IFRS – Conversion

Impact on the Consolidated Financial Statements of Siemens AG

December 11, 2006

Disclaimer

This document contains forward-looking statements and information – that is, statements related to future, not past, events. These statements may be identified by words as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “will” or words of similar meaning. Such statements are based on our current expectations and certain assumptions, and are, therefore, subject to certain risks and uncertainties. A variety of factors, many of which are beyond Siemens’ control, affect its operations, performance, business strategy and results and could cause the actual results, performance or achievements of Siemens worldwide to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. For us, particular uncertainties arise, among others, from: changes in general economic and business conditions (including margin developments in major business areas); the challenges of integrating major acquisitions and implementing joint ventures and other significant portfolio measures; changes in currency exchange rates and interest rates; introduction of competing products or technologies by other companies; lack of acceptance of new products or services by customers targeted by Siemens worldwide; changes in business strategy; the outcome of investigations and legal proceedings as well as 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.

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Background for the introduction of IFRS

- for **Siemens as SEC registrant:** IFRS Consolidated Financial Statements (F/S) required for fiscal 2008 at the latest
- **Siemens approach:**
  - early adoption as of September 30, 2006
  - first publication end of 2006 as **supplemental information to US-GAAP**
- **publication channels**
  - (unaudited) **condensed IFRS information** in **annual report 2006**
  - **audited IFRS F/S** (including notes/full segment reporting) **via internet** on December 18, 2006

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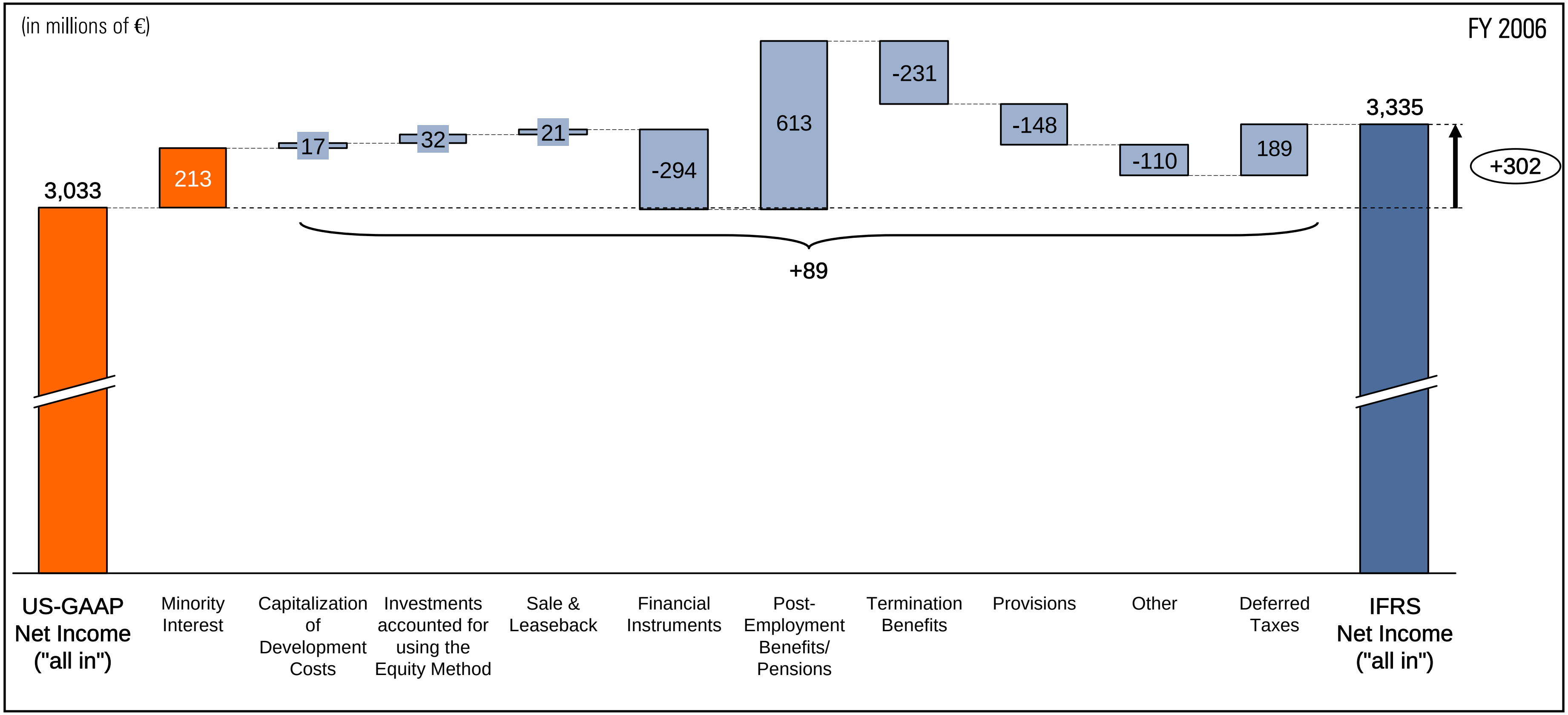
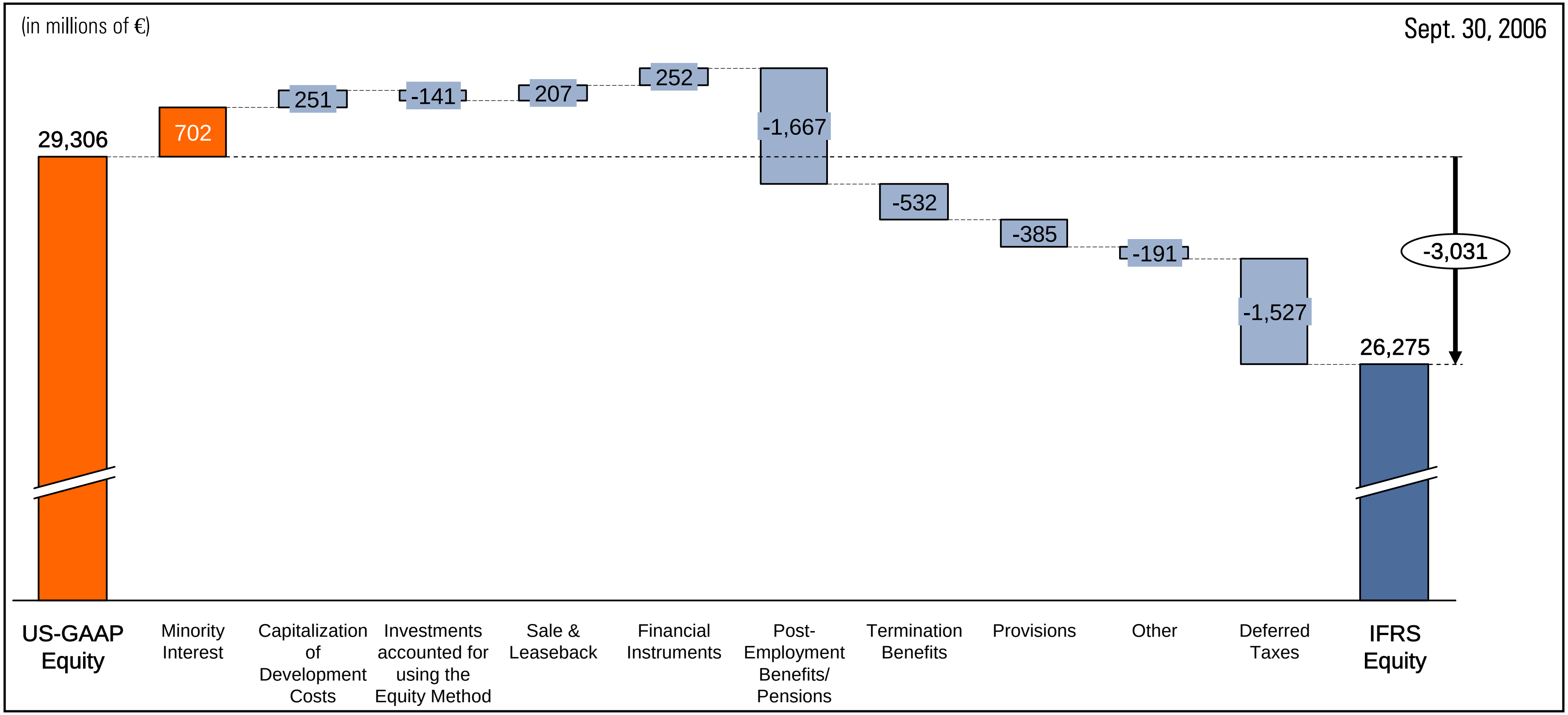
In FY 2006 IFRS Net Income was roughly € 300 mn higher than Net Income acc. to US-GAAP…



…mainly due to reclassification of minority interest into Net Income

IFRS Equity mainly reduced due to pension adjustments



- under IFRS, actuarial gains and losses are recorded directly in Equity
- **however: Equity ratio** remains on a **solid level** (approx. 30%)

Major Reconciling Items US-GAAP/IFRS (I)

- **Reclassification of Minority Interest:**

Equity as of Sept. 30, 2006: **+702**	Net Income 2006: **+213**

  – presentation within Equity/Net Income under IFRS

  – however: Earnings per share (EPS) calculation continues to be based on IFRS Net Income attributable to Shareholders of Siemens AG

- **Capitalization of Development Costs:**

Equity as of Sept. 30, 2006: **+251**	Net Income 2006: **+17**

  – capitalization of development costs for software **and** hardware/technology under IFRS (if certain recognition criteria are met)

- **Sale & Leaseback Transactions:**

Equity as of Sept. 30, 2006: **+207**	Net Income 2006: **+21**

  – immediate recognition of profit on sale under IFRS, if subsequent leaseback transaction is an operating lease

Note: all figures in millions of € / pre-tax!

Major Reconciling Items US-GAAP/IFRS (II)

- **Financial Instruments:**

Equity as of Sept. 30, 2006: **+252** | **Net Income** 2006: **-294**

  - mainly includes adjustments for compound financial instruments/convertible and (impact on Equity only) fair value measurement of non-listed investments
  - major adjustment: convertible
    - compound financial instruments are divided into separate components (conversion right/debt component) under IFRS
    - conversion right measured at fair value until waiver of cash settlement option in June 2006 (subsequently reclassification to additional paid-in capital)

- **Post-Employment Benefits:**

Equity as of Sept. 30, 2006: **-1,667** | **Net Income** 2006: **+613**

  - mainly includes adjustments for pension provisions (recognition of actuarial gains and losses under IFRS directly in Equity in the period in which they occur)

Note: all figures in millions of € / pre-tax!

Major Reconciling Items US-GAAP/IFRS (III)

- **Termination Benefits:**

Equity as of Sept. 30, 2006: -532	Net Income 2006: -231

  - contains individual agreements and partial retirement
  - main effect due to individual agreements ("lay offs"):
    - under IFRS, liability has to be recorded when the employer has committed itself irrevocably; agreement signed by both parties (as under US-GAAP) is not necessary
    - adjustment on Net Income in FY 2006 of -313 mainly relates to SBS (-184) and Com (-38)

- **Provisions:**

Equity as of Sept. 30, 2006: -385	Net Income 2006: -148

  - various adjustments due to recognition and measurement differences (e.g. discounting of provisions, provisions for vacant property)

Note: all figures in millions of € / pre-tax!

Major Reconciling Items US-GAAP/IFRS (IV)

- **Deferred Taxes:**

Equity as of Sept. 30, 2006: -1,527	Net Income 2006: +189

  – mainly represents tax effects on US-GAAP/IFRS differences
  – additionally US-GAAP/IFRS differences in deferred tax accounting (e.g. calculation of deferred taxes on intragroup profit elimination)

Note: all figures in millions of €

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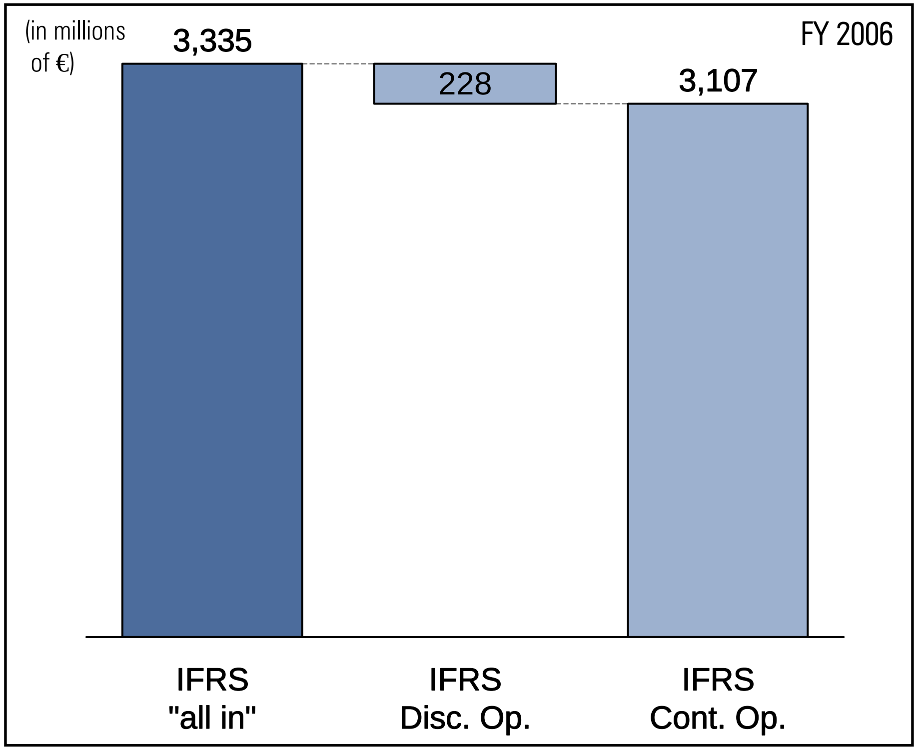
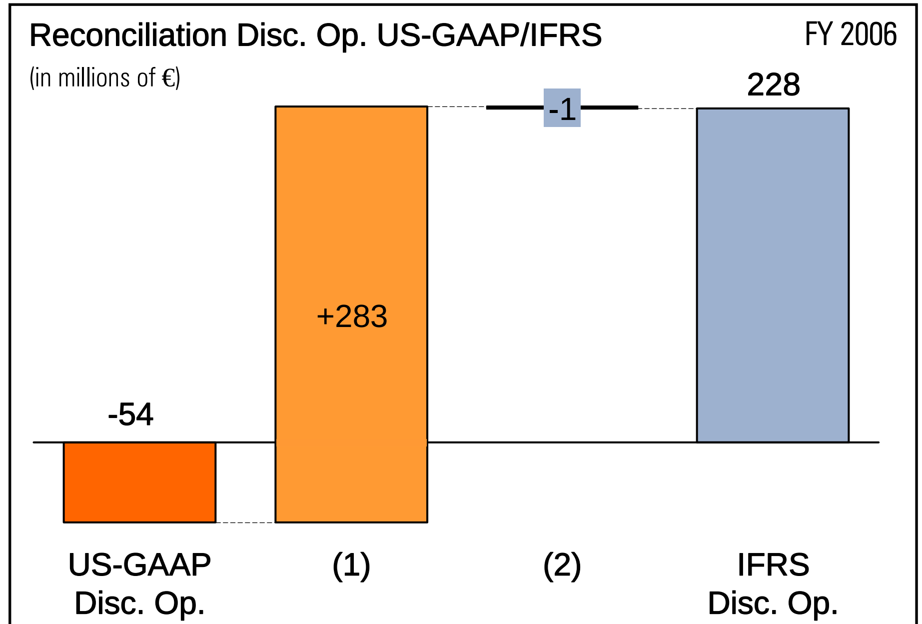
Additional Discontinued Operations (Disc. Op.) presentation of Com (Carrier/Enterprise) inevitable under IFRS …





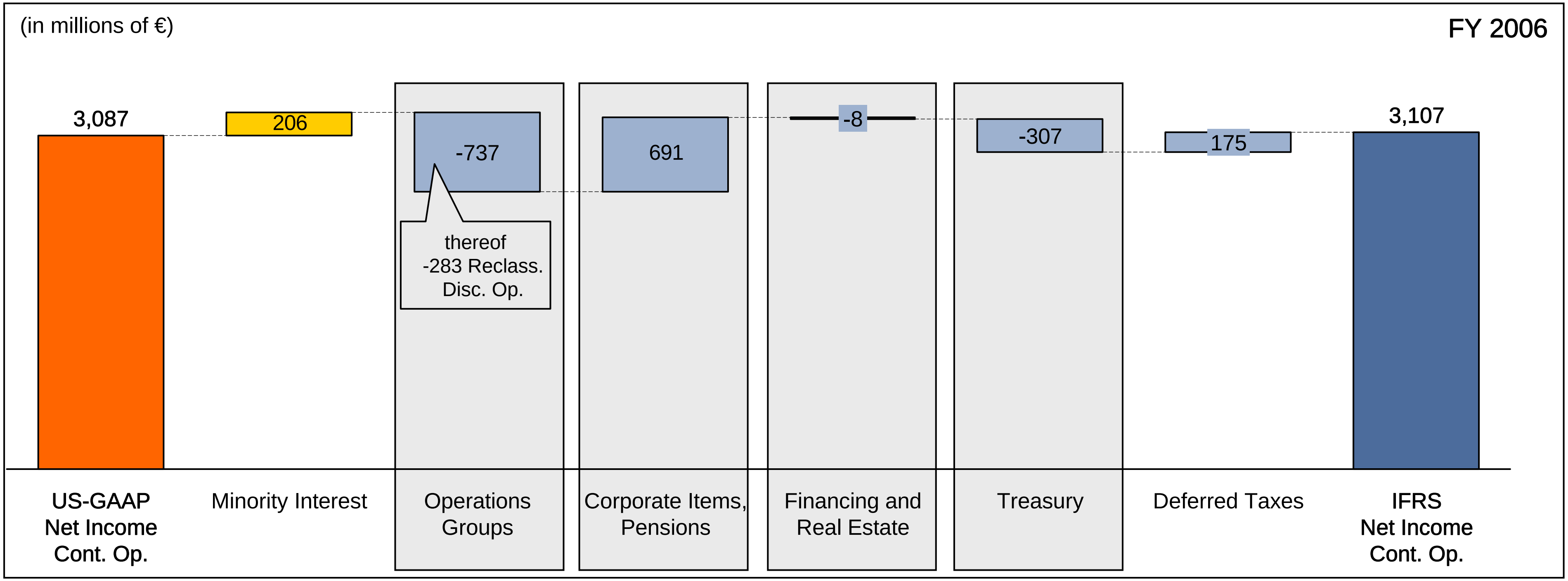
(1) Com Group Profit according to US-GAAP segment reporting

(2) Disc. Op. related income/expenses not included in Com Group Profit (i.e. taxes, interest) and IFRS measurement deltas on Disc. Op.

… even in case of (potential) future stake

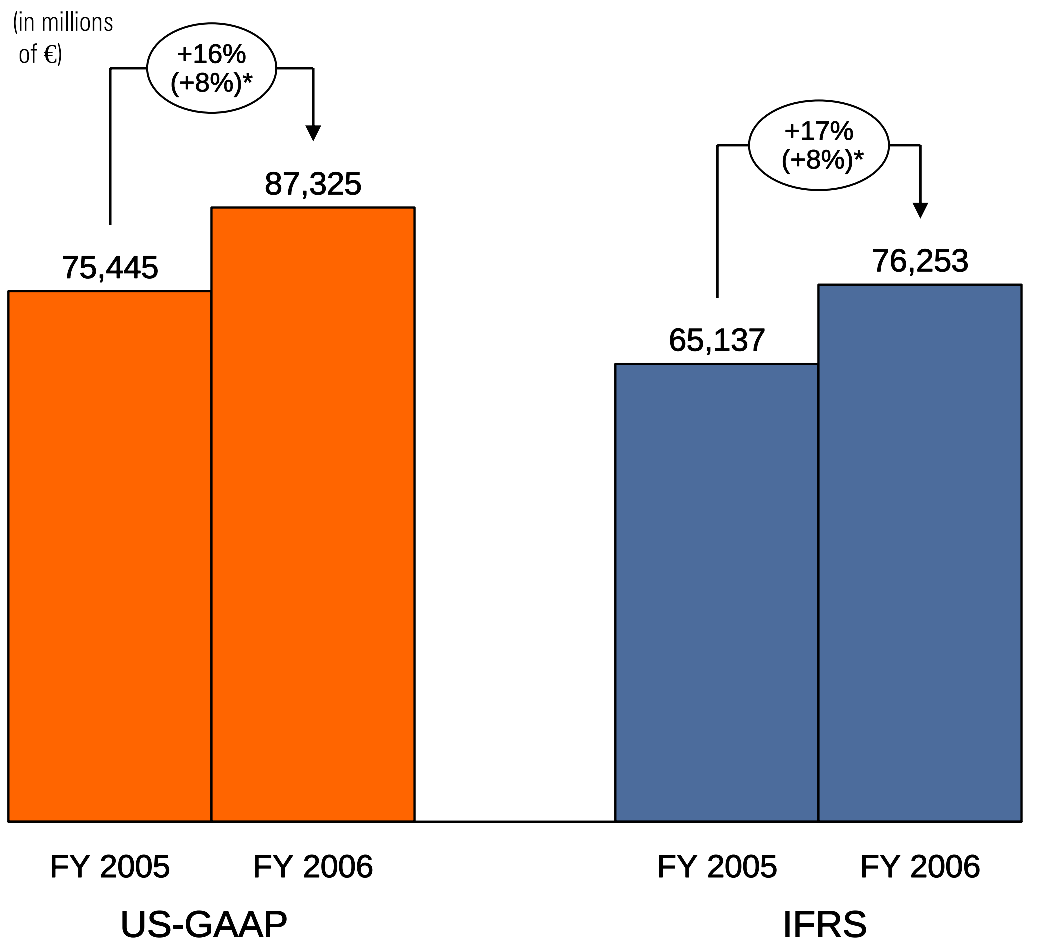
IFRS adjustments affect all slices

Reconciliation of Net Income Continuing Operations (Cont. Op.) US-GAAP/IFRS



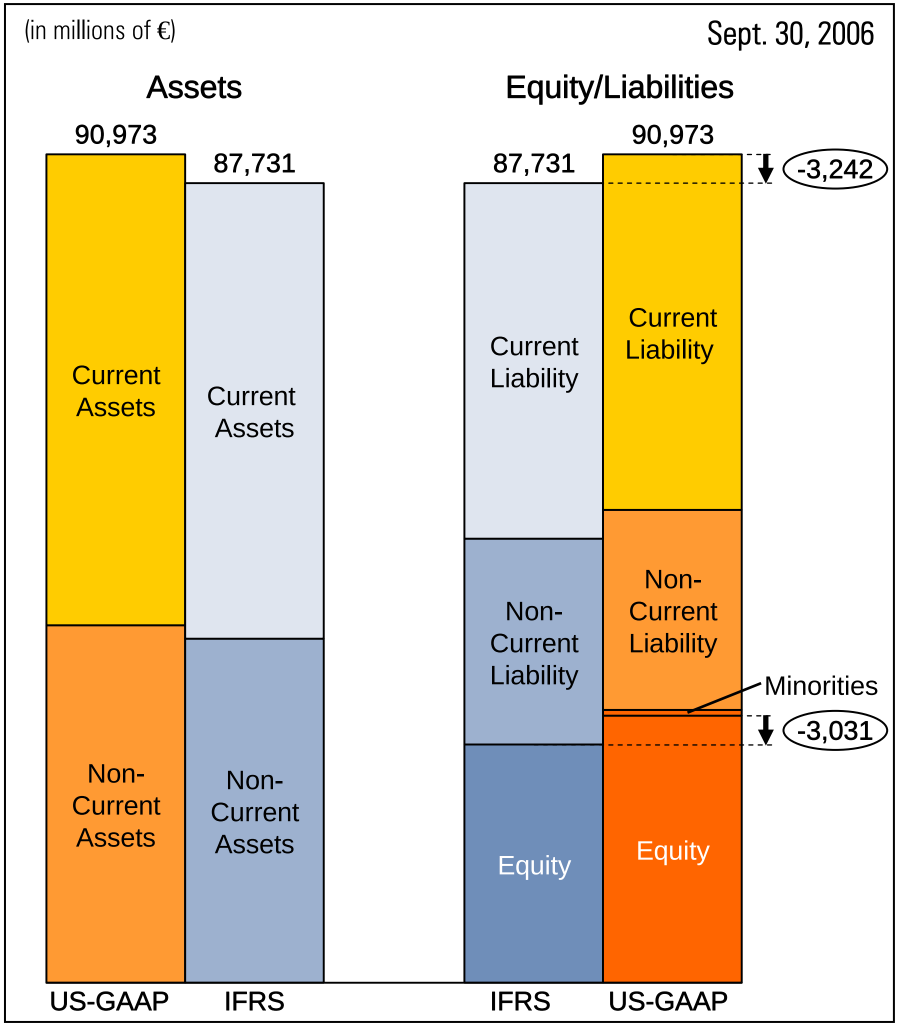
charges due to special/"one time" effects in slices "Operations Groups" (esp. lay offs SBS) and "Treasury" (esp. Convertible) mostly compensate **sustainable income relief in slice "Corporate Items/Pensions"** (recognition of actuarial losses directly in Equity)

Decline of revenue base due to Disc. Op., however growth rates almost identical



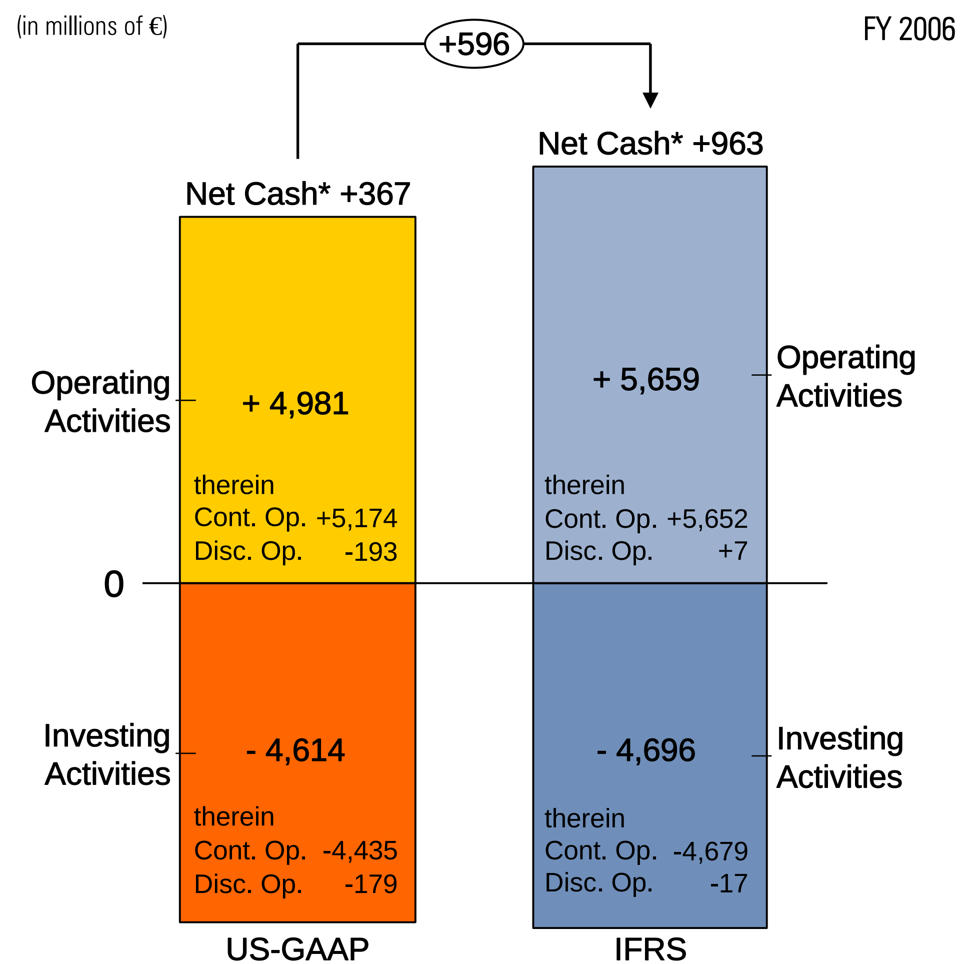
* comparable

No significant changes in balance sheet structure



- no significant changes in **total assets** and **balance sheet structure** (minor effects mainly due to deferred taxes)
- additionally: **net debt decreased by € 277** mn mainly due to IFRS accounting for convertible (separation of conversion right)

Total net cash from operating and investing activities increases, however net cash of Groups remains unchanged



* from operating and investing activities

under IFRS **reclassification of „Interest paid" from „Cash flow from operating activities" in „Cash flow from financing activities"**

Quarterly IFRS key figures of FY 2006

(in millions of €)	Q1/2006	Q2/2006	Q3/2006	Q4/2006
Net Income	939	923	1,344	129
thereof Cont. Op.	*607*	*897*	*1,341*	*262*
thereof Disc. Op.	*332*	*26*	*3*	*(133)*
Group profit from operations	1,087	1,316	1,231	885
New orders	23,667	21,529	19,656	19,850
Revenue	17,976	18,824	18,689	20,764
Net cash from operating and investing activities (Cont. Op.)	(724)	538	1,972	(813)

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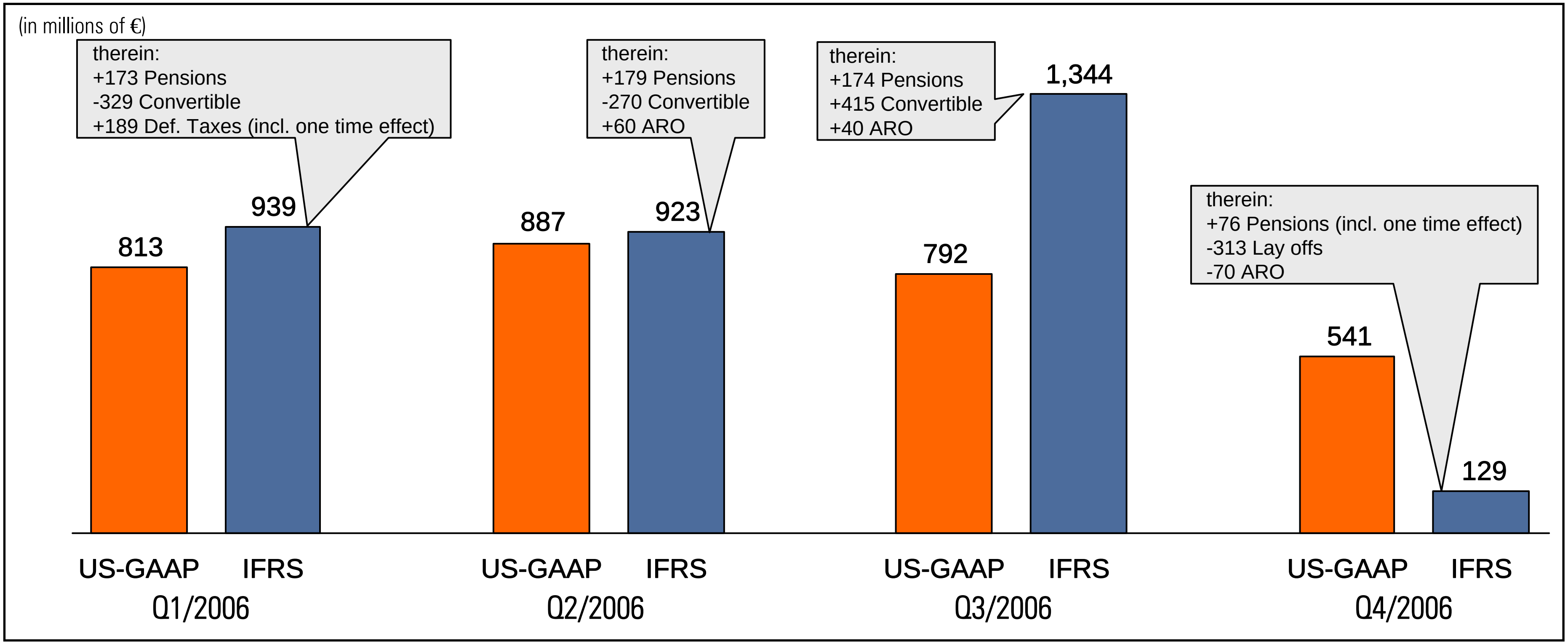
Quarterly US-GAAP/IFRS Net Income (“all in”) FY 2006



high volatility of IFRS Net Income in FY 2006 esp. due to

– convertible: share price related market valuation (through P/L) of conversion right (until waiver of cash settlement option as of June 9, 2006)

– one time effects reducing Net Income (esp. lay offs in Q4/2006)

Backup

Net Income Reconciliation US-GAAP/IFRS as published in annual report 2006

(in millions of €)	Oct. 1, 2005 to Sept. 30, 2006	Oct. 1, 2004 to Sept. 30, 2005	*for detailed information on major items see*
Net Income under US-GAAP	3,033	2,248	
Change in presentation of Minority Interest	213	158	*(1)*
Net Income under US-GAAP including Minority Interest	3,246	2,406	
Capitalization of Development Costs	17	13	*(2)*
Investments accounted for using the Equity Method	32	15	*(3)*
Sale & Leaseback Transactions	21	(22)	*(4)*
Financial Instruments	(294)	64	*(5)*
Post-Employment Benefits/Pensions	613	552	*(6)*
Termination Benefits	(231)	42	*(7)*
Provisions	(148)	(173)	*(8)*
Other	(110)	(60)	
Deferred Taxes	189	(177)	*(9)*
Total Adjustments	89	254	
Net Income under IFRS	3,335	2,660	

reconciliation of Net Income is shown “all-in” and thus includes Net Income from Cont. Op. and Disc. Op.

Equity Reconciliation US-GAAP/IFRS as published in annual report 2006

(in millions of €)	Sept. 30, 2006	Sept. 30, 2005	Oct. 1, 2004	*for detailed information on major items see*
Equity under US-GAAP	29,306	27,022	26,760	
Change in presentation of Minority Interest	702	656	529	*(1)*
Equity under US-GAAP including Minority Interest	30,008	27,678	27,289	
Capitalization of Development Costs	251	230	217	*(2)*
Investments accounted for using the Equity Method	(141)	(164)	(182)	*(3)*
Sale & Leaseback Transactions	207	186	208	*(4)*
Financial Instruments	252	(266)	(235)	*(5)*
Post-Employment Benefits/Pensions	(1,667)	(849)	(1,932)	*(6)*
Termination Benefits	(532)	(305)	(347)	*(7)*
Provisions	(385)	(234)	(62)	*(8)*
Other	(191)	(69)	(36)	
Deferred Taxes	(1,527)	(2,026)	(1,664)	*(9)*
Total Adjustments	(3,733)	(3,497)	(4,033)	
Equity under IFRS	26,275	24,181	23,256	

(1) Minority Interest

- US-GAAP/IFRS difference:
  - according to US-GAAP, minority interest is presented separately from Equity in the consolidated balance sheet, whereas under IFRS minority interest is reported as a separate item within Equity
  - under US-GAAP, minority interest is deducted in determining Net Income, whereas it is shown as a separate component of Net Income in the consolidated income statement under IFRS

- impact:

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	702	656	529
Net Income	213	158	

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(2) Capitalization of Development Costs

- US-GAAP/IFRS difference:
  - no capitalization of development costs beside software development under US-GAAP vs. capitalization of development costs for software and hardware/technology under IFRS (if certain recognition criteria are met)
  - only capitalization of direct software development costs under US-GAAP vs. additional capitalization of certain overhead costs under IFRS

- impact:
  - „steady state“ due to retrospective application in IFRS opening balance sheet as of October 1, 2004, therefore minor P/L effects

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	251	230	217
Net Income	17	13	

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(3) Investments accounted for using the Equity Method

- US-GAAP/IFRS difference:
  - IFRS requires the application of the equity method to be based on financial information provided by the associated companies that is in compliance with IFRS
  - consequently US-GAAP/IFRS adjustments affecting the carrying amount of investments accounted for using the equity method as well as Equity and Net Income
- impact:

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	(141)	(164)	(182)
Net Income	32	15	

(4) Sale & Leaseback Transactions

- US-GAAP/IFRS difference:
  - under US-GAAP, gains on the disposal of assets in connection with sale and leaseback transactions involving a subsequent operating lease are deferred over the life of the lease
  - gains are recognized immediately in Net Income under IFRS if the sale has been established at fair value

- impact:
  - initial effect: compared to US-GAAP increase in Net Income under IFRS at the date of sale
  - subsequent periods: amortization of deferred income under US-GAAP is reversed for IFRS purposes, i.e. decrease in Net Income under IFRS compared to US-GAAP

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	207	186	208
Net Income	21	(22)	

(5) Financial Instruments – Convertible

- **US-GAAP/IFRS difference:**
  - in contrast to US-GAAP, under IFRS compound financial instruments are divided into separate components (conversion right/liability component) and recognized separately at inception
  - conversion right (which at Siemens included a cash settlement option (CSO)):
    - measured at fair value through profit or loss and considered as liability (until waiver of CSO)
    - upon waiver of CSO (June 9, 2006): freezing of liability that was remeasured for the last time upon termination date and reclassification to additional paid-in capital
  - debt component:
    - upon issue of bond: initial recognition as liability at fair value
    - successive accretion until maturity of the bond, using effective interest method
- **impact:**
  - US-GAAP/IFRS difference relevant to 1,375% EUR 2003/2010 convertible notes

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	230	(375)	(350)
Net Income	(198)	(25)	

(5) Financial Instruments – Short Cut Method/Interest Rate Hedges

- US-GAAP/IFRS difference:
  - under US-GAAP, an effectiveness test based on the short cut method can be applied, if the critical terms of the hedged item and the hedging instrument match; a quarterly verification that the critical terms match is required; if the critical terms are not fulfilled, a quantitative effectiveness test has to be performed
  - under IFRS, generally a quantitative effectiveness test has to be performed; if the critical terms are identical, the prospective effectiveness test may be confined to the verification and documentation that the principal terms of the hedging instrument and the hedged item are the same

- impact:
  - according to IFRS 1, the corresponding basis adjustments recognized under US-GAAP as of September 30, 2004 are carried forward to the IFRS opening balance and are deferred over the remaining life of the related instrument

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	(7)	89	—
Net Income	(96)	89	

(5) Financial Instruments – Fair Value of non-listed Equity Instruments

- US-GAAP/IFRS difference:
  - under US-GAAP, equity instruments for which there is no readily determinable market value are recorded at cost
  - under IFRS, all equity instruments, including non-listed investments are measured at fair value, if reliably measurable (only equity instruments for which a fair value is not reliably measurable are recorded at cost under IFRS)

- impact:
  - main adjustment to shares in Juniper Networks, which under US-GAAP, in contrast to IFRS, were measured at cost due to sales restrictions until September 30, 2004

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	29	20	115
Net Income	—	—	

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(6) Post-Employment Benefits – Pensions

- US-GAAP/IFRS difference:
  - US-GAAP: amortization of actuarial gains/losses through Net Income using the corridor approach (smoothing of amortization over the average remaining service period of active participants)
  - IFRS: recognition of all actuarial gains/losses in Equity (outside Net Income) in the period in which they occur; based on „fresh start“ in IFRS opening balance sheet (= all actuarial gains/losses not yet recognized in Net Income under US-GAAP until September 30, 2004 were fully recorded in Equity), recognition of all actuarial gains/losses directly in Equity as from October 1, 2004 onwards
- impact:
  - increase in Net Income: no recognition of actuarial gains/losses in Net Income in subsequent periods once recorded in Equity (no „recycling“)
  - recognized amount is equal to funded status less unrecognized past service cost/benefits
  - other components of net periodic benefit cost (service cost, interest cost, amortization of past service cost, expected return on plan assets) are not affected by change of accounting policy

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	(1,588)	(749)	(1,877)
Net Income	602	549	

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(7) Termination Benefits – Individual Agreements (lay offs)

- US-GAAP/IFRS difference:
  - US-GAAP: recognition of liability for severance payments only when the termination agreement has been signed by both parties
  - IFRS: liability has to be recorded when the employer has committed itself irrevocably to lay off the employee concerned and to make a severance payment (i.e. already at the time the offer is made if the acceptance of the offer by the employee is expected)

- impact:
  - in some cases a provision has to be recognized earlier under IFRS than under US-GAAP

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	(319)	(8)	(5)
Net Income	(313)	(3)	

(7) Termination Benefits – Partial Retirement Obligation

- US-GAAP/IFRS difference:
  - under US-GAAP, liabilities for outstanding settlement amounts, supplementary payments and severance payments are built up pro rata temporis during the service phase
  - under IFRS, a liability is recognized for the supplementary amounts and the severance payments at the date of acceptance of application for partial retirement (outstanding settlement amounts are recognized as under US-GAAP)

- impact:

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	(213)	(296)	(369)
Net Income	82	73	

(8) Provisions

- US-GAAP/IFRS difference:
  - various US-GAAP/IFRS differences with respect to recognition and measurement of provisions
  - e.g. discounting of provisions
    - under US-GAAP, provisions are generally not discounted (several exceptions exist, e.g. asset retirement obligations (ARO) whereby historical interest rates have to be applied)
    - under IFRS, provisions are discounted using the interest rates at the respective balance sheet date (i.e. in case of ARO interest rate changes have to be considered)
  - e.g. provision for vacant property
    - under US-GAAP, a provision for a loss from an operating leased property which is subleased should be recognized as soon as the loss is expected
    - under IFRS, a provision for vacant property is recognized as soon as a loss becomes probable; this is also required for temporary vacancies
- impact:

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	(385)	(234)	(62)
Net Income	(148)	(173)	

(9) Deferred Taxes

- US-GAAP/IFRS difference:
  - deferred tax adjustments mainly arise from US-GAAP/IFRS differences described above as these differences result in deviations between the carrying amount of assets and liabilities in the consolidated IFRS F/S and their tax bases
  - additionally, deferred taxes may differ between US-GAAP and IFRS due to tax effects resulting from differences in accounting for deferred taxes between IFRS and US-GAAP (e.g. calculation of deferred taxes on intragroup profit elimination)

- impact:
  - significant deferred tax adjustments result from pension accounting differences between US-GAAP and IFRS

(in millions of €)	Sept. 30, 2006 FY 2006	Sept. 30, 2005 FY 2005	Oct. 1, 2004
Equity	(1,527)	(2,026)	(1,664)
Net Income	189	(177)	

Financial Calendar FY 2007

December	**IFRS Conversion, Financials FY 2005 and 2006** Conference Call
January	**January 25** AGM and first quarter results FY07 conference call
April	**April 26** Semiannual results FY07 – conference call
June	**June** Capital Market Days 2007
July	**July 26** Third quarter results FY07 – conference call

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