Consolidated Financial Statements of Siemens AG in accordance with § 292a of the German Commercial Code (HGB) as of September 30, 2005

Introduction

The accompanying Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP).

To be exempt from preparing Consolidated Financial Statements in accordance with German GAAP, as set forth in § 292a of the German Commercial Code (HGB), the accompanying Consolidated Financial Statements were supplemented with Management's Discussion and Analysis on a consolidated basis and additional disclosures. Therefore, the Consolidated Financial Statements and Management's Discussion and Analysis, which have to be filed with the German 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.

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.

Dr. Klaus Kleinfeld
President and Chief Executive
Officer of Siemens AG

Heinz-Joachim Neubürger
Chief Financial Officer
of Siemens AG

Independent Auditors' Report

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the consolidated financial statements prepared by Siemens Aktiengesellschaft, Berlin and Munich, for the business year from October 1, 2004 to September 30, 2005. The preparation and the content of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US-GAAP) are the responsibility of the Managing Board of the Company. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our audit procedures also complied with the Standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system relating to the accounting system and the evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Managing Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with Accounting Principles Generally Accepted in the United States of America.

Our audit, which also extends to the group management report prepared by the Company's Managing Board for the business year from October 1, 2004 to September 30, 2005, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from October 1, 2004 to September 30, 2005 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Munich, November 23, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Nonnenmacher	Braun
Wirtschaftsprüfer	Wirtschaftsprüfer

(Independent Auditors)

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)

(€ in millions)	Year ended September 30, 2005	2004	% Change 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)

(€ in millions)	Year ended September 30, 2005	2004	% Change 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)

	Year ended September 30,		% Change	
(€ in millions)	2005	2004	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)

	Year ended September 30,		% Change	
(€ in millions)	2005	2004	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)

	Year ended September 30,		% Change	
(€ in millions)	2005	2004	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

	Year ended September 30,		% Change	
(€ in millions)	2005	2004	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:

		Payments due by period			
(€ in millions)	Total	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:

	September 30, 2005		September 30, 2004	
(€ in millions)	SFS	SRE	SFS	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.

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 document 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.

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 €)

	Note	Siemens 9/30/05	Siemens 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

	Note	Siemens 9/30/05	Siemens 9/30/04
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 Authorized: 1,113,295,461 and 1,113,285,711 shares, respectively 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 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).

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.

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.

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).

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**

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**

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 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**

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 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.

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	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	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.

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.

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.

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.

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.

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.

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	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

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:

Asset class	Target asset allocation September 30, 2006	Asset allocation as of the measurement date					
		September 30, 2005			September 30, 2004		
		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.

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

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	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.

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.

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 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		Year ended September 30, 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 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 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.

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.

34 Supplementary disclosures in accordance with Par. 292a of the German Commercial Code (HGB)

In principle, the Company is required to prepare consolidated financial statements in accordance with German GAAP as stipulated in the German Commercial Code (HGB). However, as stipulated in Par. 292a HGB, the Company is exempt from preparing German HGB consolidated financial statements if the Company prepares consolidated financial statements in accordance with international accounting standards (such as U.S. GAAP) which are made available to the public (filing). The Company prepares consolidated financial statements in accordance with U.S. GAAP. Significant differences between German GAAP and U.S. GAAP are described below.

Significant differences between German GAAP (HGB) and U.S. GAAP

Basic Differences and significant accounting policies

Accounting in accordance with U.S. GAAP varies from German GAAP in its objectives. While U.S. GAAP focuses on providing useful and beneficial information to investors, German GAAP emphasizes protection of creditors and pursues a more conservative approach. In addition, companies listed on a U.S. stock exchange are required to comply with accounting and disclosure rules and regulations released by the Securities and Exchange Commission (SEC). Unlike German GAAP, U.S. GAAP also requires consolidation of entities based on variable interests (VIE's) for which the Company is deemed to be the primary beneficiary disregarding voting interests.

Balance Sheet and Income Statement Presentation

Under U.S. GAAP, assets are presented based on liquidity criteria and liabilities are primarily presented based on their maturity dates. Balance sheet presentation for German GAAP purposes is set forth in Par. 266 HGB. It classifies assets based on the time the asset is intended to be used by the Company and distinguishes between equity and liability based on the nature of the financial source. In addition, U.S. GAAP requires separate income statement disclosure of discontinued operations for current and prior years while German GAAP requires separate disclosure for current year only provided it meets the definition of extraordinary items.

Revenue Recognition (long-term contract business)

Under U.S. GAAP, the Company applies the percentage-of-completion method of accounting for long-term project businesses. In accordance with Accounting Research Bulletin (ARB) 45, Long-Term Construction-Type Contracts, and AICPA Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, revenue and gain is recognized as the project progresses. Under German GAAP, generally, revenue and gain are recognized at the time the project is complete.

Inventories

In compliance with U.S. GAAP, Siemens applies a full cost recovery basis for inventory valuation purposes. The lower of cost or market principle stipulated in Accounting Research Bulletin (ARB) No. 43 results in inventory measurement based on the selling-market more frequently than German GAAP. Accordingly, in certain circumstances, inventory under US GAAP exceeds inventory under German GAAP.

Marketable securities
Under German GAAP, equity and debt securities are measured at the lower of cost or market. Under U.S. GAAP, pursuant to Statement of Financial Accounting Standards (SFAS) 115, Accounting for Certain Investments in Debt and Equity Securities, the Company's securities are segregated into available-for-sale securities and trading securities. Those securities are recognized at fair value under U.S. GAAP. In accordance with SFAS 115, differences between at cost and fair value and changes in fair value of available-for-sale securities are reported in shareholders' equity, net of applicable deferred tax, as a component of accumulated other comprehensive income until such securities are sold. Changes in fair value of trading securities are recorded in income at the time those changes occur.

Accrued Pension Costs
Under U.S. GAAP, as set forth in SFAS 87, Employers' Accounting for Pensions, pension obligations are recorded based on the "Projected Unit Credit Method". Due to interest rates applied based on current market rates and the accounting for compensation increases and pension trends, this method allows to better approximate the fair value of the pension obligation than the German tax driven methodology.

At the end of March 2000, the Company formed a pension trust to which it transferred certain assets to fully cover its domestic pension obligations. The pension trust meets the criteria of a funded pension plan under U.S. GAAP. As a result, accrued liabilities and total assets are reduced on the Company's U.S. GAAP balance sheet, resulting in changed balance sheet ratios. The formation of the pension trust has no impact on the Company's accounting for domestic pension assets and pension obligations under German GAAP.

Other Accruals
Under U.S. GAAP, contingent losses are accrued when an obligation towards a third party exists, it is probable that a contingent loss exists and the amount of the obligation can be reasonably estimated as stipulated in SFAS 5, Accounting for Contingencies. The accrued amount is determined using the most probable estimate or, if there is a range of equally probable amounts, the lowest amount is accrued. Under German GAAP contingent losses are measured following the principle of conservatism.

Intangible Assets
As set forth in SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and SFAS 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, development costs for software to be marketed or for internal use are to be capitalized. Under German GAAP, costs for internally generated intangible assets qualifying as long-term assets (for internal use) shall not be capitalized.

In accordance with SFAS 142, Goodwill and Other Intangible Assets, intangible assets with finite useful lives are amortized on a straight-line basis over their respective estimated useful lives to their estimated residual values. 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 and, if applicable, written down to their respective fair value.

Under German GAAP, goodwill and other intangible assets are amortized over their respective useful lives which generally do not exceed 20 years.

Leasing
Valuation differences between U.S. GAAP and German GAAP resulting from operating leases and capital leases entered into by Siemens Financial Services (SFS) are not significant, since the Company's accounting procedures – in the absence of explicit regulations under German GAAP – generally reflect U.S. GAAP rules (SFAS 13, Accounting for Leases).

Stock-based compensation
Under U.S. GAAP the Company applies the fair value recognition provisions of SFAS 123, Accounting for Stock-Based Compensation for awards granted, modified or settled on or after October 1, 2003. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized over the vesting period. Awards granted before October 1, 2003 continue to be accounted for under the "Intrinsic Value Method", which recognizes compensation costs over the vesting period provided the intrinsic value exceeds the exercise price of variable plans. Under German GAAP, up to and including fiscal 2003, compensation cost in the amount of the option value was accrued at the date of grant. Beginning with fiscal 2004, compensation cost is measured based on the option value of the award and is accrued and recognized as expense over the vesting period.

Foreign currency translation
Under U.S. GAAP receivables and liabilities due in foreign currency are translated at the exchange rate as of the date of the financial statements. Resulting gains and losses are recognized in the income statement. Under German GAAP, receivables and liabilities due in foreign currency are measured conservatively following the principles of 'lowest' or 'highest' value, respectively. Accordingly, receivables and liabilities due in foreign currency are translated at the least beneficial exchange rate at the date of the transaction or the date of the financial statements. Resulting losses are recognized in the income statement.

Derivative financial instruments
Generally, under German GAAP, derivative financial instruments are contingent transactions that do not meet the definition of assets or liabilities. Unrealized losses on derivative financial instruments are recognized in income, while unrealized gains are not recognized in the financial statements. Under U.S. GAAP, in accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities, derivative financial instruments are measured at fair value and recognized on the balance sheet. Changes in fair value are either recognized as income or presented in accumulated other comprehensive income, provided the derivative instrument qualifies for cash flow hedge accounting. Provided the derivative instrument qualifies for fair value hedge accounting, the underlying assets or liabilities are accounted for at fair value.

Deferred taxes
Under U.S. GAAP, accounting for deferred taxes is generally based on the temporary concept as set forth in SFAS 109, Accounting for Income Taxes, while accounting under German GAAP uses the timing concept. According to SFAS 109, deferred income taxes are recorded for the effects of all temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated balance sheet. Temporary differences under U.S. GAAP also include quasi-permanent differences, i.e. differences that will reverse only at the end of a corporation's life or upon the sale of land or long-term investments. In addition, deferred taxes are recognized for net operating loss carryforwards, with valuation allowances established, if applicable, to reduce deferred tax assets to the amounts expected to be realized.

Other financial commitments

The following table presents future cash outflows related to purchase obligations as of September 30, 2005:

	Payments due by period				
	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Purchase obligations	10,456	8,912	1,132	324	88

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.

Marketing, selling and general administrative expenses

The income statement line item Marketing, selling and general administrative expenses is composed of:

	Year ended September 30,	
	2005	2004
Selling expenses	10,390	9,599
General administrative expenses	3,294	3,229
	13,684	**12,828**

Roll-forward of long-term investments

	10/1/04	Translation adjustment	Additions	Reclassifications	Dispositions	9/30/05	Accumulated Write-off	Accumulated Equity-adjustments	Net book value as of 9/30/05	Net book value as of 10/1/04	Write offs during fiscal year
Investments in subsidiaries	509	7	263	(19)	174	586	244	–	342	319	11
Investments in associated companies	2,116	1	271	105	405	2,088	188	1,076	2,976	2,823	33
Miscellaneous other investments	1,454	(37)	252	(86)	685	898	448	–	450	980	62
Long-term investments	**4,079**	**(29)**	**786**	**–**	**1,264**	**3,572**	**880**	**1,076**	**3,768**	**4,122**	**106**

Corporate Governance

Siemens Aktiengesellschaft and Cycos AG, currently the sole German publicly traded corporation consolidated by the Company, provided the certifications required by Par. 161 of the German stock corporation law (AktG). Those companies made the certifications available to its shareholders.

This is a translation of the German “Konzernabschluss und Konzernlagebericht gemäß § 292 a HGB der Siemens AG zum 30. September 2005”. Sole authoritative and universally valid version is the German language document.

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, page 20). 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

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, page XX), 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:

		Cash compensation				
(Amounts in €)		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, page 114 et seq.).

(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.

	2005				2004			
(Amounts in €)	Fixed compensation	Short-term variable compensation	Long-term variable compensation	Total	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).

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.

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. 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)** **Ralf Heckmann** **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)** **Heinrich v. Pierer, Dr. jur., Dr.-Ing. E.h.** **Ralf Heckmann** **Heinz Hawreliuk** **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)** **Ralf Heckmann** **Josef Ackermann, Dr. oec.** **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)** **Josef Ackermann, Dr. oec.** **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)

As of September 30, 2005

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.** **Johannes Feldmayer** **Thomas Ganswindt, Dr. h.c.** **Edward G. Krubasik, Prof. Dr. rer. nat.** **Rudi Lamprecht** **Heinz-Joachim Neubürger** **Jürgen Radomski, Dr. rer. pol. h.c., Dr. techn. h.c.** **Uriel J. Sharef, Dr. rer. pol.** **Klaus Wucherer, Prof. Dr.-Ing., Dr.-Ing. E.h.**
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** **Heinz-Joachim Neubürger** **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** **Heinz-Joachim Neubürger** **Jürgen Radomski, Dr. rer. pol. h.c., Dr. techn. h.c.**

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