 762 | 1,025 | 449 | 229 | 202 |
| 465 | 445 | 2,065 | 2,011 | 464 | 453 | 307 | 256 | 261 | 264 |
| 45 | 246 | 1,639 | 1,708 | 231 | 277 | 142 | 87 | 193 | 86 |
| **4,687** | **5,136** | **25,357** | **21,222** | **2,539** | **3,358** | **5,266** | **4,005** | **2,863** | **2,370** |
| | | | | | | | | | |
| (1,072) | (1,206) | (3,690) | (3,116) | (3,761)[8] | (1,117)[8] | 470 | 28 | 29 | 487 |
| (191) | (141) | – | – | – | – | – | – | – | – |
| – | – | 59,787 | 49,821 | – | – | – | – | – | – |
| **3,424** | **3,789** | **81,454** | **67,927** | **(1,222)** | **2,241** | **5,736** | **4,033** | **2,892** | **2,857** |

| Income before income taxes | | Total assets | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| 319 | 250 | 10,148 | 9,055 | (344) | (159) | 563 | 311 | 221 | 194 |
| 144 | 106 | 3,496 | 3,455 | 202 | 454 | 212 | 137 | 203 | 197 |
| – | – | (340) | (576) | (117)[8] | (82)[8] | – | – | – | – |
| **463** | **356** | **13,304** | **11,934** | **(259)** | **213** | **775** | **448** | **424** | **391** |
| **298** | **224** | **(8,553)** | **(343)** | **(8)**[8] | **561**[8] | **–** | **–** | **–** | **–** |
| **4,185** | **4,369** | **86,205** | **79,518** | **(1,489)** | **3,015** | **6,511** | **4,481** | **3,316** | **3,248** |

# 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 30).

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, 2005, 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** – Represents the Consolidated Financial Statements of the Company.
- **Operations** – Defined as Siemens' twelve 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**. 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 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. The financial data presented for the **Operations** and **Financing and Real Estate** and **Eliminations, reclassifications and Corporate Treasury** 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** 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 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 | 2005 | 2004 | 2005 | 2004 |
| Swiss francs | CHF | 1.556 | 1.554 | 1.542 | 1.549 |
| British pound | GBP | 0.682 | 0.686 | 0.688 | 0.680 |
| U.S. Dollar | USD | 1.204 | 1.233 | 1.273 | 1.215 |

**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 is 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 involve 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 is 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 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 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 *Accumulated other comprehensive income (AOCI)*, net of applicable deferred income 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. 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. 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 Notes 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. As of fiscal 2006, the Company will apply the straight-line method only. Costs of construction of certain qualifying 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 – Standards implemented for information regarding the adoption of Statements of Financial Accounting Standards (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 foreign currency exchange contracts and interest rate swap 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.

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

**Asset retirement obligations** – On October 1, 2002, Siemens adopted SFAS 143, *Accounting for Asset Retirement Obligations*. 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 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.

**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. See Note 3 for a description of discontinued operations.

**Accounting changes** – Standards implemented – 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 a 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, | |
|---|---|---|
| | 2005 | 2004 |
| Net income | | |
| As reported | 2,248 | 3,405 |
| Plus: Stock-based employee compensation expense included in reported net income, net of taxes | 60 | 63 |
| Less: Stock-based employee compensation expense determined under fair value based accounting method, net of taxes | (59) | (115) |
| **Pro forma** | **2,249** | **3,353** |
| Basic earnings per share | | |
| As reported | 2.52 | 3.82 |
| Pro forma | 2.52 | 3.76 |
| Diluted earnings per share | | |
| As reported | 2.42 | 3.66 |
| Pro forma | 2.42 | 3.60 |

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

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 of fiscal 2004. In May 2004, FSP FAS 106-2 was issued 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 considered significant.

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) 46, *Consolidation of Variable Interest Entities*, and replaced it by issuing FIN46(R) in December 2003. FIN 46R interprets Accounting Research Bulletin (ARB) 51, *Consolidated Financial Statements* and clarifies the consolidation of certain entities (VIE's) for which either a) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support or b) the equity investors lack an essential characteristic of a controlling financial interest or c) investors economic interests don't equal attached voting rights and the VIE activities involve or are conducted for an investor with disproportionately small voting rights. FIN 46R 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. FIN 46R was adopted by the Company as of March 31, 2004. The Company holds variable interests in various VIE's, which are not significant either individually or in the aggregate. The adoption of FIN 46R did not have a material impact on the Company's Consolidated Financial Statements.

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 expands discontinued operations 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 retains the current requirement to separately report discontinued operations. Discontinued operations are reported when a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity and which is classified as held for sale or that has been disposed of if the operations and cash flows of the component will be (or have been) eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component. 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.

**Accounting changes – Recent accounting pronouncements to be implemented** – In December 2004, the FASB issued SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which replaces SFAS 123, *Accounting for Stock-Based Compensation*, and supersedes APB 25, *Accounting for Stock Issued to Employees*, and related interpretations. SFAS 123R requires companies to recognize the cost resulting from all share-based payment transactions in the financial statements. With certain limited exceptions, the new standard establishes a grant-date fair-value-based measurement method in accounting for share-based payment transactions. Liability-classified awards are to be remeasured to fair value at each reporting date until the award is settled. Equity-classified awards are measured at grant-date fair value whereas related compensation cost is recognized based on the estimated number of instruments for which the requisite service is expected to be rendered. In April 2005, the SEC issued a release allowing postponement of the effective date of SFAS 123R. In accordance with the SEC release, Siemens will adopt SFAS 123R in the first quarter of fiscal 2006. For its equity-classified awards, the Company intends to apply the modified prospective transition method. Under this method, unvested equity-classified awards granted prior to the effective date of the new statement are accounted for under SFAS 123R and related costs are recognized in the income statement. The adoption of SFAS 123R, including the remeasurement from intrinsic value to fair value of liability classified awards, is not expected to have a material impact on the Company's consolidated financial statements.

In June 2005, the FASB ratified EITF Issue 05-5, *Accounting for Early Retirement or Postemployment Programs with Specific Features (such as Terms Specified in Altersteilzeit Early Retirement Arrangements)*. Altersteilzeit (ATZ) in Germany is an incentive and benefit program towards early retirement. Companies are required to recognize the salary ratably over the active service period. Accruals for Company-granted bonuses shall be recorded ratably from the date the individual employee enrolls in the ATZ arrangement to the end of the active service period. Related government subsidies are accounted for separately from the ATZ benefits at the time the criteria to receive them are met. EITF 05-5 is effective for fiscal years beginning after December 15, 2005. The adoption of EITF 05-5 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections – a replacement of APB No. 20 and FASB Statement No. 3*. This Statement changes the requirements for the accounting for and reporting of a change in accounting principle. It applies to all voluntary changes in accounting principle, error corrections and required changes due to new accounting pronouncements which do not specify a certain transition method. The Statement generally requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. In addition, this Statement requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. It also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for on a prospective basis. The Company plans to early adopt this Standard beginning October 1, 2005. The adoption of SFAS 154 is not expected to have a material impact on the Company's consolidated financial statements.

## 3 Acquisitions, dispositions and discontinued operations

**a) Acquisitions**

During the years ended September 30, 2005 and 2004, 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. On a fiscal year basis, none of these acquisitions are considered material, individually or in the aggregate.

**aa) Acquisitions in fiscal 2005**

In May 2005, the Company acquired CTI Molecular Imaging, Inc., USA (CTI). The primary reason for the acquisition is to strengthen the Company's commitment to molecular imaging development. Siemens previously owned a 49% interest in a joint venture consolidated by CTI before the acquisition of which Siemens was the primary customer. CTI is integrated into Med and was consolidated as of May 2005, when it became a wholly owned subsidiary. Preliminary acquisition costs amount to €794 (including €60 cash acquired). The Company has not yet finalized the purchase price allocation. Based on the preliminary purchase price allocation, approximately €112 was allocated to intangible assets and €525 to goodwill.

In fiscal 2005, the Company acquired, in several steps, the Austrian engineering group VA Technologie AG (VA Tech) which is now a wholly owned subsidiary of Siemens for preliminary acquisition costs of approximately €1,049 (including €535 cash acquired). The VA Tech business is consolidated as of July 15, 2005. VA Tech's metallurgy, power transmission and distribution, and infrastructure activities will mainly be integrated into I&S and PTD to support their global growth targets. Smaller portions will be integrated into other business activities. The purchase price allocation is not yet final. Based on the preliminary purchase price allocation, €1,027 was allocated to goodwill and €128 to intangible assets that will be amortized over periods ranging from one to seven years. In order to comply with a European antitrust ruling, the VA Tech power generation business which includes the hydropower activities will be sold. Since the hydropower business is subject to a regulatory hold separate agreement and Siemens has no influence over the operations of the business, it is being held as a cost method investment until its disposal.

In July 2005, the Company completed the acquisition of all shares of Flender Holding GmbH, Germany (Flender), a supplier of mechanical and electrical drive equipment, focusing on gear technology. The primary reason for the acquisition was to enable the Company to offer a full drive train (motor, inverter, gear) to customers. The business is being integrated into A&D and was consolidated as of July 2005. Preliminary acquisition costs amount to €702. The Company has not yet finalized the purchase price allocation. Based on the preliminary purchase price allocation, approximately €390 was allocated to intangible assets subject to amortization and €452 was recorded as goodwill.

In fiscal 2005, the Company acquired Bonus Energy A/S, Denmark, a supplier of wind energy systems and substantially all of the assets of Robicon Corporation, USA, a manufacturer of medium voltage drives and power controls. The combined preliminary purchase price of the two acquisitions amounts to €481.

**ab) Acquisitions in fiscal 2004**

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. The acquisition costs amount to €793, net of cash acquired. Based on the final purchase price allocation, approximately €205 was allocated to intangible assets subject to amortization, €16 was allocated to permits representing intangible assets having an indefinite useful life, and €244 was recorded as I&S goodwill. Of the €205 intangible assets, €171 was allocated to customer relationships and €29 to technology. Customer relationships and technology are amortized over weighted-average useful lives of 17 years and 12 years, respectively. Goodwill of €185 is 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 purchase price of the three entities amounts to €352.

The Company made certain other acquisitions during the years ended September 30, 2005 and 2004, which did not have a significant effect on the Consolidated Financial Statements.

**b) Dispositions**

In September 2004, SBS sold a 74.9% interest in its banking software company KORDOBA Gesellschaft für Bankensoftware mbH & Co. KG, Munich (Kordoba) to Fidelity Information Systems, Inc. The transaction resulted in a pre-tax gain of €93 reported in *Other operating income (expense), net*. In fiscal 2005, the remaining 25.1% interest in Kordoba was sold which resulted in a pre-tax gain of €26 reported in *Income (loss) from investments in other companies, net*.

**c) Discontinued operations**

In June 2005, Siemens signed an agreement to sell its Mobile Devices (MD) business which was part of Com, to BenQ Corporation (BenQ) based in Taiwan (the Agreement). The Agreement also provides for the sale of MD's operation included in Siemens Shanghai Mobile Communications Ltd. in the Peoples Republic of China (SSMC), subject to the consent of the Company's minority shareholders which was obtained in July 2005. The MD transaction, excluding SSMC and activities in certain countries (Deferred Countries), was completed on September 30, 2005. In fiscal 2005, the loss recognized on the sale of MD (excluding SSMC), amounts to €546 and is composed of €413 losses directly attributable to BenQ and €133 additional exit related charges. As part of the Agreement, Siemens will purchase €50 in BenQ shares, representing a less than five percent investment in BenQ based on the share price as of September 30, 2005. Future net cash outflows relating to the disposal are currently anticipated to amount to approximately €500.

As of September 30, 2005, the Company has reported its MD business (including SSMC) as discontinued operations. Assets and liabilities related to transactions not yet closed as of the balance sheet date (Deferred Countries and SSMC) are classified as held for sale and measured at the lower of their carrying amount or fair value less cost to sell.

The carrying amounts of the major classes of assets and liabilities held for sale as of September 30, 2005 were as follows:

| | September 30, 2005 |
|---|---|
| Inventories, net | 104 |
| Accounts receivable, net | 89 |
| Other (thereof Property, plant and equipment, net €43) | 52 |
| Assets held for sale | 245 |
| Accounts payable | 228 |
| Other liabilities | 61 |
| Liabilities held for sale | 289 |

The net results of discontinued operations (MD including SSMC and Deferred Countries) for current and prior periods are reported in the Income Statement in *Income (loss) from discontinued operations, net of income taxes*.

In fiscal 2005 and 2004, the Disposal Group’s net sales were €3,374 and €4,979, respectively. Income (loss) before income taxes after minority interests reported in discontinued operations amounted to €(1,308) and €(151) , respectively for fiscal 2005 and 2004.

Siemens expects to realize continuing cash flows with the disposed MD business from the provision of transitional services to BenQ and from contract manufacturing for BenQ at the Chinese production site until the sale of SSMC is completed. These cash flows are expected to be eliminated from Siemens ongoing operations within one year after closing of the MD transaction.

**4 Other operating income (expense), net**

| | Year ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Impairment of goodwill | (262) | (433) |
| Gains on sales of real estate, net | 177 | 64 |
| Gains on sales and disposals of businesses, net | 49 | 182 |
| Other, net | 27 | 15 |
| | **(9)** | **(172)** |

*Impairment of goodwill* of €262, in fiscal 2005, relates to Siemens Business Services’ (SBS) reporting unit Operation-Related Services. In fiscal 2004, €433 goodwill impairment is attributable to Distribution and Industry Logistics, a former reporting unit of L&A and to L&A’s reporting unit Airport Logistics (see Note 14 on goodwill impairment and Notes 30 and 33 on L&A concerning changes regarding L&A).

*Gains on sales and disposals of businesses, net* in fiscal 2004, 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 74.9% of its banking software company Kordoba (see Note 3).

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

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

| | Year ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Share in earnings (losses) from equity investees, net | 499 | 460 |
| Write-downs on investments | (85) | (84) |
| Income from investments | 95 | 35 |
| Gains on sales of investments | 58 | 617 |
| Loss on sales of investments | (9) | (5) |
| Other | 26 | 8 |
| | **584** | **1,031** |

*Share in earnings (losses) from equity investees, net* for fiscal 2005 and 2004 includes the Company's at-equity-share in Infineon Technologies AG's (Infineon) net income (loss) of € – and €14, respectively. As discussed in Note 9, the Company commenced accounting for its investment in Infineon as a marketable security at fair value during fiscal 2004. Unrealized gains and losses determined based on the difference between the fair market value and the prior carrying value of the investment in Infineon are recorded in AOCI, net of applicable deferred taxes. The sale of Infineon shares resulted in a pre-tax gain of €590 in fiscal 2004, which is included in *Gains on sales of investments*. In connection with the fiscal 2004 sale of 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 9.

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

| | Year ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Gains (losses) on sales of available-for-sale securities, net | 243 | 54 |
| Other financial gains (losses), net | 54 | 15 |
| | **297** | **69** |

In fiscal 2005, *Gains (losses) on sales of available-for-sale securities, net,* includes a gain on the sale of shares in Juniper Networks, Inc. (Juniper) of €208 (see Note 9).

In fiscal 2005 and 2004, *Other financial gains (losses), net* contained impairments of certain marketable securities totaling €4 and €7, respectively, where the decline in value was determined to be other than temporary.

### 7 Interest income, net

| | Year ended September 30, 2005 | 2004 |
|---|---|---|
| Other interest income, net | 241 | 254 |
| Interest income (expense) of Operations, net | (32) | 20 |
| **Total interest income, net** | **209** | **274** |
| Thereof: Interest and similar income | 720 | 723 |
| Thereof: Interest and similar expense | (511) | (449) |

*Interest income(expense) of Operations, net* includes interest income and expense primarily 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 from continuing operations before income taxes is attributable to the following geographic regions:

| | Year ended September 30, 2005 | 2004 |
|---|---|---|
| Germany | 521 | 1,234 |
| Foreign | 3,664 | 3,135 |
| | **4,185** | **4,369** |

Income tax expense (benefit) consists of the following:

| | Year ended September 30, 2005 | 2004 |
|---|---|---|
| Current: | | |
| German corporation and trade taxes | 178 | 315 |
| Foreign income taxes | 931 | 603 |
| | 1,109 | 918 |
| Deferred: | | |
| Germany | (11) | (176) |
| Foreign | (119) | 25 |
| | (130) | (151) |
| **Income tax expense, net** | **979** | **767** |

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

For fiscal year ended September 30, 2005 and 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 rates for the year ended September 30, 2005 and 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%.

Income tax expense differs from the amounts computed by applying statutory German income tax rates (39% for each of the fiscal years ended September 30, 2005 and 2004) as follows:

| | Year ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Expected income tax expense | 1,632 | 1,704 |
| Increase (decrease) in income taxes resulting from: | | |
| Non-deductible losses and expenses | 116 | 101 |
| Goodwill and acquired in-process research and development* | (139) | 139 |
| Tax-free income | (77) | (110) |
| Change in tax base of investments | – | 78 |
| Tax-free gains from sales of business interests | (34) | (476) |
| Taxes for prior years | – | 55 |
| Effect of change in German tax rates | – | 6 |
| Foreign tax rate differential | (448) | (650) |
| Tax effect of equity method investments | (121) | (109) |
| Other | 50 | 29 |
| **Actual income tax expense** | **979** | **767** |

* Fiscal 2005 includes €(233) in tax benefits related to previously unrecognized tax deductions arising from a partial reorganization of certain businesses for which related goodwill was written off in previous periods.

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

| | September 30, 2005 | 2004 |
|---|---|---|
| Current assets: | | |
| Inventories | 733 | 514 |
| Receivables | 226 | 284 |
| Accrued liabilities | 959 | 736 |
| Liabilities | 468 | 400 |
| Tax loss and credit carryforward | 52 | 197 |
| Other | 212 | 283 |
| Total current deferred tax assets, before valuation allowances | 2,650 | 2,414 |
| Valuation allowances | (6) | (42) |
| Current deferred tax assets | 2,644 | 2,372 |
| Current liabilities: | | |
| Inventories | 1,766 | 1,751 |
| Receivables | 436 | 341 |
| Accrued liabilities | 192 | 303 |
| Liabilities | 51 | 164 |
| Other | 653 | 191 |
| Current deferred tax liabilities | 3,098 | 2,750 |
| Current deferred tax (liability) assets, net | (454) | (378) |
| Non-current assets: | | |
| Long-term investments | 629 | 223 |
| Intangibles | 232 | 235 |
| Property, plant and equipment | 285 | 205 |
| Retirement plans | 4,565 | 3,199 |
| Accrued liabilities | 564 | 672 |
| Liabilities | 357 | 406 |
| Tax loss and credit carryforward | 2,361 | 1,770 |
| Other | 415 | 226 |
| Total non-current deferred tax assets, before valuation allowances | 9,408 | 6,936 |
| Valuation allowances | (619) | (417) |
| Non-current deferred tax assets | 8,789 | 6,519 |
| Non-current liabilities: | | |
| Intangibles | 528 | 300 |
| Property, plant and equipment | 771 | 503 |
| Accrued liabilities | 292 | 141 |
| Liabilities | 46 | 11 |
| Other | 1,258 | 1,322 |
| Non-current deferred tax liabilities | 2,895 | 2,277 |
| Non-current deferred tax assets, net | 5,894 | 4,242 |
| **Total deferred tax assets, net** | **5,440** | **3,864** |

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

As of September 30, 2005, the Company had €6,731 of gross tax loss carryforwards. Of the total, €5,884 tax loss carryforwards have unlimited carryforward periods and €847 expire over the periods to 2023. An amount of €411 in valuation allowances for deferred tax assets would be allocated to reduce goodwill or other intangible assets of acquired entities should the related tax benefits be subsequently recognized.

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. In fiscal year 2005, income taxes on cumulative earnings of €7,167 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 discontinued operations, the provision (benefit) for income taxes consists of the following:

| | Year ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Provision for income taxes | 979 | 767 |
| Discontinued operations | (498) | (106) |
| Shareholders’ equity for other comprehensive income | (763) | 588 |
| | **(282)** | **1,249** |

**9 Marketable securities**

As of September 30, 2005 and 2004, the Company's portfolio of marketable securities is composed of securities classified as available-for-sale. The following tables summarize the current portion of the Company's investment in available-for-sale securities:

| | September 30, 2005 | | | |
|---|---|---|---|---|
| | | | Unrealized | |
| | Cost | Fair Value | Gain | Loss |
| Equity securities | 1,308 | 1,695 | 388 | 1 |
| Debt securities | 79 | 80 | 1 | – |
| Fund securities | 14 | 14 | – | – |
| | **1,401** | **1,789** | **389** | **1** |

| | September 30, 2004 | | | |
|---|---|---|---|---|
| | | | Unrealized | |
| | Cost | Fair Value | Gain | Loss |
| Equity securities | 1,219 | 1,301 | 85 | 3 |
| Debt securities | 77 | 77 | – | – |
| Fund securities | 8 | 8 | – | – |
| | **1,304** | **1,386** | **85** | **3** |

Unrealized gains (losses) on available-for-sale securities included in *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 in the applicable jurisdiction is liquidated.

Proceeds from sales of available-for-sale securities for the years ended September 30, 2005 and 2004 were €356 and €186, respectively. Gross realized gains on sales of available-for-sale securities for the years ended September 30, 2005 and 2004 were €243 and €58, respectively. Gross realized losses on sales of available-for-sale securities for the years ended September 30, 2005 and 2004 were € – and €4, respectively. Fiscal 2005 includes the sale of 13 million shares of Juniper for proceeds of €263 resulting in a pre-tax gain of €208 (see Note 6). Due to the sale, approximately 12 million Juniper shares, previously reported at cost in *Long-term investments*, became available-for-sale and are classified as *Marketable securities* as of September 30, 2005. The increase from the cost basis to fair value was recorded as an unrealized gain in *Accumulated other comprehensive income (loss)*. See also Note 33.

**Infineon-Transactions**

As of September 30, 2005 and 2004, the Company had an 18.2% ownership interest in Infineon. Due to the Company's transfer of Infineon shares to a non-voting trust in December 2001, the Company's voting interest in Infineon, prior to fiscal 2005, was less than its ownership interest. As of the beginning of fiscal 2004, the Company held a 16.6% voting interest in Infineon (based upon total Infineon shares outstanding). In January 2004, in conjunction with the sale of Infineon shares, the Company relinquished all of its voting rights in Infineon and upon dissolution of the non-voting trust on November 28, 2004, obtained again voting rights equaling its 18.2% ownership interest.

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

In fiscal 2004, the Company reduced its investment in Infineon from approximately 39.7% ownership interest in Infineon's outstanding shares as of the beginning of fiscal 2004 to 18.2% as of the end of fiscal 2005. The company sold 150 million Infineon shares for cash consideration of €1,794 and lost its ability to exercise significant influence over Infineon's operating and financial policies. As a result, the Company ceased accounting for Infineon under the equity method (see Note 5) and began reporting its interest as an available-for-sale marketable security at fair value. Of the 150 million shares sold, 86,292,363 shares represented all of the Company's earlier 16.6% voting interest as of the time of the sale and 63,707,637 shares came from the non-voting trust (see below).

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 (see above). The trustee was not related to the Company or any of its affiliates. Under the terms of the trust agreement, the trustee had legal title to the shares held in trust and the Company irrevocably relinquished all voting rights in the shares. However, the trustee was not permitted to vote any Infineon shares it held in trust under the agreement. The trust agreement would terminate only when the Company and its affiliates, on a consolidated basis, had 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 notified the trustee that the trust terminated in accordance with the terms of the trust agreement on November 28, 2004. Upon termination, any shares held by the trustee reverted to the Company and the Company is again entitled to vote these shares.

## 10 Accounts receivable, net

| | September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Trade receivables from the sale of goods and services, net | 15,465 | 13,978 |
| Receivables from sales and direct finance leases, net | 1,488 | 1,365 |
| Receivables from associated and related companies, net | 169 | 127 |
| | **17,122** | **15,470** |

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, | |
|---|---|---|
| | 2005 | 2004 |
| Valuation allowance as of beginning of fiscal year | 918 | 1,122 |
| Increase (decrease) in valuation allowances recorded in the income statement in the current period | 190 | 59 |
| Write-offs charged against the allowance | (179) | (280) |
| Recoveries of amounts previously written-off | 34 | 32 |
| Foreign exchange translation adjustment | 18 | (15) |
| **Valuation allowance as of fiscal year-end** | **981** | **918** |

Receivables from sales and direct finance leases are due as follows:

| | September 30, 2005 |
|---|---|
| 2006 | 1,692 |
| 2007 | 1,202 |
| 2008 | 847 |
| 2009 | 532 |
| 2010 | 288 |
| Thereafter | 255 |
| Minimum future lease payments | 4,816 |
| Less: Unearned income | (645) |
| Less: Allowance for doubtful accounts | (139) |
| Plus: Unguaranteed residual values | 355 |
| Net investment in lease receivables | 4,387 |
| Less: Long-term portion | (2,899) |
| **Receivables from sales and finance leases, current** | **1,488** |

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.

## 11 Inventories, net

| | September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Raw materials and supplies | 2,452 | 2,282 |
| Work in process | 2,724 | 2,261 |
| Costs and earnings in excess of billings on uncompleted contracts | 7,242 | 6,650 |
| Finished goods and products held for resale | 2,696 | 2,777 |
| Advances to suppliers | 558 | 651 |
| | 15,672 | 14,621 |
| Advance payments received | (2,860) | (3,263) |
| | **12,812** | **11,358** |

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

### 12 Other current assets

| | September 30, 2005 | 2004 |
|---|---|---|
| Taxes receivable | 1,247 | 1,033 |
| Loans receivable | 535 | 446 |
| Other receivables from associated and related companies | 258 | 304 |
| Other | 3,190 | 2,615 |
| | **5,230** | **4,398** |

### 13 Long-term investments

| | September 30, 2005 | 2004 |
|---|---|---|
| Investments in associated companies | 2,976 | 2,823 |
| Miscellaneous investments | 792 | 1,299 |
| | **3,768** | **4,122** |

*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. In fiscal 2005, the Company's entire investment in Juniper, previously reported in Long-term investments, was reclassified to Marketable securities and accounted for as an available-for-sale investment (for further information see Note 9). As of September 30, 2004, a certain portion of Juniper shares were subject to sales restrictions and were reported at cost. Juniper shares not subject to sales restrictions were accounted as available-for-sale investment. The fair value of the non-restricted portion amounted to €459 at September 30, 2004 (cost amounted to €111 and unrealized gains to €348).

**14 Goodwill**

| | 10/1/04 | Translation adjustment and other | Acquisitions and Purchase Accounting Adjustments | Dispo-sitions | Impair-ments | 9/30/05 |
|---|---|---|---|---|---|---|
| **Operations** | | | | | | |
| Communications (Com) | 367 | 14 | 73 | – | 17 | 437 |
| Siemens Business Services (SBS) | 269 | 4 | 117 | – | 262 | 128 |
| Automation and Drives (A&D) | 388 | 8 | 540 | – | – | 936 |
| Industrial Solutions and Services (I&S) | 258 | 6 | 544 | – | – | 808 |
| Logistics and Assembly Systems (L&A) | 123 | – | – | – | – | 123 |
| Siemens Building Technologies (SBT) | 415 | 8 | 21 | – | – | 444 |
| Power Generation (PG) | 1,027 | 14 | 183 | – | – | 1,224 |
| Power Transmission and Distribution (PTD) | 320 | 15 | 294 | – | – | 629 |
| Transportation Systems (TS) | 111 | – | 61 | – | – | 172 |
| Siemens VDO Automotive (SV) | 1,524 | – | 5 | – | – | 1,529 |
| Medical Solutions (Med) | 1,514 | 79 | 512 | 5 | – | 2,100 |
| Osram | 78 | 4 | 4 | – | – | 86 |
| Other Operations | – | – | 183 | – | – | 183 |
| **Financing and Real Estate** | | | | | | |
| Siemens Financial Services (SFS) | 82 | – | 49 | – | – | 131 |
| Siemens Real Estate (SRE) | – | – | – | – | – | – |
| **Siemens** | **6,476** | **152** | **2,586** | **5** | **279** | **8,930** |

| | 10/1/03 | Translation adjustment and other | Acquisitions and Purchase Accounting Adjustments | Dispo-sitions | Impair-ments | 9/30/04 |
|---|---|---|---|---|---|---|
| **Operations** | | | | | | |
| Communications (Com) | 345 | (8) | 30 | – | – | 367 |
| 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** | **6,501** | **(133)** | **590** | **49** | **433** | **6,476** |

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

In fiscal 2005, goodwill increased by €2,454. The increase of €152 in foreign currency translation and other adjustments results primarily from the strengthening of the U.S.$ against the Euro. The VA Tech acquisition resulted in additions to goodwill of €1,027. Med's acquisition of CTI, and A&D's acquisition of Flender increased goodwill by €525 and €452, respectively. For further information on acquisitions, dispositions and discontinued operations see Note 3.

During the fourth quarter of fiscal 2005, the Company recorded a goodwill impairment of €262. Based on the results of the Company's analysis of current projects at SBS's reporting unit Operation-Related Services (ORS) in connection with changing markets and competition in outsourcing business and structural challenges to attaining originally targeted profitability, the Company revised its related business plan and concluded that goodwill of ORS was impaired. Significant cost pressure due to excess capacity, the necessity for restructuring efforts and the need for new investments in order to achieve a competitive market position caused the Company to reassess its estimated future cash flows from its ORS business to a level materially below earlier estimates. The fair value of the reporting unit was estimated using the present value of expected future cash flows.

During the second quarter of fiscal 2004, the Company recorded a goodwill impairment of €433 relating to Distribution and Industry Logistics (DI), a former reporting unit of L&A and to L&A's reporting unit Airport Logistics (AL) (see Note 30 and 33 on changes relating to L&A). Based on the results of the Company's analysis of current projects at 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 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.

## 15 Other intangible assets, net

| | 10/1/04 | Translation adjustment | Additions | Retirements | 9/30/05 | Accumulated amortization | Net book value as of 9/30/05 | Accumulated amortization 10/1/04 | Net book value as of 10/1/04 | Amortization during fiscal year 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Software | 1,880 | 34 | 480 | 141 | 2,253 | 1,312 | 941 | 949 | 931 | 410 |
| Patents, licenses and similar rights | 2,778 | 29 | 1,006 | 138 | 3,675 | 1,509 | 2,166 | 1,195 | 1,583 | 306 |
| **Other intangible assets** | **4,658** | **63** | **1,486** | **279** | **5,928** | **2,821** | **3,107** | **2,144** | **2,514** | **716** |

Amortization expense for the year ended September 30, 2004 was €640.

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

| Fiscal year | |
|---|---|
| 2006 | 579 |
| 2007 | 451 |
| 2008 | 345 |
| 2009 | 278 |
| 2010 | 244 |

**16 Property, plant and equipment, net**

| | 10/1/04 | Translation adjustment | Additions | Reclassifications | Retirements | 9/30/05 | Accumulated depreciation | Net book value as of 9/30/05 | Accumulated depreciation 10/1/04 | Net book value as of 10/1/04 | Depreciation and impairment during fiscal year 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Land and buildings | 9,162 | 89 | 987 | 81 | 446 | 9,873 | 4,878 | 4,995 | 4,516 | 4,646 | 360 |
| Technical machinery and equipment | 8,690 | 166 | 1,206 | 225 | 529 | 9,758 | 6,757 | 3,001 | 5,987 | 2,703 | 685 |
| Furniture and office equipment | 9,608 | 149 | 1,805 | 201 | 1,868 | 9,895 | 7,635 | 2,260 | 7,498 | 2,110 | 1,110 |
| Equipment leased to others | 1,472 | 56 | 532 | (82) | 322 | 1,656 | 786 | 870 | 819 | 653 | 168 |
| Advances to suppliers and construction in progress | 571 | 21 | 768 | (425) | 44 | 891 | 5 | 886 | – | 571 | 5 |
| **Property, plant and equipment** | **29,503** | **481** | **5,298** | **–** | **3,209** | **32,073** | **20,061** | **12,012** | **18,820** | **10,683** | **2,328** |

In fiscal 2005, as a result of a corporate-level strategic plan concerning our DI and Materials Handling Products (MHP) businesses (see Note 30 for further information), updated undiscounted cash flow projections based on revised operating plans were used to determine whether the long-lived assets and cash generating units of these businesses were impaired. Discounted cash flows were then used to estimate the fair value of the assets and units resulting in an impairment charge of €98.

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

### 17 Other assets

| | September 30, 2005 | 2004 |
|---|---|---|
| Long-term portion of receivables from sales and finance leases (see Note 10) | 2,899 | 2,309 |
| Prepaid pension assets | 166 | 442 |
| Long-term loans receivable | 736 | 584 |
| Other | 1,463 | 1,631 |
| | **5,264** | **4,966** |

### 18 Accrued liabilities

Thereof current portion:

| | September 30, 2005 | 2004 |
|---|---|---|
| Employee related costs | 2,876 | 2,317 |
| Product warranties | 2,027 | 2,096 |
| Income and other taxes | 1,592 | 1,384 |
| Accrued losses on uncompleted contracts | 1,185 | 1,061 |
| Other | 2,489 | 2,382 |
| | **10,169** | **9,240** |

*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, 2005 | 2004 |
|---|---|---|
| Accrual as of beginning of fiscal year (thereof current €2,096 and €1,830) | 2,824 | 2,353 |
| Amount charged to expense in current period (additions) | 1,137 | 1,013 |
| Reduction due to payments in cash or in kind (usage) | (1,007) | (920) |
| Foreign exchange translation adjustment | 30 | (24) |
| Changes related to existing warranties and other changes | (161) | 402 |
| **Accrual as of fiscal year-end (thereof current €2,027 and €2,096)** | **2,823** | **2,824** |

### 19 Other current liabilities

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| Billings in excess of costs and estimated earnings on uncompleted contracts and related advances | 4,752 | 4,585 |
| Payroll and social security taxes | 2,631 | 2,515 |
| Bonus obligations | 1,202 | 1,151 |
| Sales and other taxes | 953 | 924 |
| Deferred income | 724 | 634 |
| Liabilities to associated and related companies | 392 | 368 |
| Accrued interest | 136 | 128 |
| Other liabilities | 2,477 | 1,545 |
| | **13,267** | **11,850** |

### 20 Debt

| | September 30, 2005 | September 30, 2004 |
|---|---|---|
| Short-term | | |
| Notes and bonds | 1,625 | 621 |
| Loans from banks | 673 | 478 |
| Other financial indebtedness | 1,612 | 295 |
| Obligations under capital leases | 89 | 40 |
| Short-term debt and current maturities of long-term debt | 3,999 | 1,434 |
| Long-term | | |
| Notes and bonds (maturing 2006 – 2011) | 6,826 | 8,345 |
| Loans from banks (maturing 2006 – 2016) | 613 | 266 |
| Other financial indebtedness (maturing 2006 – 2018) | 733 | 971 |
| Obligations under capital leases | 264 | 203 |
| Long-term debt | 8,436 | 9,785 |
| | **12,435** | **11,219** |

As of September 30, 2005, weighted-average interest rates for loans from banks, other financial indebtedness and obligations under capital leases were 4.5% (2004: 4.3%), 4.1% (2004: 3.5%) and 6.1% (2004: 6.2%), 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 €3.0 billion of commercial paper and U.S.$3.0 billion (€2.5 billion and €2.4 billion, respectively, as of September 30, 2005 and 2004) of commercial paper. As of September 30, 2005 and 2004, outstanding commercial paper totaled €1,484 (interest rates from 3.00% to 3.87%) and €242 (interest rates from 1.41% to 1.59%), 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, 2005 and 2004, approximately €1 billion and €0.9 billion, respectively, were outstanding under this program.

In fiscal 2005, the Company renewed a U.S.$ 3.0 billion syndicated multi-currency revolving credit facility, which was to expire in May 2007. It was replaced by a new syndicated multi-currency revolving credit facility of U.S.$ 5.0 billion (€4.2 billion as of September 30, 2005) expiring March 2012 from a syndicate of international banks. In fiscal 2005, the Company also terminated its €0.75 billion revolving credit facility which was to expire in June 2008 and replaced it with a €0.45 billion revolving credit facility maturing in September 2012. Borrowings under these credit facilities bear interest of 0.15% (2004: 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, 2005 and 2004, the full amounts of these lines of credit remained unused. Commitment fees for each of the years ended September 30, 2005 and 2004 totaled approximately €3. The facilities are for general business purposes.

*Other financial indebtedness* includes €520 and €684, as of September 30, 2005 and 2004, 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, 2005, the minimum lease payments under capital leases for the next five years and thereafter are as follows:

| Fiscal year | |
|---|---|
| 2006 | 108 |
| 2007 | 53 |
| 2008 | 47 |
| 2009 | 42 |
| 2010 | 45 |
| Thereafter | 150 |
| Minimum lease payment obligation | 445 |
| Less: unamortized interest expense | (92) |
| Obligations under capital leases | 353 |
| Less: current portion | (89) |
| | **264** |

As of September 30, 2005, 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 | |
|---|---|
| 2006 | 3,910 |
| 2007 | 1,881 |
| 2008 | 1,006 |
| 2009 | 87 |
| 2010 | 2,608 |
| Thereafter | 2,590 |
| | **12,082** |

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

| | September 30, 2005 | | | September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Currency (notional amount) | | €* | Currency (notional amount) | | €* |
| 1.0% 2000/2005 EUR exchangeable notes | – | – | – | EUR | 596 | 621 |
| 5.0% 2001/2006 EUR bonds | EUR | 1,595 | 1,625 | EUR | 1,595 | 1,655 |
| 2.5% 2001/2007 Swiss franc bonds | CHF | 250 | 158 | CHF | 250 | 165 |
| 5.5% 1997/2007 EUR bonds | EUR | 991 | 991 | EUR | 991 | 998 |
| 6% 1998/2008 U.S.$ notes | USD | 970 | 865 | USD | 970 | 870 |
| 1.375% 2003/2010 EUR convertible notes | EUR | 2,500 | 2,500 | EUR | 2,500 | 2,500 |
| 11% 2003/2010 EUR senior notes | EUR | 74 | 86 | – | – | – |
| 5.75% 2001/2011 EUR bonds | EUR | 2,000 | 2,226 | EUR | 2,000 | 2,157 |
| | | | **8,451** | | | **8,966** |

* includes adjustments for fair value hedge accounting.

The Company maintains €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 connection with the acquisition of Flender (see Note 3), Siemens assumed a €250 million, 11% senior note due 2010, of which the Company repurchased €176 through a cash tender offer. The Company has an option to repurchase the remaining outstanding senior note on and after August 1, 2007 at contractually defined prices.

In fiscal 2005, the Company redeemed and retired the remainder of the Siemens Nederland N.V. 1.0% exchangeable notes into shares of Infineon Technologies AG with a notional amount of €596. In fiscal 2004, the Company repurchased and retired €464.5 in notional 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 of the 5% €-bond resulting in a loss of €1.

**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 arising from 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, | |
|---|---|---|
| | 2005 | 2004 |
| Accumulated other comprehensive income | (10,879) | (8,943) |
| *thereof principal pension benefit plans* | (10,573) | (8,760) |
| Less income tax effect | 4,109 | 3,418 |
| *thereof principal pension benefit plans* | 3,824 | 3,353 |
| Accumulated other comprehensive income, net of income taxes | (6,770) | (5,525) |
| *thereof principal pension benefit plans* | (6,749) | (5,407) |
| Accruals for pension plans and similar commitments | 4,917 | 4,392 |
| *thereof principal pension benefit plans* | 2,749 | 2,391 |
| *thereof principal other postretirement benefit plans* | 1,317 | 1,317 |
| *thereof other* | 851 | 684 |

**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 2005 aggregated to €1,009 compared to €1,135 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 and supplemental cash contributions result in net cash used in operating activities.

In the Consolidated Statements of Cash Flow, the Company's principal pension and other postretirement benefits resulted in net cash used in operating activities of €2,082 compared to €1,828 in the previous fiscal year. The separately reported supplemental cash contributions to pension trusts in fiscal 2005 and 2004 of €1,496 and €1,255, respectively, were included in these amounts.

**Principal pension benefits**

The principal pension benefit plans cover approximately 526,000 participants, including 250,000 active employees, 93,000 former employees with vested benefits and 183,000 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 fiscal 2004, Siemens AG and the majority of its domestic affiliates implemented a new pension plan covering virtually all active employees in Germany, BSAV (Beitragsorientierte Siemens Altersversorgung). These benefits are funded by the assets of a new trust. 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 benefit which is 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 connection with the acquisition of VA Tech in fiscal 2005, the Company assumed material pension plans in the UK and Austria which are included in the data for fiscal 2005.

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

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

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

**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, 2005 | | | September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Fair value of plan assets | 21,479 | 14,349 | 7,130 | 17,708 | 11,965 | 5,743 |
| Projected benefit obligation (PBO) | 24,977 | 15,932 | 9,045 | 20,794 | 13,851 | 6,943 |
| Funded status[1] | (3,498) | (1,583) | (1,915) | (3,086) | (1,886) | (1,200) |
| *Germany* | (1,583) | | | (1,886) | | |
| *U.S.* | (858) | | | (392) | | |
| *U.K.* | (779) | | | (537) | | |
| *Other* | (278) | | | (271) | | |
| Unrecognized net losses[2] | 11,835 | 9,198 | 2,637 | 10,419 | 8,625 | 1,794 |
| Unrecognized prior service cost (benefit) | (285) | (270) | (15) | (219) | (289) | 70 |
| **Net amount recognized** | **8,052** | **7,345** | **707** | **7,114** | **6,450** | **664** |
| Amounts recognized in the Consolidated Balance Sheets consist of: | | | | | | |
| Prepaid pension assets | 166 | – | 166 | 442 | – | 442 |
| Accrued pension liability | (2,749) | (1,504) | (1,245) | (2,391) | (1,792) | (599) |
| Intangible assets | 62 | – | 62 | 303 | 289 | 14 |
| Accumulated other comprehensive loss | 10,573 | 8,849 | 1,724 | 8,760 | 7,953 | 807 |
| **Net amount recognized** | **8,052** | **7,345** | **707** | **7,114** | **6,450** | **664** |

[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*.

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 2005 and 2004 as well as additional information by country is provided in the following table:

| | September 30, 2005 | | | September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Change in projected benefit obligations: | | | | | | |
| Projected benefit obligation at beginning of year | 20,794 | 13,851 | 6,943 | 20,878 | 14,156 | 6,722 |
| Foreign currency exchange rate changes | 185 | – | 185 | (140) | – | (140) |
| Service cost | 579 | 307 | 272 | 469 | 212 | 257 |
| Interest cost | 1,121 | 726 | 395 | 1,105 | 742 | 363 |
| Settlements and curtailments | (5) | – | (5) | – | – | – |
| Plan participants' contributions | 46 | – | 46 | 48 | – | 48 |
| Amendments and other | (85) | – | (85) | (313) | (301) | (12) |
| Actuarial (gains) losses, net | 2,897 | 1,736 | 1,161 | (174) | (309) | 135 |
| Acquisitions | 624 | 138 | 486 | 117 | 91 | 26 |
| Divestments | (147) | (75) | (72) | (205) | (25) | (180) |
| Benefits paid | (1,032) | (751) | (281) | (991) | (715) | (276) |
| **Projected benefit obligation at end of year** | **24,977** | **15,932** | **9,045** | **20,794** | **13,851** | **6,943** |
| *Germany* | 15,932 | | | 13,851 | | |
| *U.S.* | 3,921 | | | 3,010 | | |
| *U.K.* | 3,098 | | | 2,200 | | |
| *Other* | 2,026 | | | 1,733 | | |

The total projected benefit obligation at the end of the fiscal year includes approximately €9,940 for active employees, €2,974 for former employees with vested benefits and €12,063 for retirees and surviving dependants. The item amendments and other in the prior year 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 the prior year. In fiscal 2005, the PBO was increased due to a decrease in discount rate for the domestic and foreign pension plans.

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

The following table shows the change in plan assets for fiscal year 2005 and 2004 and some additional information concerning pension plans:

| | September 30, 2005 | | | September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Change in plan assets: | | | | | | |
| Fair value of plan assets at beginning of year | 17,708 | 11,965 | 5,743 | 15,899 | 11,016 | 4,883 |
| Foreign currency exchange rate changes | 135 | – | 135 | (99) | – | (99) |
| Actual return on plan assets | 2,289 | 1,596 | 693 | 1,202 | 673 | 529 |
| Acquisitions and other | 325 | – | 325 | 81 | 55 | 26 |
| Divestments and other | (26) | – | (26) | (205) | – | (205) |
| Employer contributions (supplemental) | 1,496 | 1,380 | 116 | 1,255 | 700 | 555 |
| Employer contributions (regular) | 535 | 159 | 376 | 518 | 236 | 282 |
| Plan participants' contributions | 49 | – | 49 | 48 | – | 48 |
| Benefits paid | (1,032) | (751) | (281) | (991) | (715) | (276) |
| **Fair value of plan assets at end of year** | **21,479** | **14,349** | **7,130** | **17,708** | **11,965** | **5,743** |
| *Germany* | 14,349 | | | 11,965 | | |
| *U.S.* | 3,063 | | | 2,618 | | |
| *U.K.* | 2,319 | | | 1,664 | | |
| *Other* | 1,748 | | | 1,461 | | |

**Pension benefits: Recognition of an Additional Minimum Liability (AML)**

The total ABO of the principal pension benefit plans amounted to €24,045 and €19,962, as of September 30, 2005 and 2004, respectively.

For fiscal 2005 and 2004, 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, 2005 | | | September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Projected benefit obligation | 24,569 | 15,932 | 8,637 | 18,446 | 13,851 | 4,595 |
| *Germany* | 15,932 | | | 13,851 | | |
| *U.S.* | 3,881 | | | 866 | | |
| *U.K.* | 3,098 | | | 2,200 | | |
| *Other* | 1,658 | | | 1,529 | | |
| Accumulated benefit obligation | 23,686 | 15,853 | 7,833 | 17,829 | 13,757 | 4,072 |
| *Germany* | 15,853 | | | 13,757 | | |
| *U.S.* | 3,476 | | | 776 | | |
| *U.K.* | 2,749 | | | 1,966 | | |
| *Other* | 1,608 | | | 1,330 | | |
| Fair value of plan assets | 20,935 | 14,349 | 6,586 | 15,467 | 11,965 | 3,502 |
| *Germany* | 14,349 | | | 11,965 | | |
| *U.S.* | 2,973 | | | 586 | | |
| *U.K.* | 2,253 | | | 1,643 | | |
| *Other* | 1,360 | | | 1,273 | | |
| **Underfunding of accumulated benefit obligation** | **(2,751)** | **(1,504)** | **(1,247)** | **(2,362)** | **(1,792)** | **(570)** |
| *Germany* | (1,504) | | | (1,792) | | |
| *U.S.* | (503) | | | (190) | | |
| *U.K.* | (496) | | | (323) | | |
| *Other* | (248) | | | (57) | | |

The underfunded ABO of €2,751 (the Minimum Liability) was recorded as an accrued pension liability. Subsequent to the measurement date, the accrued pension liability was reduced by cash contributions in the U.S. of €43. Including a pension liability of €41 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, 2005 totaled €2,749.

Excluding the AML adjustment, the Company has a net prepaid pension asset of €7,884, 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 €2,751, resulted in an AML adjustment of €10,635. Of this amount, €10,573 (€6,749 net of tax) was recorded in AOCI as a separate component of shareholders' equity and €62 was recorded as an intangible asset.

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

**Pension benefits: Components of NPPC**

The components of the NPPC for the fiscal years ended September 30, 2005 and 2004 were as follows:

| | Year ended September 30, 2005 | | | Year ended September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Service cost | 579 | 307 | 272 | 469 | 212 | 257 |
| Interest cost | 1,121 | 726 | 395 | 1,105 | 742 | 363 |
| Expected return on plan assets | (1,291) | (905) | (386) | (1,154) | (813) | (341) |
| Amortization of: | | | | | | |
| Unrecognized prior service cost (benefits) | (9) | (19) | 10 | 10 | – | 10 |
| Unrecognized net losses | 561 | 475 | 86 | 623 | 520 | 103 |
| Unrecognized net transition obligation (asset) | – | – | – | (2) | – | (2) |
| Loss due to settlements and curtailments | 3 | – | 3 | – | – | – |
| **Net periodic pension cost** | **964** | **584** | **380** | **1,051** | **661** | **390** |
| *Germany* | 584 | | | 661 | | |
| *U.S.* | 190 | | | 217 | | |
| *U.K.* | 149 | | | 132 | | |
| *Other* | 41 | | | 41 | | |

For the Siemens German Pension Trust, the determination of the *expected return on plan assets and the amortization of unrecognized net losses* 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 €13,730 and €12,094 as of September 30, 2005 and 2004, respectively, €449 below and €129 above, respectively, the fair value of 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.

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 *amortization of unrecognized* net losses 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. Net actuarial losses increased during fiscal 2005 predominantly due to a reduction of the discount rate assumption used to measure the PBO, partially offset by actuarial gains resulting from pension assets where actual returns exceed expected returns. The net effect did not impact NPPC for fiscal 2005 but will increase amortization of unrecognized net losses in future periods. The supplemental cash contributions in fiscal 2005 and 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 or where plan assets are invested 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, 2005 | | | Year ended September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Discount rate | 4.5% | 4.35% | 4.9% | 5.5% | 5.25% | 5.9% |
| *Germany* | 4.35% | | | 5.25% | | |
| *U.S.* | 5.25% | | | 6.5% | | |
| *U.K.* | 4.9% | | | 5.7% | | |
| Rate of compensation increase | 2.6% | 2.25% | 3.2% | 2.6% | 2.25% | 3.3% |
| *Germany* | 2.25% | | | 2.25% | | |
| *U.S.* | 3.25% | | | 3.25% | | |
| *U.K.* | 3.7% | | | 4.0% | | |
| Rate of pension progression | 1.2% | 1.0% | 2.0% | 1.3% | 1.0% | 2.3% |
| *Germany* | 1.0% | | | 1.0% | | |
| *U.K.* | 2.7% | | | 2.8% | | |

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 2006 are already determined. Regarding the assumption of the expected rate of return on plan assets, the Company decided to maintain the same fiscal 2005 return for fiscal 2006 for the majority of its principal pension plans. Accordingly, the total expected return for fiscal 2006 will be based on such expected rate of return multiplied by the market-related value of plan assets at the fiscal 2005 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, 2006, 2005 and 2004 are shown in the following table:

| | Year ended September 30, 2006 | | | Year ended September 30, 2005 | | | Year ended September 30, 2004 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Discount rate | 4.5% | 4.35% | 4.9% | 5.5% | 5.25% | 5.9% | 5.4% | 5.25% | 5.6% |
| *Germany* | 4.35% | | | 5.25% | | | 5.25% | | |
| *U.S.* | 5.25% | | | 6.5% | | | 6.25% | | |
| *U.K.* | 4.9% | | | 5.7% | | | 5.4% | | |
| Expected return on plan assets | 6.7% | 6.7% | 6.7% | 6.7% | 6.75% | 6.6% | 6.7% | 6.75% | 6.6% |
| *Germany* | 6.7% | | | 6.75% | | | 6.75% | | |
| *U.S.* | 6.95% | | | 6.95% | | | 6.95% | | |
| *U.K.* | 6.75% | | | 6.85% | | | 6.85% | | |
| Rate of compensation increase | 2.6% | 2.25% | 3.2% | 2.6% | 2.25% | 3.3% | 2.5% | 2.25% | 2.9% |
| *Germany* | 2.25% | | | 2.25% | | | 2.25% | | |
| *U.S.* | 3.25% | | | 3.25% | | | 3.0% | | |
| *U.K.* | 3.7% | | | 4.0% | | | 3.6% | | |
| Rate of pension progression | 1.2% | 1.0% | 2.0% | 1.3% | 1.0% | 2.3% | 1.4% | 1.25% | 2.1% |
| *Germany* | 1.0% | | | 1.0% | | | 1.25% | | |
| *U.K.* | 2.7% | | | 2.8% | | | 2.6% | | |

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 2005.

**Pension benefits: Sensitivity Analysis**

A one-percentage-point change of the established assumptions mentioned above, used for the calculation of the NPPC for fiscal 2006, and a change of the market-related value of plan assets of €500, as of September 30, 2005, would result in the following increase/(decrease) of the fiscal 2006 NPPC:

| | Effect on NPPC 2006 due to a one-percentage-point/€500 increase | Effect on NPPC 2006 due to a one-percentage-point/€500 decrease |
|---|---|---|
| Discount rate | (255) | 328 |
| Expected return on plan assets | (200) | 200 |
| Rate of compensation increase | 48 | (44) |
| Rate of pension progression | 265 | (221) |
| Market-related value of plan assets | (68) | 68 |

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 cumulative 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, 2005 | | | Year ended September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Change in the minimum liability adjustment within Accumulated other comprehensive income | 1,813 | 896 | 917 | (1,432) | (922) | (510) |

The reduction of shareholders' equity caused by the underfunded ABO increased by €1,813. This increase has no effect on income and was, among other effects, caused by the increase in the ABO as a result of the decrease in discount rate for the domestic and foreign pension plans. Contributions to plan assets had no effect on the AML, resulting in a lower difference between the ABO and the fair value of plan assets while prepaid pension assets before AML adjustments increased by the same amount.

| | Year ended September 30, 2005 | | | Year ended September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Actual return on plan assets | 2,289 | 1,596 | 693 | 1,202 | 673 | 529 |

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

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 actual return over the last twelve months amounted to 12.41% or €2,392 billion, the aggregate return on plan assets between their respective measurement dates amounted to 11.91% or €2,289 billion. For the domestic pension plans, €1,596 or 11.88% was realized, as compared to an expected return on plan assets of 6.75% or an amount of €905 that was included in the NPPC. For the foreign pension plans, €693 or 11.98% was realized, as compared to an expected return on plan assets of 6.6% or an amount of €386 that was included in the NPPC.

**Pension benefits: Plan Assets**

The asset allocation of the plan assets of the principal pension benefit plans as of the measurement date for fiscal 2005 and 2004 as well as the target asset allocation for fiscal year 2006, are as follows:

| | Target asset allocation | Asset allocation as of the measurement date | | | | | |
|---|---|---|---|---|---|---|---|
| | | September 30, 2005 | | | September 30, 2004 | | |
| Asset class | September 30, 2006 | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Equity | 20 – 50% | 31% | 25% | 43% | 26% | 18% | 44% |
| Fixed income | 40 – 70% | 56% | 63% | 40% | 56% | 64% | 39% |
| Real estate | 5 – 15% | 8% | 7% | 9% | 9% | 8% | 10% |
| Cash | 5 – 15% | 5% | 5% | 8% | 9% | 10% | 7% |
| | | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

The asset allocation represents the plan assets exposure to market risk. For example, an equity instrument whose 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.

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 2005 and 2004, as well as those planned in fiscal 2006, are as follows:

| | (Unaudited) Year ended September 30, 2006 (expected) | | | Year ended September 30, 2005 | | | Year ended September 30, 2004 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Regular funding | 611 | 321 | 290 | 535 | 159 | 376 | 518 | 236 | 282 |
| Supplemental cash Contributions | – | – | – | 1,496 | 1,380 | 116 | 1,255 | 700 | 555 |
| **Total** | **611** | **321** | **290** | **2,031** | **1,539** | **492** | **1,773** | **936** | **837** |

In fiscal 2005, €1,496 in cash was contributed in October 2004, as follows: €1,380 to the domestic pension plans and €116 to the pension plans in the U.S. 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 plans in the U.S.

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, 2005 and 2004, 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** | | | |
| 2004 | 991 | 715 | 276 |
| 2005 | 1,032 | 751 | 281 |
| **Expected pension payments** | | | |
| 2006 | 1,134 | 789 | 345 |
| 2007 | 1,151 | 796 | 355 |
| 2008 | 1,207 | 832 | 375 |
| 2009 | 1,236 | 854 | 382 |
| 2010 | 1,261 | 872 | 389 |
| 2011 – 2015 | 7,178 | 4,829 | 2,349 |

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,
- Plan assets,
- Components of net periodic benefit cost for other postretirement benefits
- Assumptions used in the calculation of the APBO and the net periodic benefit cost for other postretirement benefits, and
- Benefit payments.

**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, 2005 | | | September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Fair value of plan assets | 3 | – | 3 | 5 | – | 5 |
| Accumulated postretirement benefit obligations | 919 | 394 | 525 | 939 | 443 | 496 |
| Funded status | (916) | (394) | (522) | (934) | (443) | (491) |
| Unrecognized net gain | (357) | (318) | (39) | (373) | (274) | (99) |
| Unrecognized prior service benefits | (44) | – | (44) | (11) | – | (11) |
| Unrecognized net transition obligation | – | – | – | 1 | – | 1 |
| **Net amount recognized** | **(1,317)** | **(712)** | **(605)** | **(1,317)** | **(717)** | **(600)** |

The following table shows a detailed reconciliation of the changes in the accumulated postretirement benefit obligation for other postretirement benefits for the years ended September 30, 2005 and 2004:

| | September 30, 2005 | | | September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Change in accumulated postretirement benefit obligations: | | | | | | |
| Accumulated postretirement benefit obligation at beginning of year | 939 | 443 | 496 | 1,088 | 482 | 606 |
| Foreign currency exchange rate changes | 13 | – | 13 | (31) | – | (31) |
| Service cost | 26 | 14 | 12 | 44 | 17 | 27 |
| Interest cost | 52 | 23 | 29 | 60 | 26 | 34 |
| Settlements and curtailments | (4) | – | (4) | (3) | – | (3) |
| Plan participant's contributions | 2 | – | 2 | 2 | – | 2 |
| Plan amendments and other | (41) | – | (41) | (4) | 7 | (11) |
| Actuarial (gains) losses, net | (6) | (59) | 53 | (170) | (65) | (105) |
| Acquisitions | – | – | – | 10 | 1 | 9 |
| Divestments | (7) | (7) | – | (2) | (2) | – |
| Benefits paid | (55) | (20) | (35) | (55) | (23) | (32) |
| **Accumulated postretirement benefit obligation at end of year** | **919** | **394** | **525** | **939** | **443** | **496** |

**Other postretirement benefits: Plan assets**

The following table shows the change in plan assets for fiscal 2005 and 2004:

| | September 30, 2005 | | | September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Change in plan assets | | | | | | |
| Fair value of plan assets at beginning of year | 5 | – | 5 | 3 | – | 3 |
| Employer contributions | 31 | – | 31 | 32 | – | 32 |
| Plan participant's contributions | 2 | – | 2 | 2 | – | 2 |
| Benefits paid | (35) | – | (35) | (32) | – | (32) |
| **Fair value of plan assets at year end** | **3** | **–** | **3** | **5** | **–** | **5** |

**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, 2005 and 2004 are as follows:

| | Year ended September 30, 2005 | | | Year ended September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Total | Domestic | Foreign | Total | Domestic | Foreign |
| Service cost | 26 | 14 | 12 | 44 | 17 | 27 |
| Interest cost | 52 | 23 | 29 | 60 | 26 | 34 |
| Amortization of: | | | | | | |
| Unrecognized prior service benefits | (10) | – | (10) | (7) | – | (7) |
| Unrecognized net (gains)/losses | (19) | (15) | (4) | (10) | (12) | 2 |
| Net gain due to settlements and curtailments | (4) | – | (4) | (3) | – | (3) |
| **Net periodic benefit cost** | **45** | **22** | **23** | **84** | **31** | **53** |

**Other postretirement benefits: Assumptions used in the calculation of the APBO 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, | |
|---|---|---|
| | 2005 | 2004 |
| Discount rate | 5.25% | 6.5% |
| Medical trend rates (initial/ultimate /year): | | |
| Medicare ineligible pre-65 | 9%/5%/2010 | 10%/5%/2010 |
| Medicare eligible post-65 | 9%/5%/2010 | 10%/5%/2010 |
| Fixed dollar benefit | 4.5% | 4.5% |
| 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 resulted in the following increase/(decrease) of the accumulated postretirement benefit obligation and the service and interest cost as of and for the year ended September 30, 2005:

| | September 30, 2005 One-percentage-point increase | decrease |
|---|---|---|
| Effect on accumulated postretirement benefit obligation | 59 | (49) |
| Effect on total of service and interest cost components | 6 | (4) |

**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, 2005 and 2004, 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** | | | |
| 2004 | 55 | 23 | 32 |
| 2005 | 55 | 20 | 35 |
| **Expected payments for other postretirement benefits** | | | |
| 2006 | 52 | 23 | 29 |
| 2007 | 57 | 28 | 29 |
| 2008 | 63 | 34 | 29 |
| 2009 | 56 | 27 | 29 |
| 2010 | 59 | 29 | 30 |
| 2011 – 2015 | 388 | 238 | 150 |

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

## 22 Other accruals and provisions

| | September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Product warranties | 796 | 728 |
| Asset retirement obligations | 499 | 478 |
| Deferred income | 324 | 356 |
| Other long-term accruals | 3,200 | 2,454 |
| | **4,819** | **4,016** |

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 €499, and €513, respectively, as of September 30, 2005 and 2004 (thereof non-current portion of €461, and €445, respectively) and to costs primarily associated with the removal of leasehold improvements at the end of the lease term amounting to €43, and €39, respectively as of September 30, 2005 and 2004 (thereof non-current portion of €38 and €33, 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 2010; 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. The current credit adjusted risk free interest rates for the environmental liabilities relating to the decommissioning of the Hanau and Karlstein facilities, range from approximately 3% to 6%. The rates are determined based on the differing durations of the steps of decommissioning. As of September 30, 2005 and 2004, the accrual totals €499 and €513, respectively, and is recorded net of a present value discount of €1,472, and €1,471, respectively. The total expected payments for each of the next five fiscal years and the total thereafter are €40, €19, €17, €18, €12, and €1,865 (includes €1,789 for the estimated costs associated with final storage in 2033).

The Company recognizes the accretion of the liability for the Hanau facility using the effective interest method. In each of the years ended September 30, 2005 and 2004, the Company recognized €26 in accretion expense in *Other operating income (expense), net*.

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

| | Year ended September 30, 2005 | Year ended September 30, 2004 |
|---|---|---|
| Aggregate carrying amount as of the beginning of fiscal year (thereof current portion of €74 and €97) | 552 | 592 |
| Liabilities incurred in the current period | 12 | 4 |
| Liabilities settled in the current period | (62) | (87) |
| Accretion expense | 28 | 28 |
| Revision in estimated cash flows | 12 | 15 |
| **Aggregate carrying amount as of fiscal year-end (thereof current portion of €43 and €74)** | **542** | **552** |

## 23 Shareholders' equity

### Common stock and Additional paid-in capital

As of September 30, 2005, the Company's common stock totaled €2,673 divided into 891,085 thousand shares with no 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, 2004, the Company's common stock totaled €2,673 representing 891,076 thousand shares.

The following table provides a summary of outstanding capital and the changes in authorized and conditional capital for fiscal years 2005 and 2004:

| | 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, 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** |
| Settlement to former SNI shareholders | 29 | 9 | – | – | (29) | (9) |
| **As of September 30, 2005** | **2,673,256** | **891,085** | **666,630** | **222,210** | **925,487** | **308,496** |

**Capital increases**
In fiscal 2004, common stock increased by €195 thousand through the issuance of 65 thousand shares from the conditional capital to service the stock option plans. No such increases incurred in fiscal 2005. In fiscal 2005, the Company repurchased its own common stock to accommodate stock-based compensation plans.

In fiscal 2005 and 2004, common stock increased by €29 thousand and €433 thousand, respectively, through the issuance of 9 thousand shares and 145 thousand shares, respectively, from the conditional capital as settlement to former shareholders of Siemens Nixdorf Informationssysteme AG (SNI AG).

**Authorized, unissued capital**
In each of the years ended September 30, 2005 and 2004, the Company's authorized but unissued capital totaled €667 or 222,210 thousand common shares.

Authorized Capital 2004 replaced Authorized Capital 2001/I of €400 (representing 133 million shares) and Authorized Capital 2003 of €250 (representing 83 million shares) 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.

Authorized Capital 2001/II authorizes the Managing Board, with the approval of the Supervisory Board, to increase capital stock by up to €67 (representing 22 million shares) against contributions in cash until February 1, 2006 for the purpose of issuing them exclusively to employees of the Company and its subsidiaries, provided these subsidiaries are not listed companies themselves and do not have their own employee share schemes. Pre-emptive rights of existing shareholders are excluded. 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.

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.

On February 22, 2001, the Company's shareholders authorized the Managing Board with the approval of the Supervisory Board to increase the common stock by up to €400 through the issuance of up to 133,333,334 shares for offer to existing shareholders until February 1, 2006 (Authorized Capital 2001/I). As mentioned above, Authorized Capital 2001/I was replaced by resolution of the Annual Shareholders' Meeting on January 22, 2004.

**Conditional capital (unissued)**

Conditional capital to service the 2001 and 1999 Siemens Stock Option Plan amounts to €191 in each of the fiscal years ended September 30, 2005 and 2004.

Conditional capital provided to service the issuance of bonds with conversion rights or warrants amounts to €734 in each of the fiscal years ended September 30, 2005 and 2004.

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.

By resolution of the Annual Shareholders' Meeting on February 22, 2001, conditional share capital of €147 was approved to service the 2001 Siemens Stock Option Plan (Conditional Capital 2001). In addition, conditional capital amounting to €44 as of September 30, 2005, and 2004, was approved by the Company's shareholders to service the 1999 Siemens Stock Option Plan and the 2001 Siemens Stock Option Plan (Conditional Capital 1999).

As of September 30, 2005 and 2004 conditional capital of €0.6 provides for the settlement offered to former shareholders of SNI AG who had not tendered their SNI share certificates.

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.

**Treasury stock**

At the January 2005 Annual Shareholders' Meeting, the Company's shareholders authorized the Company to repurchase up to 10% of the €2,673 common stock until July 26, 2006, for issuance to employees and stock-based compensation plan participants, to accommodate option and conversion rights attached with bonds issued by the Company including its subsidiaries, for sale via a stock exchange or for retiring those shares with the approval of the Supervisory Board. In addition, the Supervisory Board is authorized to transfer repurchased shares to members of the Managing Board of Siemens as stock-based compensation with a waiting period of at least two years.

In fiscal 2005, the Company repurchased a total of 3,549 thousand shares at an average price of €61.78 per share to accommodate the Company's stock-based compensation plans. In fiscal 2005, 1,691 thousand shares were sold in conjunction with the exercise of stock options and 1,849 thousand shares were issued to employees under a compensatory employee share purchase program. See Note 27 for additional information on stock-based compensation. As of September 30, 2005, 9,004 shares of stock remained in treasury with a carrying amount of €0.6.

In fiscal 2004, the Company repurchased a total of 1,703 thousand shares at an average price of €62.24 per share in addition to the 1 thousand shares of treasury stock held at beginning of the fiscal year. Of these shares, 1,704 thousand 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.

**Accumulated other comprehensive income (loss)**

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

| | Year ended September 30, 2005 | | | Year ended September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Pretax | Tax effect | Net | Pretax | Tax effect | Net |
| Changes in unrealized gains (losses) on securities: | | | | | | |
| Unrealized holding gains (losses) for the period | 271 | (108) | 163 | 218 | (79) | 139 |
| Reclassification adjustments for (gains) losses included in net income | (265) | 89 | (176) | (75) | 13 | (62) |
| Net unrealized gains (losses) on available-for-sale securities | 6 | (19) | (13) | 143 | (66) | 77 |
| Changes in unrealized gains (losses) on derivative financial instruments: | | | | | | |
| Unrealized gains (losses) on derivative financial instruments | (165) | 64 | (101) | 73 | (33) | 40 |
| Reclassification adjustments for (gains) losses included in net income | (71) | 28 | (43) | (111) | 43 | (68) |
| Net unrealized gains (losses) on derivative financial instruments | (236) | 92 | (144) | (38) | 10 | (28) |
| Minimum pension liability | (1,935) | 690 | (1,245) | 1,397 | (532) | 865 |
| Foreign-currency translation adjustment | 483 | – | 483 | (249) | – | (249) |
| | **(1,682)** | **763** | **(919)** | **1,253** | **(588)** | **665** |

**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, 2005, Siemens AG management distributed an ordinary dividend of €1,112 (€1.25 per share) of the 2004 earnings of Siemens AG as a dividend to its shareholders. During the years ended September 30, 2004, Siemens AG management distributed €978 (€1.10 per share) of the fiscal 2003 earnings of Siemens AG as a dividend to its shareholders.

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

## 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, 2005 | 2004 |
|---|---|---|
| Guarantees | | |
| Credit guarantees | 362 | 341 |
| Guarantees of third-party performance | 829 | 370 |
| Other guarantees | 602 | 525 |
| | **1,793** | **1,236** |

*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, 2005 and 2004, the Company has accrued €36 and €82, 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 seven 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, 2005 and 2004, the total accruals for Other guarantees amounted to €106 and €156, respectively.

As of September 30, 2005, future payment obligations under non-cancellable operating leases are as follows:

| | |
|---|---|
| 2006 | 628 |
| 2007 | 515 |
| 2008 | 409 |
| 2009 | 299 |
| 2010 | 247 |
| Thereafter | 583 |

Total operating rental expense for the years ended September 30, 2005 and 2004 was €836 and €769, respectively.

As of September 30, 2005 and 2004, the Company has commitments to make capital contributions of €148 and €212, 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) and standard product 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, 2005 and 2004, net gains of €37 and €21, respectively, were reclassified from *AOCI* into cost of sales because the occurrence of the related hedged forecasted transaction was no longer probable.

It is expected that €83 of net deferred losses in *AOCI* will be reclassified into earnings during the year ended September 30, 2006 when the hedged forecasted foreign-currency denominated sales and purchases occur.

As of September 30, 2005, the maximum length of time over which the Company is hedging its future cash flows associated with foreign-currency forecasted transactions is 88 months.

**Fair value hedges** – As of September 30, 2005 and 2004, 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, 2005 and 2004, the hedging transactions resulted in the recognition of an *Other current asset* of €16 and €20, respectively and *Other current liability* of €7 and €33, 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, 2005 and 2004 no net gains and losses were recognized in cost of sales because the hedged firm commitment no longer qualified as a fair value hedge.

**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, 2005 and 2004, 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 2.4% as of September 30, 2005 and 2004) and received fixed rates of interest (average rate of 5.3% and 5.2% as of September 30, 2005 and 2004). The notional amount of indebtedness hedged as of September 30, 2005 and 2004 was €3,595 and €3,756, respectively. This resulted in 45% and 44% of the Company's underlying notes and bonds being subject to variable interest rates as of September 30, 2005 and 2004, 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, 2005 and 2004 was €259 and €229, respectively.

**Cash flow hedges of revolving term deposits**

During the years ended September 30, 2005 and 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. It is expected that €4 of net deferred gains in *AOCI* will be reclassified into interest income during fiscal 2006, when the interest payments from the term deposits occur.

**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, 2005 and 2004, the net fair value of derivative financial instruments amounted to €172 and €489, respectively, which was recorded on the Consolidated Balance Sheets in *Other current assets* amounting to €812 and €693, respectively, and *Other current liabilities* in the amount of €640 and €204, respectively.

**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 paper 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, | |
|---|---|---|
| | 2005 | 2004 |
| Fair value | 3,935 | 4,293 |
| Carrying amount | 3,768 | 4,122 |

**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, 2005 and 2004, the carrying amounts of such receivables, net of allowances, approximates their fair value.

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

**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, 2005 and 2004, the fair value and carrying amount of debt is as follows:

| | September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Fair value | 12,994 | 11,663 |
| Carrying amount | 12,435 | 11,219 |

## 27 Stock-based compensation

In fiscal 2005, the Company introduced stock awards as another type of compensation. Stock awards granted in fiscal 2005 resulted in a significant reduction in the number of stock options awarded as compared with fiscal 2004.

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.

**Stock Option Plans**

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

As part of a stock option plan for members of the Managing Board, key executives 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.

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 key executives 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 issuance 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 exercisable 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 to 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 millions of €, except where otherwise stated and per share amounts)

In November 2004, the Supervisory Board and Managing Board granted options to 624 key executives for 2,945,035 shares with an exercise price of €72.54 of which options for 296,270 shares were granted to the Managing Board. 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.

| | Year ended September 30, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Outstanding, beginning of period | 28,054,326 | €70.86 | 20,410,876 | €69.82 |
| Granted | 2,945,035 | €72.54 | 8,678,752 | €73.25 |
| Options exercised | (1,696,362) | €54.31 | (65,063) | €57.73 |
| Options forfeited | (691,443) | €74.41 | (970,239) | €71.18 |
| **Outstanding, end of period** | **28,611,556** | **€71.93** | **28,054,326** | **€70.86** |
| Exercisable, end of period | 17,486,809 | €71.21 | 10,804,159 | €82.91 |

The following table summarizes information on stock options outstanding and exercisable at September 30, 2005:

| | 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 | 7,185,600 | 2 | €53.70 | 7,185,600 | €53.70 |
| €57.73 | 1,227,245 | 1 | €57.73 | 1,227,245 | €57.73 |
| €72.54 | 2,907,680 | 4 | €72.54 | – | – |
| €73.25 | 8,217,067 | 3 | €73.25 | – | – |
| €86.23 | 2,809,396 | 2 | €86.23 | 2,809,396 | €86.23 |
| €87.19 | 6,264,568 | 1 | €87.19 | 6,264,568 | €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, 2005 and 2004, are as follows:

| | Assumptions at grant date | |
|---|---|---|
| | 2005 | 2004 |
| Risk-free interest rate | 2.72% | 3.22% |
| Expected dividend yield | 2.07% | 1.80% |
| Expected volatility | 20.38% | 31.85% |
| Expected option life | 3 yrs. | 3 yrs. |
| Estimated weighted average fair value per option | €4.54 | €9.62 |
| Fair value of total options granted during fiscal year | €12 | €81 |

A 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. 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.

**Stock appreciation rights (SAR's)**

Where local regulations restrict the grants of stock options in certain jurisdictions, the Company grants SAR's to employees exerciseable in cash only, as summarized in the table below:

| | Year ended September 30, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | SAR's | Weighted average exercise price | SAR's | Weighted average exercise price |
| Outstanding, beginning of period | 198,850 | € 73.25 | – | – |
| Granted | 76,670 | € 72.54 | 206,050 | €73.25 |
| Options forfeited | (7,800) | € 73.25 | (7,200) | €73.25 |
| **Outstanding, end of period** | **267,720*** | **€ 73.05** | **198,850** | **€73.25** |
| Exercisable, end of period | – | – | – | – |

* Thereof 76,670 SAR's with a €72.54 exercise price and a weighted average remaining life of 4 years and 191,050 SAR's with a €73.25 exercise price and a weighted average remaining life of 3 years.

**Stock awards**

In the first quarter of fiscal 2005, the Company introduced stock awards and phantom stock as another means for providing stock-based compensation to members of the Managing Board and other eligible employees. Stock awards are subject to a four year vesting period. Upon expiration of the vesting period, the recipient receives Siemens shares without payment of consideration. Stock awards are forfeited if the grantee's employment with the Company terminates prior to the expiration of the vesting period. During the vesting period, grantees are not entitled to dividends. Stock awards may not be transferred, sold, pledged or otherwise encumbered. Stock awards may be settled in newly issued shares of common stock of Siemens AG from the authorized or the conditional capital reserved for this purpose, Treasury Stock or in cash. The settlement method will be determined by the Managing Board and the Supervisory Board.

Each fiscal year, the Company decides whether or not to grant Siemens stock awards. Siemens stock awards may be granted only once a year within thirty days following the date of publication of the business results for the previous fiscal year. The Supervisory Board decides annually after the end of each fiscal year how many stock awards to grant to the Managing Board and the Managing Board decides annually how many stock awards to grant to key executives and eligible employees.

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

In fiscal 2005, the Company granted 1,152,508 stock awards to 5,343 employees of which 24,177 awards were granted to the Managing Board. 16,460 awards forfeited in fiscal 2005, resulting in a year-end balance of 1,136,048 awards.

Stock awards are accounted under the fair value recognition provisions of SFAS 123. Fair value was determined as the market price of Siemens shares less the present value of dividends expected during the 4 year vesting period which resulted in a fair value of €55.63 per award. Total fair value of stock awards granted in fiscal 2005 amounted to €64.

**Phantom stock**
Where local regulations restrict the grants of stock awards in certain jurisdictions, the Company grants phantom stock to employees under the same conditions as the Siemens stock awards, except that grantees receive the share prices' equivalent value in cash only at the end of the four year vesting period. In fiscal 2005, 28,628 phantom stock rights were granted and 391 phantom stock rights forfeited resulting in a balance of 28,237 phantom stock rights as of September 30, 2005.

**Employee share purchase plan**
Under a compensatory employee share purchase program, employees may purchase shares in the Company at preferential prices once a year. The employee share purchase program is accounted under the fair value recognition provisions of SFAS 123. During the years ended September 30, 2005 and 2004, the Company incurred compensation expense (before income taxes) of €31 and €35, respectively, related to the sale of repurchased shares to employees.

## 28 Personnel costs

| | Year ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Wages and salaries | 21,680 | 20,261 |
| Statutory social welfare contributions and expenses for optional support payments | 3,576 | 3,419 |
| Expenses relating to pension plans and employee benefits | 1,390 | 1,416 |
| | **26,646** | **25,096** |

The average number of employees in fiscal year 2005 and 2004 was 439,400 and 412,400, respectively (based on continuing operations). Part-time employees are included on a proportionate basis rather than being counted as full units. The employees were engaged in the following activities:

| | Year ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| Manufacturing and Services | 243,100 | 226,200 |
| Sales and marketing | 110,300 | 104,600 |
| Research and development | 45,700 | 43,500 |
| Administration and general services | 40,300 | 38,100 |
| | **439,400** | **412,400** |

## 29 Earnings per share

| | Year ended September 30, | |
|---|---|---|
| (shares in thousands) | 2005 | 2004 |
| Income from continuing operations | 3,058 | 3,450 |
| Plus: interest on dilutive convertible debt securities | 21 | 21 |
| Income from continuing operations plus effect of assumed conversion | 3,079 | 3,471 |
| Weighted average shares outstanding–basic | 890,732 | 890,705 |
| Effect of dilutive convertible debt securities and stock options | 45,798 | 45,510 |
| Weighted average shares outstanding–diluted | 936,530 | 936,215 |
| Basic earnings per share | 3.43 | 3.87 |
| Diluted earnings per share | 3.29 | 3.71 |

In June 2003, the Company issued €2.5 billion of convertible notes (see Note 20). The dilutive effect of potential common shares has been incorporated in determining diluted earnings per share.

### 30 Segment information

As of fiscal 2005, the Company has fourteen reportable segments referred to as Groups reported among the components used in Siemens' financial statement presentation as described in Note 1. The Groups are organized based on the nature of products and services provided.

Within the **Operations** component, Siemens has twelve 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*, as well as other reconciling items discussed in Reconciliation to financial statements below.

As a result of changes in the Company's management approach, various modifications were made to the Groups. Information and Communication Network (ICN) and Information and Communication Mobile (ICM), previously separate Groups, were combined to one Group named Com as of October 1, 2004. Following an intensive analysis by the Managing Board, the Company announced in the fourth quarter of fiscal 2005, the carve-out of the Distribution and Industry Logistics as well as of the Material Handling Products divisions of L&A into a separate legal entity, named Dematic. These activities have been retroactively reported in Other Operations for the periods presented.

As discussed in Note 3, Com's MD business is reported as discontinued operations. Current and prior year Segment disclosure excludes the applicable information included in the Company's financial statement presentation.

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** and are described in Note 2 *Summary of significant accounting policies*. 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*. Directly attributable service costs of domestic pension plans are allocated to the Groups.

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 such as the former L&A divisions DI and MHP mentioned above and certain centrally-held equity investments (such as BSH Bosch und Siemens Hausgeräte GmbH), as well as in conjunction with acquisitions recently purchased assets and asset groups for which the allocation to the Groups or their objectives are not yet finalized 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 Notes 5 and 9).

**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, | |
|---|---|---|
| | 2005 | 2004 |
| Corporate items | (537) | (450) |
| Pensions | (519) | (729) |
| Eliminations | (16) | (27) |
| | **(1,072)** | **(1,206)** |

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

In fiscal 2004, *Corporate items* include a pre-tax gain of €590 from the sale of Infineon shares (see Notes 5 and 9), €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 2005, *Pensions* decreased due to less amortization of unrecognized losses as well as a higher expected return on plan assets which was primarily attributable to supplemental contributions at the beginning of fiscal 2005. Pensions in fiscal 2004 declined primarily due to service costs of domestic pension plans directly attributable to the Groups which were reported in *Corporate items* in fiscal 2003 and allocated to the Groups since fiscal 2004. This decline in *Pensions* was largely offset by higher amortization of unrecognized net losses.

*Other interest expense* of Operations relates primarily to interest paid on debt and corporate financing transactions through Corporate Treasury.

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, | |
|---|---|---|
| | 2005 | 2004 |
| Total assets of **Operations** | 81,454 | 67,927 |
| Asset-based adjustments: | | |
| Intracompany financing receivables and investments | (16,987) | (13,534) |
| Tax related assets | (6,779) | (4,889) |
| Liability-based adjustments: | | |
| Pension plans and similar commitments | (4,917) | (4,392) |
| Accruals | (7,055) | (6,125) |
| Liabilities to third parties | (24,093) | (20,881) |
| Assets and Liabilities held for sale | 44 | – |
| Total adjustments (line item Other assets related reconciling items within the Segment Information table) | (59,787) | (49,821) |
| Net capital employed of Corporate items, pensions and eliminations | 3,690 | 3,116 |
| **Net capital employed of Operations Groups** | **25,357** | **21,222** |

The following table reconciles Net cash from operating and investing activities, Capital spending and Amortization, depreciation and impairments of the Operations component as disclosed in Segment Information to Siemens Consolidated Statements of Cash Flow:

| | Net cash from operating and investing activities Year ended September 30, | | Capital spending Year ended September 30, | | Amortization, depreciation and impairments Year ended September 30, | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Total **Operations** – continuing | (1,222) | 2,241 | 5,736 | 4,033 | 2,892 | 2,857 |
| Total **Operations** – discontinued | (1,219) | 244 | 135 | 134 | 109 | 94 |
| **Total Operations** | (2,441) | 2,485 | 5,871 | 4,167 | 3,001 | 2,951 |
| **Total Financing and Real Estate** – continuing | (259) | 213 | 775 | 448 | 424 | 391 |
| **Total Financing and Real Estate** – discontinued | 5 | 3 | – | – | 1 | 2 |
| **Total Financing and Real Estate** | (254) | 216 | 775 | 448 | 425 | 393 |
| **Eliminations, reclassifications and Corporate Treasury** | (8) | 561 | – | – | – | – |
| Siemens Consolidated Statements of Cash Flow | (2,703) | 3,262 | 6,646 | 4,615 | 3,426 | 3,344 |

**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 income and expense is an important source of revenue and expense for **Financing and Real Estate**.

For the years ended September 30, 2005 and 2004, *Income before income taxes* at SFS includes interest revenue of €491 and €422, respectively, and interest expense of €257 and €223, respectively. In addition, *Income before income taxes* includes earnings from equity investees for the years ended September 30, 2005 and 2004 of €46 and €42, respectively.

For the years ended September 30, 2005 and 2004, *Income before income taxes* at SRE includes interest revenue of €51 and €60, respectively, and interest expense of €147 and €145, 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.

**Description of business segments**

The **Operations** Groups are comprised of the following businesses:

**Communications (Com)** – As of October 1, 2004, the Groups ICN and ICM were combined into one Group named Com. Com develops, manufactures and sells a full-range portfolio, from devices for end users to complex network infrastructure for enterprises and carriers as well as related services including convergent technologies, products and services for wireless, fixed and enterprise networks. For information on the Company's discontinued MD operation see Note 3.

**Siemens Business Services (SBS)** – SBS provides information and communications services to customers primarily in industry, in the public sector, financial services, telecommunications, transportation, utilities and media and entertainment. 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 and provides related solutions and services.

**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. I&S aims to optimize the production and operational processes of customers in the sectors water, metals, traffic control, marine solutions, oil and gas, paper and mining sectors.

**Logistics and Assembly Systems (L&A)** – L&A will be dissolved as a separate Group as of October 1, 2005; for further information, see above and Note 33. 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, airport logistics as well as postal automation systems.

**Siemens Building Technologies (SBT)** – SBT provides products, systems and services for monitoring and regulating the temperature, fire safety, ventilation, electricity, lighting and security of commercial and industrial property, tunnels, ships, and aircraft.

**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 customizes gas and steam turbines in the smaller output range, which can be used as drives for compressors or large pumps, to meet specific project needs. 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 from the source, typically a power plant, to various points along the power transmission network and to distribute power via a distribution network to the end-user.

**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, molecular imaging, 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.

### 31 Geographic information

The following table presents data by geographic region as of and for the years ended September 30, 2005 and 2004:

| | Sales by location of customer | | Sales by location of companies | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Germany | 15,685 | 16,223 | 24,798 | 25,872 |
| Europe (other than Germany) | 24,429 | 22,787 | 23,684 | 20,869 |
| U.S. | 14,686 | 13,378 | 14,806 | 13,377 |
| Americas other than U.S. | 4,414 | 3,522 | 3,651 | 2,899 |
| Asia-Pacific | 10,057 | 8,990 | 6,612 | 5,586 |
| Africa, Middle East, C.I.S | 6,174 | 5,337 | 1,894 | 1,634 |
| **Siemens** | **75,445** | **70,237** | **75,445** | **70,237** |

| | Long-lived assets | |
|---|---|---|
| | 2005 | 2004 |
| Germany | 4,272 | 4,190 |
| Europe (other than Germany) | 3,530 | 2,886 |
| U.S. | 2,551 | 2,295 |
| Americas other than U.S. | 592 | 455 |
| Asia-Pacific | 965 | 778 |
| Africa, Middle East, C.I.S. | 102 | 79 |
| **Siemens** | **12,012** | **10,683** |

Long-lived assets consist of property, plant and equipment.

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

### 32 Principal accountant fees and services

Fees related to professional services rendered by the Company's principal accountant, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), for the fiscal years 2005 and 2004 were as follows:

| | Year ended September 30, | |
|---|---|---|
| | 2005 | 2004 |
| **Type of Fees** | | |
| Audit Fees | 56.6 | 41.9 |
| Audit-Related Fees | 13.5 | 5.9 |
| Tax Fees | 4.3 | 4.2 |
| All Other Fees | 0.4 | 0.9 |
| **Total** | **74.8** | **52.9** |

In the above table, Audit Fees are the aggregate KPMG fees for professional services in connection with the audit of the Company's consolidated annual financial statements and their attestation and report concerning internal control over financial reporting, reviews of interim financial statements, as well as audits of statutory financial statements of Siemens AG and its subsidiaries. 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 due diligence engagements related to acquisitions or divestments, accounting advice on actual or contemplated transactions, attestation regarding compliance with certain agreements, employee benefit plan audits, assistance relating to Section 404 of the Sarbanes-Oxley Act and other agreed-upon procedures that are reasonably related to the performance of the audit or review of the Company's financial statements. Tax Fees are fees for tax advice on actual or contemplated transactions, tax compliance, expatriate employee tax services and transfer pricing studies.

### 33 Subsequent events

L&A will be dissolved as of October 1, 2005. As of this date, Postal Automation and Airport Logistics will be integrated into I&S and Electronic Assembly Systems will become part of A&D.

After the close of fiscal 2005, Siemens sold its remaining 22.8 million shares of Juniper for net proceeds of €465. The share sale is expected to result in a pre-tax gain of €356.

**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 64 of this Annual Report.

Dr. Klaus Kleinfeld
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 balance sheets of Siemens AG and subsidiaries as of September 30, 2005 and 2004, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the years then ended. We also have audited management's assessment, included in the report on internal control over financial reporting in this report, that Siemens AG and subsidiaries maintained effective internal control over financial reporting as of September 30, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Siemens AG's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Siemens AG's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's assessment of the effectiveness of Siemens’ internal control over financial reporting as of September 30, 2005 excludes, in accordance with applicable guidance provided by the Securities and Exchange Commission, various acquisitions completed in fiscal 2005. For further information on significant acquisitions excluded see “Notes to Consolidated Financial Statements, Note 3 aa).” Total assets and revenues of these acquisitions constituted less than 9% and 3%, respectively, of the related Consolidated Financial Statement line item as of and for the year ended September 30, 2005. Our audit of internal control over financial reporting of Siemens AG also excluded an evaluation of the internal control over financial reporting of these 2005 acquisitions described in note 3aa) to the consolidated financial statements.

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, 2005 and 2004, 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. Also, in our opinion, management’s assessment that Siemens AG and subsidiaries maintained effective internal control over financial reporting as of September 30, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by COSO. Furthermore, in our opinion, Siemens AG maintained, in all material respects, effective internal control over financial reporting as of September 30, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by COSO.

Our audits of Siemens AG's consolidated financial statements were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating information appearing on pages 137, 139 and 141 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the balance sheet, and the statements of income and cash flows of Operations, Financing and Real Estate, and Corporate Treasury. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Munich, Germany
November 23, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Prof. Dr. Nonnenmacher | Braun |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

# Five-year summary

| Sales and earnings (in millions of euros) | 2005 | 2004 | 2003 | 2002[1] | 2001[1] |
|---|---|---|---|---|---|
| Net sales | 75,445 | 70,237 | 69,775 | 84,016 | 87,000 |
| Gross profit on sales | 21,943 | 20,645 | 19,836 | 23,206 | 23,105 |
| Research and development expenses | 5,155 | 4,650 | 4,730 | 5,819 | 6,782 |
| as a percentage of sales | 6.8 | 6.6 | 6.8 | 6.9 | 7.8 |
| Income from continuing operations | 3,058 | 3,450 | 2,355 | | |
| Net income | 2,248 | 3,405 | 2,445 | 2,597 | 2,088 |

| Assets, liabilities and shareholders' equity (in millions of euros) | 2005 | 2004 | 2003 | 2002[1] | 2001[1] |
|---|---|---|---|---|---|
| Current assets | 46,803 | 45,946 | 43,489 | 44,062 | 51,013 |
| Current liabilities | 39,833 | 33,372 | 32,028 | 34,712 | 44,524 |
| Debt | 12,435 | 11,219 | 13,178 | 12,346 | 12,610 |
| Long-term debt | 8,436 | 9,785 | 11,433 | 10,243 | 9,973 |
| Net debt[2] | (2,525) | 2,357 | (379) | (751) | (4,017) |
| Pension plans and similar commitments | 4,917 | 4,392 | 5,843 | 5,326 | 4,721 |
| Shareholders' equity | 27,117 | 26,855 | 23,715 | 23,521 | 23,812 |
| as a percentage of total assets | 31 | 34 | 31 | 30 | 26 |
| Total assets | 86,205 | 79,518 | 77,605 | 77,939 | 90,118 |

| Cash flows (in millions of euros) | 2005 | 2004 | 2003 | 2002[1] | 2001[1] |
|---|---|---|---|---|---|
| Net cash provided by operating activities | 4,217 | 4,704 | 5,419 | 5,564 | 7,016 |
| Amortization, depreciation and impairments | 3,316 | 3,248 | 3,230 | 4,126 | 6,264 |
| Net cash used in investing activities | (5,706) | (1,689) | (3,848) | (810) | (5,886) |
| Capital spending[3] | (6,511) | (4,481) | (4,544) | (8,013) | (11,656) |
| Net cash used in financing activities | (1,403) | (3,108) | (487) | (859) | (95) |
| Net increase (decrease) in cash and cash equivalents | (4,069) | 41 | 953 | 3,394 | 940 |

| Employees – continuing operations | 2005 | 2004 | 2003 | 2002[1] | 2001[1] |
|---|---|---|---|---|---|
| Employees[4] (September 30, in thousands) | 461 | 424 | 411 | 426 | 484 |
| Employee costs (in millions of euros) | 26,646 | 25,096 | 25,434 | 27,195 | 27,102 |

(1) Amounts for 2002 and 2001 are not adjusted for discontinued operations (see Note 3 for further information on discontinued operations). Accordingly, amounts for 2002 and 2001 periods are not directly comparable with the Company's fiscal and quarterly data for 2005, 2004 and 2003 which have been recast for discontinued operations.
(2) Net debt includes four positions of the Consolidated Balance Sheets: Cash and cash equivalents, Marketable securities, Short-term debt and current maturities of long-term debt and Long-term debt.
(3) Intangible assets, property, plant and equipment, aquisitions, and investments.
(4) Without temporary student workers and trainees.
(5) EVA of fiscal 2004 has been calculated according to the assumptions used in fiscal 2005.
(6) Amounts for 2003 are not adjusted for discontinued operations.
(7) To be proposed at the Annual Shareholders' Meeting.
(8) XETRA closing prices, Frankfurt.
(9) Based on shares outstanding.

| **Key capital market data** (in euros, unless otherwise indicated) | 2005 | 2004 | 2003 | 2002[1] | 2001[1] |
|---|---|---|---|---|---|
| EVA (in millions of euros) | 1,311 | 1,720[5] | 449[6] | 617 | (743) |
| Earnings per share from continuing operations | 3.43 | 3.87 | 2.65 | 2.92 | 2.36 |
| Diluted earnings per share from continuing operations | 3.29 | 3.71 | 2.61 | 2.92 | 2.36 |
| Dividend per share | 1.35[7] | 1.25 | 1.10 | 1.00 | 1.00 |
| Siemens stock price[8] | | | | | |
| High | 66.18 | 68.30 | 58.32 | 78.52 | 105.77 |
| Low | 56.20 | 52.02 | 32.05 | 34.00 | 37.50 |
| Year-end (September 30) | 64.10 | 59.21 | 51.14 | 34.00 | 41.89 |
| Siemens stock performance over prior year (in percentage points) | | | | | |
| Compared to DAX index | – 19.10 | – 1.59 | + 36.34 | + 18.25 | – 19.84 |
| Compared to Dow Jones STOXX index | – 17.85 | + 0.17 | + 44.81 | + 7.87 | – 28.30 |
| Number of shares (in millions) | 891 | 891 | 891 | 890 | 888 |
| Market capitalization at period-end (in millions of euros)[9] | 57,118 | 52,761 | 45,559 | 30,271 | 37,208 |
| 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) | 2005 | 4th Quarter | 3rd Quarter | 2nd Quarter | 1st Quarter |
|---|---|---|---|---|---|
| Net sales | 75,445 | 22,106 | 18,583 | 17,726 | 17,030 |
| Net income | 2,248 | 77 | 389 | 781 | 1,001 |

| **Quarterly data** (in millions of euros) | 2004 | 4th Quarter | 3rd Quarter | 2nd Quarter | 1st Quarter |
|---|---|---|---|---|---|
| Net sales | 70,237 | 19,603 | 17,222 | 16,564 | 16,848 |
| Net income | 3,405 | 654 | 815 | 1,210 | 726 |

**Siemens AG – Statement of income and balance sheet***
(condensed version) (in billions of euros)

| Years ended September 30 | 2005 | 2004 |
|---|---|---|
| Net sales | 30.2 | 30.1 |
| Cost of sales | (21.7) | (22.1) |
| Gross profit on sales | 8.5 | 8.0 |
| Other functional costs | (8.8) | (7.9) |
| Other income and expense, net | 1.9 | 2.3 |
| Income before income taxes | 1.6 | 2.4 |
| Income taxes | (0.1) | (0.2) |
| Net income | 1.5 | 2.2 |
| Profit available for distribution | 1.2 | 1.1 |

* Prepared in accordance with the German Commercial Code (HGB).

| As of September 30 | 2005 | 2004 |
|---|---|---|
| Property, plant equipment | 1.5 | 1.6 |
| Investments | 41.1 | 37.8 |
| Non-current | 42.6 | 39.4 |
| Inventories | – | – |
| Receivables and prepaid expense | 15.0 | 14.5 |
| Marketable securities, liquid assets | 6.0 | 10.6 |
| Total assets | 63.6 | 64.5 |
| Shareholders' equity | 16.1 | 15.8 |
| Accrued liabilities and special reserves | 18.1 | 18.0 |
| Debt | 0.2 | 0.2 |
| Other liabilities | 29.2 | 30.5 |
| Total shareholders' equity and liabilities | 63.6 | 64.5 |

# Supervisory Board

**Karl-Hermann Baumann, Dr. rer. oec.**
Chairman
(until the close of the Annual Shareholders' Meeting on 1/27/2005)
Date of birth: 7/22/1935
Member from 2/19/1998 until 1/27/2005

External positions
German supervisory board positions:
E.ON AG, Düsseldorf
Linde AG, Wiesbaden
Schering AG, Berlin

**Heinrich v. Pierer, Dr. jur., Dr.-Ing. E. h.**
Chairman
(as of the close of the Annual Shareholders' Meeting on 1/27/2005)
Date of birth: 1/26/1941
Member since: 1/27/2005

External positions
German supervisory board positions:
Deutsche Bank AG, Frankfurt/Main
Hochtief AG, Essen
Münchener Rückversicherungs-Gesellschaft AG, Munich
ThyssenKrupp AG, Düsseldorf
Volkswagen AG, Wolfsburg

**Ralf Heckmann**
First Deputy Chairman
Chairman of the Central Works Council, Siemens AG
Date of birth: 7/19/1949
Member since: 3/24/1988

**Josef Ackermann, Dr. oec.**
Second Deputy Chairman
Spokesman of the Board of Managing Directors, Deutsche Bank AG
Date of birth: 2/7/1948
Member since: 1/23/2003

External positions
German supervisory board positions:
Bayer AG, Leverkusen
Deutsche Lufthansa AG, Cologne
Linde AG, Wiesbaden

**Lothar Adler**
Deputy Chairman of the Central Works Council, Siemens AG
Date of birth: 2/22/1949
Member since: 1/23/2003

**Gerhard Bieletzki**
Member of the Combine Works Council, Siemens AG
Date of birth: 5/16/1947
Member since: 1/23/2003

Company positions
German supervisory board positions:
Siemens VDO Automotive AG, Munich
(Deputy Chairman)

**John David Coombe**
Chartered Accountant (FCA)
Date of birth: 3/17/1945
Member since: 1/23/2003

External positions
Comparable positions outside Germany:
GUS plc, UK
HSBC Holdings plc, UK

**Hildegard Cornudet**
Chairwoman of the Central Works Council, Siemens Business Services GmbH & Co. OHG
Date of birth: 4/16/1949
Member since: 4/1/2004

**Gerhard Cromme, Dr. jur.**
Chairman of the Supervisory Board, ThyssenKrupp AG
Date of birth: 2/25/1943
Member since: 1/23/2003

External positions
German supervisory board positions:
Allianz AG, Munich
Axel Springer Verlag AG, Berlin
Deutsche Lufthansa AG, Cologne
E.ON AG, Düsseldorf
Hochtief AG, Essen
ThyssenKrupp AG, Düsseldorf
(Chairman)
Volkswagen AG, Wolfsburg
Comparable positions outside Germany:
BNP Paribas S.A., France
Compagnie de Saint-Gobain S.A., France
SUEZ S.A., France

**Birgit Grube**
Office clerk
Date of birth: 8/21/1945
Member since: 3/11/1993

**Heinz Hawreliuk**
Head of the Company Codetermination Department, IG Metall
(Head until 9/30/2005)
Date of birth: 3/20/1947
Member since: 4/1/1985

External positions
German supervisory board positions:
DaimlerChrysler Aerospace AG, Munich
DaimlerChrysler Luft und Raumfahrt Holding AG, Munich
EADS Astrium GmbH, Munich
Eurocopter Deutschland GmbH, Munich

**Berthold Huber**
Deputy Chairman, IG Metall
Date of birth: 2/15/1950
Member since: 7/1/2004

External positions
German supervisory board positions:
Audi AG, Ingolstadt
Heidelberger Druckmaschinen AG, Heidelberg
RWE AG, Essen

**Walter Kröll, Prof. Dr. rer. nat.**
Consultant
Date of birth: 5/30/1938
Member since: 1/23/2003

External 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: 1/14/1948
Member since: 1/23/2003

**Georg Nassauer**
Steel casting constructor
Date of birth: 3/8/1948
Member since: 3/11/1993

**Albrecht Schmidt, Dr. jur.**
Chairman of the Supervisory Board, Bayerische Hypo- und Vereinsbank AG
(Chairman until 11/26/2005)
Date of birth: 3/13/1938
Member since: 3/11/1993

External positions
German supervisory board positions:
Bayerische Hypo- und Vereinsbank, Munich
(Chairman until 11/26/2005)
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: 8/26/1942
Member since: 2/13/1997

External positions
German supervisory board positions:
Allianz AG, Munich
(Chairman)
E.ON AG, Düsseldorf
ThyssenKrupp AG, Düsseldorf

**Peter von Siemens**
Industrial manager
Date of birth: 8/10/1937
Member since: 3/11/1993

External positions
German supervisory board positions:
Münchener Tierpark Hellabrunn AG, Munich

**Jerry I. Speyer**
President,
TishmanSpeyer Properties
Date of birth: 6/23/1940
Member since: 7/14/2003

**Lord Iain Vallance of Tummel**
Chairman, Nations Healthcare Ltd.
Date of birth: 5/20/1943
Member since: 1/23/2003

**Klaus Wigand**
Industrial manager
Date of birth: 11/19/1945
Member since: 2/19/1998

---

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, 2005

## Supervisory Board committees

The Supervisory Board of Siemens AG has established four standing committees. Information on their activities in fiscal 2005 is provided on pages 68–69 of this Annual Report.

| Committees | Meetings in FY 2005 | Duties and responsibilities | Members as of Sept. 30, 2005 |
|---|---|---|---|
| Chairman's Committee | 5 meetings plus 6 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.<br>The Committee makes recommendations to the Supervisory Board on the composition of Supervisory Board committees and – through the shareholder representatives – 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 regularly reviewing the Company's corporate governance principles and formulating proposals to improve the Company's approach to corporate governance issues. | **Heinrich v. Pierer, Dr. jur., Dr.-Ing. E.h. (Chairman)**<br>**Ralf Heckmann**<br>**Josef Ackermann, Dr. oec.** |
| Audit Committee | 5 meetings plus 1 decision by notational voting using written circulations | 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). | **Gerhard Cromme, Dr. jur. (Chairman)**<br>**Heinrich v. Pierer, Dr. jur., Dr.-Ing. E.h.**<br>**Ralf Heckmann**<br>**Heinz Hawreliuk**<br>**Henning Schulte-Noelle*, Dr. jur.** |
| Mediation Committee, § 31 (3), (5) of the German Codetermination Act | 0 meetings | 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. | **Heinrich v. Pierer, Dr. jur., Dr.-Ing. E.h. (Chairman)**<br>**Ralf Heckmann**<br>**Josef Ackermann, Dr. oec.**<br>**Heinz Hawreliuk** |
| Ownership Rights Committee, § 32 of the German Codetermination Act | 0 meetings, 7 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. | **Heinrich v. Pierer, Dr. jur., Dr.-Ing. E.h. (Chairman)**<br>**Josef Ackermann, Dr. oec.**<br>**Albrecht Schmidt, Dr. jur.** |

* Audit Committee financial expert pursuant to the Sarbanes-Oxley Act

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 the close of the Annual
Shareholders' Meeting on 1/27/2005)

Date of birth: 1/26/1941
First appointed: 10/1/1989
Term expires: 1/27/2005

External positions

German supervisory board positions:
Deutsche Bank AG, Frankfurt/Main
Hochtief AG, Essen
Münchener Rückversicherungs-Gesellschaft AG, Munich
ThyssenKrupp AG, Düsseldorf
Volkswagen AG, Wolfsburg

**Klaus Kleinfeld, Dr. rer. pol.**
President and Chief Executive Officer,
Siemens AG
(as of the close of the Annual
Shareholders' Meeting on 1/27/2005)

Date of birth: 11/6/1957
First appointed: 12/1/2002
Term expires: 9/30/2007

External positions

German supervisory board positions:
Bayer AG, Leverkusen

Comparable positions outside Germany:
Alcoa Inc., USA
Citigroup Inc., USA

**Johannes Feldmayer**
Date of birth: 10/16/1956
First appointed: 5/1/2003
Term expires: 9/30/2007

External positions

German supervisory board positions:
ExxonMobil Central Europe Holding GmbH, Hamburg
Infineon Technologies AG, Munich

Company positions

Comparable positions outside Germany:
Siemens AB, Sweden
Siemens A.E., Greece
(Chairman)
Siemens AG Österreich, Austria
Siemens A/S, Denmark
Siemens A.Ş., Turkey
Siemens France S.A., France
Siemens Holdings plc, UK
Siemens Rt., Hungary
(Chairman)
Siemens S.A., Spain
(Deputy Chairman)
Siemens Schweiz AG,
Switzerland
(Deputy Chairman)
Siemens S.p.A., Italy
(Deputy Chairman)
Siemens s.r.o., Czech Republic
(Chairman)
Siemens Sp.z.o.o., Poland
(Chairman as of 10/1/2005)

**Thomas Ganswindt, Dr. h.c.**
Date of birth: 11/18/1960
First appointed: 12/1/2002
Term expires: 9/30/2007

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 S.A., Belgium
(Chairman)

**Edward G. Krubasik, Prof. Dr. rer. nat.**
Date of birth: 1/19/1944
First appointed: 1/1/1997
Term expires: 9/30/2006

External 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: 10/12/1948
First appointed: 4/26/2000
Term expires: 3/31/2009

External positions

Comparable positions outside Germany:
$O_2$ plc, UK

Company positions

German supervisory board positions:
BSH Bosch und Siemens Hausgeräte GmbH, Munich
Osram GmbH, Munich
(Chairman)

Comparable positions outside Germany:
Fujitsu Siemens Computers (Holding) BV, Netherlands
(Chairman)
OOO Siemens, Russian Federation
(Chairman)
Siemens Ltd., South Africa
(Chairman)

**Heinz-Joachim Neubürger**
Date of birth: 1/11/1953
First appointed: 11/5/1997
Term expires: 9/30/2007

External 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: 10/26/1941
First appointed: 6/29/1994
Term expires: 9/30/2006

External 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)

Comparable positions outside Germany:
Siemens AG Österreich, Austria
(Chairman)
Siemens A.Ş., Turkey
Siemens Nederland N.V.,
Netherlands
Siemens Schweiz AG, Switzerland
(Chairman)

**Erich R. Reinhardt,**
**Prof. Dr.-Ing., Dr.-Ing. E. h.**
Date of birth: 10/3/1946
First appointed: 12/1/2001
Term expires: 9/30/2006

External positions

German supervisory board positions:
Bio$^M$ AG, Munich
Dräger Medical AG, Lübeck

Company positions

Comparable positions outside Germany:
Siemens Medical Solutions USA, Inc.
(Chairman)

**Uriel J. Sharef, Dr. rer. pol.**
Date of birth: 8/19/1944
First appointed: 7/26/2000
Term expires: 3/31/2008

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: 1/6/1944
First appointed: 10/1/1996
Term expires: 9/30/2006

External 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: 7/9/1944
First appointed: 8/1/1999
Term expires: 3/31/2008

External positions

German supervisory board positions:
Deutsche Messe AG, Hanover
Infineon Technologies AG, Munich

Company positions

German supervisory board positions:
BSH Bosch und Siemens Hausgeräte GmbH, Munich

Comparable positions outside Germany:
Siemens K.K., Japan
(Chairman)
Siemens Ltd., China
(Chairman)
Siemens Ltd., India
Siemens S.A., Portugal
(Chairman)

* At its meeting on December 7, 2005, the Supervisory Board extended Dr. Jürgen Radomski's term of office through December 31, 2007.

As of September 30, 2005
The Siemens Corporate Structure is shown on the foldout inside the back cover.

## Managing Board committees

| Committees | Meetings in FY 2005 | Duties and responsibilities | Members as of Sept. 30, 2005 |
|---|---|---|---|
| Corporate Executive Committee | 52 meetings | The Corporate Executive Committee comprises the President of the Managing Board, the heads of Corporate Finance and Corporate Personnel, and currently six 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. | **Klaus Kleinfeld, Dr. rer. pol.**<br>**Johannes Feldmayer**<br>**Thomas Ganswindt, Dr. h.c.**<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 | 0 meetings, 1 decision by notational voting using written circulations | This Committee oversees the utilization of authorized capital in connection with the issuance of employee stock. | **Klaus Kleinfeld, Dr. rer. pol**<br>**Heinz-Joachim Neubürger**<br>**Jürgen Radomski, Dr. rer. pol. h.c., Dr. techn. h.c.** |
| Equity Committee | 0 meetings, 2 decisions by notational voting using written circulations | The Equity Committee is responsible for implementing various capital measures. | **Klaus Kleinfeld, Dr. rer. pol**<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

| Term | Definition |
|---|---|
| **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

| Term | Definition |
|---|---|
| **Benchmarking** | A technique used to compare the products, services, processes and financials within an organization, in relation to "best of practice" in other similar organizations. |
| **Business portfolio** | The aggregate total of business areas in which Siemens is active. |

## C

| Term | Definition |
|---|---|
| **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 units 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 loan 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, results of operations and cash flows of two or more affiliated companies, as though the business were in fact a single economic entity. |
| **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

| Term | Definition |
|---|---|
| **Debt-to-equity ratio** | Total long-term debt divided by total shareholders' equity. |
| **Deferred taxes** | Assets and liabilities 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). |
| **Discontinued operations** | A separate unit of an enterprise (clearly distinguishable from the rest of the entity) that has been disposed of or is classified as held for sale, if the unit's operations and cash flows are eliminated from the ongoing operations and the ongoing operations will not have any significant continuing involvement in the unit. |

## E

| Term | Definition |
|---|---|
| **Equity method** | Valuation method used to account for interests in companies in which the investor has the ability to exercise significant influence over the investee's operating and financial policies (associated companies). |
| **EVA** | Abbreviation for "economic value added." EVA equals net operating profit after taxes (NOPAT) less a charge for capital employed in the business (cost of capital). |
| **Expected long-term rate of return on pension plan assets** | The average rate of earnings expected on plan assets. |

## F

| Term | Definition |
|---|---|
| **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 an assumed conversion or the exercise of all potentially dilutive securities or stock options. |
| **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 cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed. |
| | **Group profit** | Measure of Group profitability, defined as 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 assesses securities investment and credit risk. |
| N | | |
| | **Net capital employed** | Net capital employed is the asset measure used to assess the capital intensity of Operations. 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 Statements of Cash Flow. |
| | **Net periodic pension cost** | The amount of pension costs recorded in the Statements 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** | One of Siemens' three components. Composed of the twelve operating Groups, including certain operating activities not associated with these Groups and centrally managed items but excluding 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** | Abbreviation for "research and development." |
| | **Rating** | 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 to identify, assess and monitor various financial risk factors and to select and implement measures to handle those risk factors. |
| 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 | | |
| | **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. |

# Index

# Siemens financial calendar*

| | |
|---|---|
| **First-quarter financial report** | Jan. 26, 2006 |
| **Annual Shareholders' Meeting**<br>**Olympiahalle, Munich, 10:00 a.m.** | Jan. 26, 2006 |
| **Ex-dividend date** | Jan. 27, 2006 |
| **Second-quarter financial report**<br>**and Semiannual Press Conference** | Apr. 27, 2006 |
| **Third-quarter financial report** | July 27, 2006 |
| **Preliminary figures for fiscal year /**<br>**Press conference** | Nov. 9, 2006 |
| **Annual Shareholders' Meeting**<br>**for fiscal 2006** | Jan. 25, 2007 |

* 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**

Siemens AG
Wittelsbacherplatz 2
D-80333 Munich
Federal Republic of Germany
Internet www.siemens.com

This Annual Report is also available in German, French and Spanish.
An abridged Japanese version will be available as of January 2006 at www.siemens.co.jp.
The German and English versions can be downloaded at www.siemens.com.

**Additional copies of this Annual Report are available from:**

| | |
|---|---|
| E-mail | siemens@bek-gmbh.de |
| Internet | www.siemens.com/order_annualreport |
| Telephone | +49 7237 480024 |
| Fax | +49 7237 1736 |

**Employees may also obtain additional copies from:**

LZF, Fürth-Bislohe

| | |
|---|---|
| Intranet | http://c4bs.spls.de/ |
| Fax | +49 911 654-4271 |
| German | Order no. A19100-F-V67 |
| English | Order no. A19100-F-V67-X-7600 |
| French | Order no. A19100-F-V67-X-7700 |
| Spanish | Order no. A19100-F-V67-X-7800 |

Please 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 Deutsche Börse 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

**Picture credits:**
Siemens AG holds the copyright for all photos.
We would especially like to thank:
Andreas Pohlmann (pages 6, 12 – 13, 30 – 31, 64)
Christian Höhn (pages 48, 49, 52, 53, 56, 57, 59, 60, 61)
minx:: visual branding (page 33)
Other photos:
Osram GmbH (page 43)
BSH Bosch und Siemens Hausgeräte GmbH (page 46)
Fujitsu Siemens Computers (Holding) BV (page 47)

**Layout and production:**
Publicis KommunikationsAgentur GmbH, GWA, Munich

# Corporate Structure

## Managing Board of Siemens AG[1]

### Corporate Executive Committee

**Klaus Kleinfeld,
President and
Chief Executive Officer**
Head of CD
Special responsibilities: CC, CT, GA

**Heinz-Joachim Neubürger**
Head of CF
Special responsibilities: SFS, SRE

**Jürgen Radomski**
Head of CP
Special responsibilities: Med, MCP

**Johannes Feldmayer**
Special responsibilities: SBT, CIO, GPL, Europe

**Thomas Ganswindt**
Special responsibilities: Com, SBS

**Edward G. Krubasik**
Special responsibilities: SV
Executive committees: ZVEI, BDI, Orgalime
EU Commission relations

**Rudi Lamprecht**
Special responsibilities: Osram, BSH[2], FSC[2],
Africa, Middle East, C.I.S.

## Corporate Departments

**Corporate Development (CD)**
Klaus Kleinfeld
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)**
Thomas Ganswindt
Andreas Bernhardt
Thorsten Heins
Karl-Heinz Seibert

**Siemens Business Services GmbH & Co. OHG (SBS)**
Christoph Kollatz
Jürgen Frischmuth
Michael Schulz-Drost

### Automation and Control

**Automation and Drives (A&D)**
Helmut Gierse
Hannes Apitzsch
Peter Drexel
Anton S. Huber

**Industrial Solutions and Services (I&S)**
Joergen Ole Haslestad
Bernd Euler
Hans-Jörg Grundmann
Joachim Möller

**Siemens Building Technologies[3] (SBT)**
Heinrich Hiesinger
Johannes Milde
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 12 and 222.
[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, Americas

**Klaus Wucherer**
Special responsibilities: A&D, I&S, TS, Asia, Australia

**Erich R. Reinhardt**
Head of Med

**Claus Weyrich**
Head of CT

Medical

**Medical Solutions**
(Med)

Erich R. Reinhardt

Hermann Requardt
Klaus Stegemann

Lighting

**Osram GmbH**

Martin Goetzeler

Kurt Gerl
Johannes Närger
Jörg Schaefer

## Financing and Real Estate

**Siemens Financial Services GmbH**
(SFS)

Herbert Lohneiß

Johannes Schmidt

**Siemens Real Estate**
(SRE)

Michael Kutschenreuter
Hartmut Wagner

## Corporate Centers

**Corporate Communications**
(CC)
Janos Gönczöl

**Corporate Information Office**
(CIO)
Volkhart P. Matthäus

**Global Procurement and Logistics**
(GPL)
Bernd Regendantz

**Global Government Affairs**
(GA)
Harald Braun

**Management Consulting Personnel**
(MCP)
Karl-Heinz Sämann

As of January 1, 2006

Members of the Supervisory Board are listed on page 220.

SIEMENS

Global network of innovation

Siemens Aktiengesellschaft

Order no. A19100-F-V67-X-7600