Annual Report 2006

www.siemens.com

Key figures

in millions of euros	**2006**[1]	2005[1]
New orders[2]	**96,259**	83,791
Sales[2]	**87,325**	75,445
Income from continuing operations	**3,087**	3,058
Loss from discontinued operations, net of income taxes	**(54)**	(810)
Net income	**3,033**	2,248
Net cash from operating and investing activities[2]	**739**	(1,489)
therein: Net cash provided by operating activities	***5,174***	*4,217*
Net cash used in investing activities	***(4,435)***	*(5,706)*
Shareholders' equity (September 30)	**29,306**	27,022
Employees[2] (September 30, in thousands)	**475**	461

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

Contents

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

Innovations of the year

www.siemens.com/megatrends
www.siemens.com/innovation

Healthcare I **SOMATOM Definition**

Faster than a heartbeat

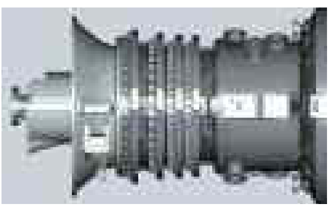
Siemens has developed a new computed tomography (CT) scanner that produces images at unprecedented speed while cutting cardiac patients' radiation exposure by up to 50 percent. This innovative dual-source CT system uses two X-ray tubes and two detectors at the same time, allowing physicians to better differentiate blood vessels, bone and soft tissue.

Mobility I **Ruhrpilot**

Less traffic congestion in Europe's largest conurbation

A consortium headed by Siemens has developed an integrated traffic management system for Germany's Ruhr region, launching the Ruhrpilot system in time for the 2006 Soccer World Cup. By providing up-to-the-minute traffic data and forecasts, this innovative system promises to substantially reduce the number of traffic jams and accidents in Europe's largest urban area while significantly cutting carbon dioxide emissions.

Power I **Gas turbine**



New gas turbine poised to set a world record for efficiency

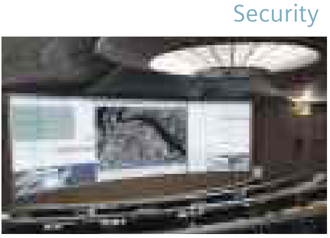
The efficiency of Siemens' combined cycle turbine power plants will soon exceed 60 percent, thanks to improved blade materials and coatings and optimized blade and compressor designs. With a capacity of 340 megawatts, our latest gas turbine will be the largest and most efficient in the world.

Healthcare I **Telemedicine**

IT platform facilitates early detection

Scotland's National Health Service (NHS) is using Siemens' Soarian IT platform to carry out a large-scale telemedicine initiative in which nearly 300,000 diabetics are being screened for diabetic retinopathy (DR) at 73 locations. DR is a common complication of diabetes which – if detected too late – can result in blindness. The Soarian platform enables the screening results to be transmitted to experts at five regional centers for evaluation.

Security I **Dubai police headquarters**



New command and control center expedites emergency response

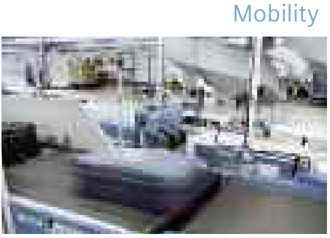
Siemens has equipped the new world-class police headquarters in the Emirate of Dubai with communications technology, IT infrastructure, software and security systems. In the event of an accident or emergency, control room staff can access images from security cameras and satellites within seconds, enabling them to initiate police, fire and medical dispatching faster than ever before.

Industry I **SIPROCESS**

Automated micro process technology enhances chemical syntheses

SIPROCESS, Siemens' modular micro process system, is accelerating product development and increasing production efficiency in the chemical and pharmaceutical industries. Although the system's microstructured components are only the width of a hair, several tons of substances can be chemically synthesized annually using this innovative technology.

Mobility I **Siemens Airport Center**



The only thing missing is the planes

It's always been difficult to design and evaluate systems solutions for airports, with no means available to simulate real-life factors such as passengers moving through passport controls, crowding around baggage carousels or walking onto the aircraft maneuvering area and disrupting traffic. The newly opened Siemens Airport Center is the world's first planning, simulation and test center for airport logistics and infrastructure projects.

“In fiscal 2006, we took major steps to further optimize profit and growth.”

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

Dear Shareholders,

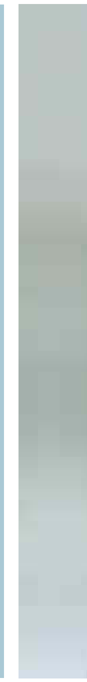
In fiscal 2006, we made substantial progress toward achieving sustainable profitable growth Company-wide. We based our efforts on the rigorous implementation of our Fit4More program, which comprises the four pillars Performance and Portfolio, Operational Excellence, People Excellence and Corporate Responsibility (see also pages 16 – 31 of this Report).

We're satisfied with the results we achieved in fiscal 2006. In every quarter, we exceeded our main target: sustainable profitable growth at twice the global GDP rate. Year-on-year, new orders surged 15 percent to €96 billion. Six percent of this growth was organic (excluding portfolio measures and currency effects). Sales climbed 16 percent to €87 billion, and eight percent of this increase was organic. Despite further restructuring costs due to portfolio adjustments, we increased Group profit from Operations 12 percent to roughly €5.3 billion. Net income soared 35 percent to €3.0 billion, and earnings per share rose 35 percent to €3.40.

Global megatrends are putting wind in our sails.
To drive our businesses, we're leveraging two global megatrends – demographic change and increasing urbanization. These megatrends are exerting an ever-greater impact on the world we live in. According to UN projections, the world's population will have increased by about one-third and the average age will have jumped from 26 to 36 by 2050. More and more people are moving to urban areas in search of better jobs, better education and a better life. The UN predicts that next year more people will be living in cities than rural areas for the first time in human history.

In light of these developments, how can we meet the growing demand for energy without degrading the environment? How can we shape the future of manufacturing so that more and better goods can be produced using fewer natural resources? How can we safeguard and improve the mobility of people and goods? And how can we ensure the availability of high-quality, affordable healthcare while keeping pace with advances in medical technology?

Innovation can make a major contribution to mastering these challenges. And this is precisely where our opportunities lie, since we already hold leading positions worldwide in many of the technologies required. Our portfolio policies aim to strengthen and expand these positions.



A two-pronged strategy is positioning Siemens for the future.

The first Fit4More pillar – Performance and Portfolio – comprises two main elements: targeted acquisitions and the strategic reorientation of specific businesses, in particular our Information and Communications activities. In fiscal 2006, we implemented a number of key portfolio-enhancing measures in both areas. On the one hand, we made a series of acquisitions that will expand our positions in the long-term growth markets of power, environmental technology, medical solutions, automation systems and public and industrial infrastructures. On the other hand, we introduced numerous measures to get Siemens Business Services (SBS) back on track. These measures included a strategic reorganization, which was completed at the end of fiscal 2006 (see also pages 58, 74, 108, 145 of this Report).

Two portfolio adjustments were of particular importance: a broadening of the focus of our Medical Solutions Group (Med) and the decision to fold the carrier business of our Communications Group (Com) into a joint venture with Nokia.

- Med's acquisitions of U.S.-based Diagnostic Products Corporation and Bayer Diagnostics are moving us into the new, highly attractive growth segment of in-vitro diagnostics. Once both acquisitions have been finalized, we'll occupy an excellent starting position on a par with the No. 2 global provider. These two acquisitions will also make Med the world's first supplier to deliver products, systems and services across the entire healthcare continuum, from prevention and diagnosis to treatment and follow-up care. Since IT plays a key role in integrating clinical workflows, increasing efficiency and lowering costs, Med's leading global position in healthcare IT will give it an additional competitive edge.


- The decision to put our telecommunications carrier business into a 50-50 joint venture with Nokia was not easy. After weighing all the options, however, this seemed to be the best way to remain a leading supplier of telecommunications infrastructure given the dramatic changes now taking place in the world market. Size is a critical factor for manufacturers and providers of telecommunications solutions and services. This new joint venture will give us the critical mass and financial clout we need in order to compete successfully. We're convinced that Nokia Siemens Networks has excellent prospects of becoming a global leader in its market. Steps to complete the integration and start operation in the second quarter of fiscal 2007 are underway.

In addition to these major portfolio moves, we made a number of smaller acquisitions that will further strengthen our position in the industrial automation and power markets. Our restructuring measures – including all acquisitions, divestments and joint ventures – affected some 30 percent of our businesses in fiscal 2006. We're pleased to have successfully completed this formidable task.

We're deeply concerned about developments at our former mobile phone business, now part of the Taiwanese company BenQ. In September 2006, the company filed for bankruptcy for its mobile phone business in Germany and other countries, causing a public outcry in Germany in particular. The filing took us by surprise, above all, because we were convinced we had chosen a good partner for our mobile phone business and because we had purposely strengthened BenQ's position by providing financing and by transferring patent and brand rights. We've now launched a variety of measures to facilitate job placement for our former employees.

Our Groups are achieving profitable growth.

All our Groups – with the exception of Siemens Business Services – reported strong growth in fiscal 2006, with six operating Groups achieving a double-digit percentage increase in new orders. In many of our businesses, we're winning market share from our competitors. Automation and Drives (A&D), Medical Solutions (Med), Siemens VDO Automotive (SV), Power Transmission and Distribution (PTD) and OSRAM reached their target margins every quarter, while Industrial Solutions and Services (I&S), Siemens Building Technologies (SBT), Transportation Systems (TS) and Siemens Business Services (SBS) are closing in on their profitability goals. We're confident that all our Groups will reach their target margins by the second quarter of 2007. In the months ahead, we'll focus on continuing to improve our Groups' profitability and maintaining these margin levels in the long term.

The second pillar of the Fit4More program – Operational Excellence – comprises the proven tools of the Siemens Management System (SMS), including our Company-wide programs Innovation, Customer Focus and Global Competitiveness and our *top*+ initiative, with which we've been continuously optimizing our business processes for ten years now.

Half of our sales growth is organic, and this achievement is a testimony to our power of innovation. To further boost our technological edge, we invested €5.7 billion in research and development in fiscal 2006 (see also pages 32 – 33 of this Report). And this investment is paying off. In fiscal 2006, our researchers submitted more than 10,000 invention reports, roughly 17 percent more than in fiscal 2005. We filed patent applications for over 6,000 of these inventions, about eight percent more than in the previous year. Our portfolio now comprises more than 62,000 patents.

Now I'd like to give you just a few examples of how our innovative strength is driving success at our Groups:

- Our SOMATOM Definition computed tomography (CT) scanner is a major breakthrough in medical diagnostics. Using two X-ray tubes and two detectors, this innovative system reduces radiation exposure by up to 50 percent and energy consumption by roughly 30 percent. SOMATOM Definition scans the human heart in just six seconds and the entire body in only 20 seconds. With an imaging rate that is faster than the beating heart, it's an ideal tool for producing cardiac images of patients with irregular or very rapid heartbeats. And its high image resolution of up to 0.4 millimeters helps physicians better identify early indicators of heart disease. We sold 150 SOMATOM Definition scanners and installed more than 50 of the systems in fiscal 2006.

- SIPROCESS from A&D is a modular, automated micro process system for synthesizing chemical substances. This cutting-edge system significantly reduces product development costs and shortens time-to-market. Users report that SIPROCESS increases lab productivity up to fivefold.
- In April 2006, a 290-km submarine cable began transmitting power between Australia and Tasmania. During the rainy season, electricity generated by eco-friendly hydropower plants on the island flows to the mainland. During the dry season, power from coal-fired facilities in Australia is transmitted to Tasmania. High-voltage direct-current transmission technology from PTD is helping minimize energy loss along the entire route. Thanks to Siemens, both the continent and its island are benefiting from lower emissions and reliable power supplies.

These are only three examples of the technological prowess that has been driving our Company's success for 160 years and is still creating sustainable value for our customers every day.

We're bundling our products to create sector-specific solutions.

In fiscal 2006, we set up a number of cross-Group Sector Development Boards to offer solutions even better tailored to our customers' specific requirements. At BMW's Leipzig facility, for example, we supplied automation and manufacturing solutions for the body shop, paint shop and final assembly system. We also provided the plant's power supply, communications and IT systems, its building infrastructure and all related services.

Employee know-how and teamwork are key competitive advantages.

Our technological and entrepreneurial success is based on the superb collaboration of our excellent employees worldwide. Given the breakneck speed at which markets are changing, the expertise and teamwork of our people are a source of long-term competitive advantages. That's why People Excellence – our third Fit4More pillar – is so important to us. The aim of our activities in this area is to foster a high-performance culture across the entire Company. Successful People Excellence measures include our newly restructured Siemens Leadership Excellence (SLE) program, which is providing our managers with the knowledge they'll need to meet the challenges of the future. In SLE courses, top Siemens executives share their experiences and practical know-how with the next generation of Company leaders. Our ability to recognize and nurture these top talents early on is also a decisive factor in our success.

Unparalleled technology know-how and outstanding innovations are the lifeblood of our Company. That's why we want to be an attractive employer for top scientists and engineers worldwide. To achieve this goal, we've introduced a special career track for technology experts – separate from that for our managerial employees – with four main stages, from senior-level to chief engineer.

Our values are the foundation of our actions.

Corporate Responsibility – our fourth Fit4More pillar – is a reflection of our Company's identity and the values for which we stand. These values are expressed in our corporate governance system, the rules set out in our Business Conduct Guidelines, the charitable activities of our Corporate Citizenship program and our commitment to sustainable and eco-friendly development.

We introduced our Business Conduct Guidelines in 2001, when the Company was listed on the New York Stock Exchange. These guidelines – which contain rules regarding compliance with the law, the handling of conflicts of interest, the protection of company assets and the prohibition of insider trading – are binding for all Company employees and the members of our Managing Board. The members of our Supervisory Board also comply with the Guidelines where applicable. Our Business Conduct Guidelines are also part of every employment contract. A Company Compliance Officer regularly reports to the Audit Committee of the Supervisory Board and the Corporate Executive Committee.

Unfortunately, it has now become clear that our compliance measures are not yet sufficient. Several former and current Company employees are under investigation regarding allegations of embezzlement, bribery and tax evasion. Siemens is doing everything in its power to facilitate the full and speedy clarification of this matter and has taken appropriate and immediate countermeasures. In this connection, we've also engaged independent experts to detect any concrete violations, identify any flaws in Siemens' regulatory system, structures or processes and eliminate these shortcomings entirely and without exception (see also pages 131 – 32 of this Report).

Our activities in the areas of sustainability and environmental protection were honored once again this year. We're proud to have been listed on the Dow Jones Sustainability Index for the seventh year in a row.

We aim to be a good neighbor in all the countries where we do business. With our global presence, we can marshal local resources everywhere in the world to provide fast and effective assistance in emergencies and natural disasters. For example, Siemens Caring Hands, our charitable program, contributed more than €1.5 million in monetary and non-monetary donations for the victims of the earthquake in Pakistan on October 8, 2005. Following the Indonesian earthquake of May 2006, we provided aid primarily in the form of medical equipment.

Our network of university partnerships now encompasses more than 600 institutions of higher education in 70 countries. Partners include prestigious institutions like Massachusetts Institute of Technology, the University of California at Berkeley, Oxford University, ETH Zurich, Tokyo University, Tsinghua University in Beijing, Tongji University in Shanghai and leading universities throughout Germany.

In fiscal 2006, our Fit4More program paved the way for continued profitable growth at twice the rate of the global economy. To reach this goal, we've expanded and restructured many of our businesses. Our achievements in fiscal 2006 – reflected in our bottom line – are providing an excellent springboard for further success in fiscal 2007.

Klaus Kleinfeld

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

Jürgen Radomski, Dr. rer. pol. h. c., Dr. techn. h. c.
Joe Kaeser
Rudi Lamprecht
Eduardo Montes
Hermann Requardt, Prof. Dr. phil. nat.

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

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

Uriel J. Sharef,
Dr. rer. pol.

As of October 1, 2006
For further information, see page 234
and back cover foldout.

Fit4More – The basis for a successful future

Launched in April 2005, our Fit4More program has set clear goals and defined the measures required to accelerate our strategic reorientation and lay the basis for sustainable profitable growth. We've already accomplished a large part of what we set out to do. In particular, we've paved the way for long-term growth in our share value by capturing or closing in on leading positions in all our markets worldwide.

The four Fit4More pillars – Performance and Portfolio, Operational Excellence, People Excellence and Corporate Responsibility – comprise a comprehensive approach to enhancing our Company's productivity and value. Performance and Portfolio defines the steps necessary for creating a portfolio that will enable us to achieve sustainable profitable growth at twice the global GDP rate. Operational Excellence implements our Company-wide *top*+ program rigorously and with a clear focus on business performance. People Excellence sets the highest standards for selecting, evaluating, leading and developing our employees. And Corporate Responsibility ensures that – in the areas of corporate governance, business practices, sustainability and corporate citizenship – we're a good neighbor in all the countries where we do business.

On the home stretch

Performance and Portfolio: We've found satisfactory solutions for the realignment of our I&C business area and our L&A Group. Targeted acquisitions and divestments in fiscal 2006 have brought us much closer to reaching our target margins and achieving a growth rate double that of the global economy.

To reach these goals and remain successful over the long term, we're rigorously implementing our three Fit4More drivers:

Fit4More – Our profit and growth program since April 2005

Performance and Portfolio	Operational Excellence	People Excellence	Corporate Responsibility
Solve Mobile Devices Finalize strategic reorientation of I&C (Com, SBS) Strategic reorientation of L&A Reach target margins in all Groups Build portfolio for 2x world GDP growth	Execute Siemens Management System (powered by *top*+) with focus on: • Innovation • Customer Focus • Global Competitiveness	Achieve high-performance culture Establish Leadership Excellence Program Increase global talent pool Strengthen expert careers	Achieve best-in-class in: • Corporate governance • Business practices • Sustainability • Corporate citizenship

Implementation by April 2007

- Operational Excellence: We've refined our methods and sharpened our focus on Innovation, Customer Focus and Global Competitiveness.
- People Excellence: We've established a high-performance culture throughout our Company. Based on clear performance goals, this culture enables our people to realize their full potential. To increase our global talent pool, we're fostering talented young people worldwide. We've created new career tracks for experts and – since world-class managers are the key to world-class results – redesigned our management development program.
- Corporate Responsibility: To safeguard our long-term future, we're continuing to honor our commitments to business success, ethical conduct, environmental protection and the welfare of society.

Outlook

Our Fit4More standards and processes are timeless elements of good company management. We'll continue to employ these key management tools even after the program ends in April 2007.

Our goals will also remain unchanged: to focus our portfolio on growth and to be as profitable as our most successful competitors. As a result, active, targeted portfolio management will continue to be a vital part of our Company strategy.

Fit4More

A comprehensive and logically structured program with clear goals and clear drivers

Drivers	Goals
Operational Excellence powered by *top*+	**Performance and Portfolio by April 2007** • Reach target margins in all Groups • Build portfolio for 2x global GDP growth • Strategic reorientation of I&C and L&A
People Excellence	
Corporate Responsibility	

Performance and Portfolio

Growth and profitability are the basis of our portfolio's long-term strategic orientation. We're focusing on promising fields in which we can capture and systematically strengthen leading positions. Our goal is to grow at least twice as fast as the global economy in order to be as profitable as our top competitors.

What does Siemens expect from its acquisitions of Diagnostic Products Corporation and Bayer Diagnostics?

These acquisitions will make our Medical Solutions Group the world's first provider of integrated diagnostics – combining imaging diagnostics, laboratory diagnostics and clinical information technology under one roof. The resulting efficiencies will enable our customers to considerably increase the quality of the healthcare they provide while cutting clinical and administrative costs. The acquisitions will also make Medical Solutions the No. 2 provider of immunodiagnostics worldwide.

Strategic portfolio development

We want to occupy leading positions in all our markets. That's the only way we can ensure continued profitability when the going gets tough. In areas where we don't have the resources to do this on our own, we endeavor to find strong partners. For example, we're now in the process of folding our Communications Group's carrier business into a joint venture with Nokia. The new company, Nokia Siemens Networks, will be a telecommunications powerhouse with good prospects for capturing the No. 1 position in its market. The sale of our mobile handset activities, the sale of the product-related services business of Siemens Business Services to Fujitsu Siemens Computers, and the restructuring of our Logistics and Assembly Systems Group were also key steps in the strategic development of our portfolio.

We're strengthening the businesses of our market-leading Groups through both acquisitions and organic growth. Our acquisitions of Bayer Diagnostics and the Diagnostic Products Corporation will make our Medical Solutions Group the world's first provider of integrated diagnostics.

The acquisition of Electrium has made our Automation and Drives Group one of the UK's leading providers of electrical installation systems and increased our access to key Middle East markets. Acquiring Wheelabrator, the Advanced Burner Group and the technology and engineering activities of the Sustec Group has further expanded our Power Generation Group's product and service portfolio in the growing market for eco-friendly power generation. With its acquisitions of CNC Water Technologies, Sernagiotto Technologies and Monosep Corporation, our Industrial Solutions and Services Group can now offer complete solutions for the entire water and wastewater treatment sector. And the acquisition of VA Tech has given us additional expertise in the metallurgy field while enabling us to expand

What does the acquisition of Wheelabrator Air Pollution Control, Inc. mean for Siemens?

Wheelabrator's products and systems for monitoring and reducing the emissions of coal-fired power plants will enable us to help our customers meet their power needs with highly efficient, cost-effective and eco-friendly solutions.

Highlights – Acquisitions in fiscal 2006

- Kühnle, Kopp & Kausch* (Germany) will boost Power Generation's product portfolio in the industry sector.
- Bayer Diagnostics* and Diagnostic Products Corporation (U.S.) will strengthen Medical Solutions' position in the growth markets for molecular diagnostics and immunodiagnostics.
- The technology and engineering activities of the Sustec Group (Switzerland) have expanded Power Generation's power plant business to include products and solutions for coal gasification.
- Electrium (UK) has boosted Automation and Drives' position in electrical installation technology in the UK.
- Wheelabrator Air Pollution Control, Inc. and Advanced Burner Technologies, Inc. (U.S.) have extended Power Generation's array of emission-reducing products and services.
- CNC Water Technologies, Inc. (China), Sernagiotto Technologies S.p.A. (Italy) and Monosep Corporation (U.S.) have enabled Industrial Solutions and Services to round out its range of solutions for water and wastewater treatment.

* Initiated

our leading position in the growth markets of Central and Eastern Europe – where we're now driving consolidation in the power transmission and distribution sector.

By continuing to strengthen our position in key future markets, we boosted our sales 16 percent in fiscal 2006.

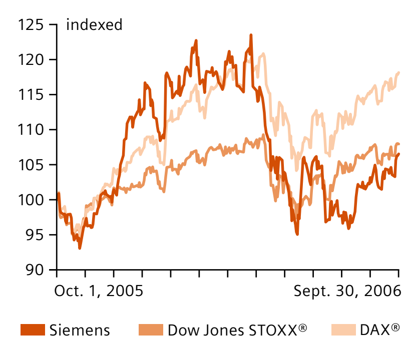
On track for long-term profitability

Our goal is to achieve high profitability as well as growth. All our Groups are obligated to reach their target margins – not just once but also over the long term. Even those that haven't yet succeeded have shown substantial improvement. We're confident that all our Groups will be on target by the end of the second quarter of fiscal 2007.

Stock market information

in euros	2006[1]	2005[1]
Stock price range (XETRA closing prices, Frankfurt)		
High	**79.77**	66.18
Low	**60.08**	56.20
Year-end	**68.80**	64.10
Number of shares (year-end, in millions)	**891**	891
Market capitalization (year-end, in millions of euros)[2]	**61,307**	57,118
Per-share data		
Earnings per share[3]	**3.47**	3.43
Earnings per share (fully diluted)[3]	**3.31**	3.29
Dividend	**1.45**[4]	1.35

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



Investor relations

Siemens maintains a continuous and open dialogue with its investors. We provide comprehensive financial information to our shareholders at the Annual Shareholders' Meeting, in quarterly and annual reports, and in ad hoc press releases. Our Investor Relations Team also organizes conferences and conference calls at which investors and financial analysts can discuss current Company-related issues with our management. These conferences and conference calls are accessible to the general public via live Internet transmission. For private investors in particular, we've redesigned and expanded our Internet sites. We've also held several hundred one-on-one talks, including roadshows, with institutional investors in and outside Germany to keep them up-to-date on Company developments. Sustainability-oriented investors have shown an increasing interest in the Company's strategy in areas like energy efficiency. In fiscal 2006, we were listed on the Climate Leadership Index of the Carbon Disclosure Project (CDP) for the second time and on the SAM Dow Jones Sustainability Index for the seventh year in a row.

In a number of major surveys, investors and analysts ranked Siemens' capital market communications No. 1 again in fiscal 2006. For further information, please visit the following Web sites:
www.siemens.com/investorrelations
www.siemens.com/governance

The Siemens share

As of September 30, 2006, the capital stock of Siemens AG totaled approximately €2.7 billion, representing some 891 million no-par value shares in registered form. Each share has one vote.

On September 30, 2006, Siemens shares were listed on all German stock exchanges, the Milan stock exchange and stock exchanges in New York, London and Zurich.

On the New York Stock Exchange, Siemens shares are traded in the form of American Depositary Receipts (ADRs), with one ADR corresponding to one Siemens share.

Operational Excellence

Siemens is a leading player in a wide array of businesses, industries and countries around the world. Uniform processes and procedures that set a high standard for operational excellence throughout the entire Company are one of the pillars of our success. As part of our *top*+ initiative, we're continually improving our operations in order to master new market challenges.

Our Company-wide *top*$^{+}$ programs – Innovation, Customer Focus and Global Competitiveness – are safeguarding our long-term success and enabling us to compete in ever tougher markets.

At Siemens, innovation is about more than just developing new technologies. It's about transforming ideas into market successes. New service and business models ensure that customers will continue to view us as a strong partner and a market leader well into the future. Benefiting from our presence in diverse regions around the world, we're increasingly driving R&D activities geared to markets outside Europe and the United States. For example, we've developed computed tomography scanners, control systems and medium-voltage switchgear specifically for the Asian market.

We intend to leverage our global presence and broad portfolio even more intensively to create complete solutions tailored to particular customer needs. Our Siemens One initiative bundles the expertise of all our businesses by strengthening cooperation across our entire organization. Using this approach, we helped Qatar's Doha Airport avert capacity problems during the 15th Asia Games, held in December 2006. In less than four months' time, we set up a fully-equipped temporary airport terminal to handle increased passenger volumes during the event. In another Siemens One project, we've developed a control center that is setting new standards for safety in road tunnels. The center's modular platform solution can be adapted to meet individual customer requirements in many countries.

The more open our markets become, the more crucial it is to be globally competitive all along the value chain. That's why we're continually optimizing processes to further strengthen our businesses within existing structures. We're successfully bundling and harmonizing Company-wide accounting, financial, human resources, procurement and logistics processes. Another key focus is the steady improvement of manufacturing processes. Standard platforms like our uniform production-optimization system are enabling our plants to substantially increase their efficiency. For example, at a facility operated by Siemens Building Technologies, the system's introduction quickly boosted productivity by around 20 percent.

"As part of our top^{+} program, we've established uniform, Company-wide processes with clear goals, clear measures and clear consequences. We've also developed a broad range of excellent top^{+} tools to help our businesses master the challenges they face."

Prof. Dr. Klaus Wucherer,
Corporate Executive Committee member responsible for the *top*$^{+}$ program

People Excellence

Outstanding employees are the key to our success. Only highly motivated individuals can enable us to meet and exceed the expectations of our customers and investors. Our corporate culture – based on clear goals and geared toward high performance – empowers our people to unleash their full potential.

How does Siemens motivate its employees?

We engage in open dialogue with our employees concerning their goals, achievements and prospects for further career development. The photo shows Siemens employees at a Company facility in Munich, Germany.

Achieving a high-performance culture

A high-performance culture is one in which employees measure themselves against the best of the best, accept personal responsibility and strive to excel. Only if our people are highly qualified and intensely committed can we offer world-class products, services and solutions.

At Siemens, we create a working environment in which every employee knows exactly what is expected of him or her. We provide regular feedback so that our people can develop their potential to the fullest. Based on a clear evaluation of individual performance and results, we define specific career opportunities and determine appropriate compensation for every employee. We offer our people excellent career prospects at a world-class company.

Siemens' global Performance Management Process is a powerful tool for appraising employee performance in terms of carefully defined criteria and nurturing the talented young people who will one day lead our Company. It enables us to evaluate the skills and achievements of individuals at all our Groups, Regional Companies and Corporate Units. Once we've identified the strengths of our top talents and key experts, we can implement the development measures that will best equip them to leverage their unique know-how and capabilities for the benefit of our customers and investors.

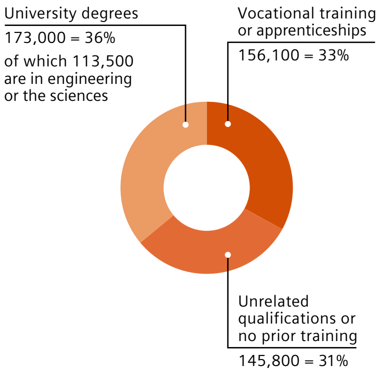
One key element of this rigorous high-performance culture is our system of performance-oriented compensation for senior managers. All decisions regarding managerial compensation are based on a transparent and uniform evaluation procedure that takes into account not only business success but also factors like personal leadership qualities, customer satisfaction, process excellence and cooperative networking within Siemens.

Increasing our global talent pool

Our top talents are people who have great potential and who consistently produce outstanding results. These are the future leaders of Siemens – the individuals who will be responsible for safeguarding our future and ensuring that we remain a market leader in all our business areas. Our ability to recognize and nurture top talents early on is a decisive factor in our success.

In addition to being highly motivated themselves, excellent employees inspire others to produce world-class results. They're willing to make difficult decisions and take personal responsibility for the consequences of their actions. We offer

Employee qualifications



New hires

- In fiscal 2006, Siemens hired 75,200 employees worldwide, 36 percent of whom hold university degrees.
- About 60 percent of our university-trained new hires are scientists or engineers. As these figures attest, we continue to boast an exceptionally well-qualified workforce.

What does "high-performance culture" really mean?

"Let me give you a concrete example. We at Med set out to build the best magnetic resonance tomography scanners in the world. All our processes were carefully designed to achieve this goal. The devices we developed are now market leaders. Intensive and open communication within the team at every stage of the project was the key to our success. For me, a high-performance culture is one in which efficient processes yield world-class results."

Dr. Robert Krieg, Head of Molecular Imaging, Siemens Medical Solutions

these people challenging and rewarding careers, foster their personal development and groom them for future leadership positions within the Company.

Siemens' global management team demonstrates a strong personal involvement in cultivating our high potentials. Members of the Managing Board regularly hold interactive Web conferences with our top talents, giving participants the opportunity to discuss important Company-related issues directly with our executive managers. In addition, our next-generation leaders from around the world regularly meet personally with President and CEO Klaus Kleinfeld.

Improving career prospects for scientists and engineers

We're a technology leader in many areas. And that's essential in today's business environment, where companies that fail to launch new products in time are severely punished. Our technology leadership depends on having people with the know-how, dedication and persistence to drive innovation, even when the going gets tough. That's why we've established attractive new career tracks for our top scientists and engineers.

Today, our technology experts can channel all their energy into developing innovations. They're no longer required to deal with the organizational duties typically performed at management level. An intense focus on their areas of specialization enables these experts to create the products and solutions that will benefit our customers and investors tomorrow. During fiscal 2006, we identified and designated key experts at the top- to middle-management levels in promising high-tech fields. Our aim is to continue expanding our network of experts in order to maintain our unparalleled technology know-how – the know-how that spawns the outstanding innovations indispensable for success in the global marketplace.

Establishing leadership excellence

Siemens Leadership Excellence (SLE) is our program to prepare our managers for the challenges of today and tomorrow. We're convinced that first-class results can be achieved only through first-class management. In a corporate culture that fosters and rewards top performance, our managers are the trailblazers.

Our SLE program prepares managers for their future roles very concretely by linking Siemens-specific topics to management methods and leadership skills.

The principles behind the SLE curriculum – "leaders develop leaders" and "interactive learning" – account for the extraordinary nature of the training that the program provides. "Leaders develop leaders" means that top executives, including Managing Board members, participate in SLE courses, sharing their experiences with course participants and even enrolling in seminars themselves. "Interactive learning" is also a key component of SLE offerings. Presented with challenging situations, individuals demonstrate their management skills and then receive direct feedback from fellow participants and coaches. In workshops with world-renowned experts, they also learn new techniques for achieving management

excellence. The SLE program targets our entire management team – from senior executives to entry-level managers – because we believe that responsible leadership is not the exclusive domain of top management, but a binding obligation for every leader in our Company.

One primary objective of the SLE program is to implement Company-wide leadership standards and values to ensure that all our managers comply with a uniform standard of conduct. The program also provides uniform management tools and introduces new leadership methods and strategies. By implementing SLE, we're building a global leadership network extending across all our Groups and Regional Companies, a network whose members share information and experiences to strengthen the entire management team.

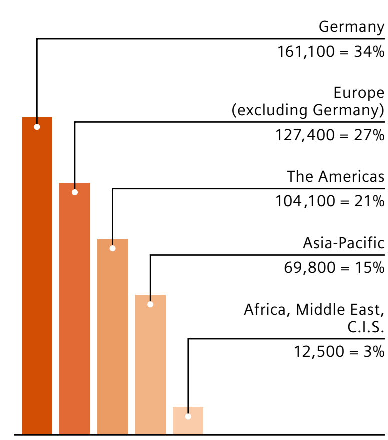
Since the program was launched in October 2005, more than 80 percent of our Company's top executives have attended SLE courses. Worldwide, more than 250 managers have completed the program, and the feedback from participants has been overwhelmingly positive. SLE is proving to be a key tool for creating and maintaining a high-performance culture at Siemens.

Worldwide vocational training programs

We've been intensely involved in providing vocational training for many years. About 9,600 young people are currently enrolled in our vocational training and work-study programs, including 7,100 from Siemens and 2,500 from other companies. We offer a comprehensive range of training programs, preparing participants for new types of jobs in business administration, information technology, metalworking and electrical engineering. In addition, we sponsor special programs for high school graduates and work-study programs for university students.

Siemens is exporting its dual work-study system, which combines theory and practice, to many of its Regional Companies around the world. Outside Germany, about 4,200 young people are currently enrolled in Siemens apprenticeship programs, which have been adapted to country-specific requirements. These programs enable us to maintain an outstanding workforce, which in turn contributes to the high quality of our products and services.

Employees worldwide



Employees worldwide

In fiscal 2006, we had 474,900 employees around the world – 14,100 more than the year before.

Corporate Responsibility

Good corporate citizenship is the basis of our reputation and our long-term success. Our social responsibilities are the focus of a lively, ongoing dialogue with all our stakeholders. Industry organizations and analysts give us top marks in sustainability management.

What's Siemens' position on the UN Global Compact?

Siemens has been a member of the UN Global Compact, launched by Secretary General Kofi Annan, since 2003. The Compact's principles have long been integral parts of our company culture. We've committed ourselves to helping achieve the Compact's development goals both now and in the future.

Based on innovative, future-oriented products, efficient processes and responsible company management, our sustainability strategy is making a major contribution to increasing our Company's long-term value. At Siemens, sustainable company management means increasing the value of the Siemens share by ensuring lasting profitability and continuously boosting growth and performance. Corporate responsibility – which encompasses corporate governance, business practices, sustainability and corporate citizenship – is one of the four main pillars of our Fit4More program, which addresses the global capital market's growing interest in sustainable investment.

Our inclusion on the Dow Jones Sustainability Index (DJSI) is a testimony to our achievements. We've been listed on the index every year since its launch in 1999 – and, as a rule, near the top.

Corporate governance

Corporate governance – clearly structured and rigorously implemented – has a long tradition at Siemens. For us, good corporate governance includes not only the responsible and value-creating management and monitoring of Company activities but also the effective cooperation of our Managing and Supervisory Boards, close attention to the interests of our shareholders, transparency and responsibility. For a detailed description of corporate governance at Siemens, see pages 80 ff. of this Report.

Business practices

"Integrity guides our conduct toward our employees, business partners and shareholders." This statement – one of our Corporate Principles – sums up our commitment to comply with the highest ethical and legal standards in all our entrepreneurial activities. Unambiguous instructions from Company management to all employees to obey the law and a clear warning that unlawful actions will not be tolerated are the basis of compliance at Siemens. These instructions are formulated in our Business Conduct Guidelines. As the centerpiece of the Siemens Compliance Program, the Guidelines are binding rules for all employees worldwide. They comprise not just a general admonition to employees to obey the law but also specific rules regarding, among other things, compliance with competition and anti-corruption laws, the handling of donations, the prohibition of insider trading and the protection of Company assets. The Compliance Program also includes a Code of Ethics for Financial Matters, Business Consultant Guidelines, and a large number of other Company-wide regulations.

Our Compliance Program is being continuously developed and improved to meet new legal requirements and eliminate any shortcomings that investigations may reveal. For example, at the end of September 2006, we launched a new training program: a comprehensive, interactive online compliance course that, in a first step, must be completed by all senior Siemens executives in Germany. In response to recent events, we immediately introduced further measures. To supplement existing internal reporting and complaints procedures, we established a new communications channel via an external ombudsman. Employees and third parties can contact this neutral individual anonymously and on a confidential basis to report any irregular business practices that come to their attention within the Company. We also set up a special taskforce headed by the Chief Compliance Officer to propose additional measures to put an end to any lapses on the part of individuals.

Implementation of the Siemens Compliance Program is handled by a worldwide compliance organization comprising a Chief Compliance Officer, who reports directly to the Corporate Executive Committee and the Audit Committee of the Supervisory Board, and Compliance Officers in the Groups and Regions, who report to the Chief Compliance Officer and

Why is Siemens providing experiment kits to preschools?

We want to awaken children's interest in the natural sciences and the interconnections of our world as soon as possible. Never again are children as hungry for knowledge and as eager to experiment as they are at the preschool age. Our experiment kits harness this eagerness to discover and explore by giving youngsters a playful introduction to science and technology.

Further information on corporate responsibility at Siemens is available at:

Corporate responsibility
www.siemens.com/responsibility
UN Global Compact
www.siemens.com/globalcompact
Corporate governance
www.siemens.com/governance
Business practices
www.siemens.com/businesspractices
Sustainability
www.siemens.com/sustainability
Corporate citizenship
www.siemens.com/citizenship

Eco-excellence – Exemplary solutions

- **Buildings:** A smart combination of building technologies and facility management can yield average energy savings – particularly in climate control systems – of 20 percent per customer project.
- **Logistics:** Hybrid drives technology reduces fuel consumption in RTG container cranes from 18 – 25 liters to 8 – 10 liters per hour of operation.
- **Medical technology:** The SOMATOM Definition computed tomography scanner cuts energy consumption by up to 30 percent per examination and radiation dosages by up to 50 percent per heart scan. It also contains 80 percent less lead and delivers better image quality than comparable devices.
- **Mass transit:** Our power storage system reduces primary energy consumption in direct-current rail systems by up to 20 percent.
- **Power generation:** New gas turbine and power plant technologies cut fuel consumption and emissions and increase efficiency. For example, a power plant incorporating these technologies and slated for construction in Irsching, Germany will emit nine percent less CO_2 than comparable facilities.

are responsible for implementing the Program in their respective areas. The Chief Compliance Officer is also supported by a Compliance Office staffed by legal specialists.

To administer the Siemens Compliance Program, we've established, among other things, monitoring procedures for individual businesses, systematic and ad hoc audits, an accounting complaints procedure and mandatory internal reporting processes.

Sustainability – Challenges and opportunities

Climate change is one of the greatest challenges facing mankind, requiring the full attention of governments, society and industry. The rapid warming of our planet will adversely affect living conditions and economic development in many countries. And its impact will be exacerbated by increasing urbanization worldwide.

But the measures needed to reduce climate change also harbor new opportunities – particularly for a technology powerhouse like Siemens, whose energy-saving systems help cut climate-relevant emissions, improve energy efficiency and conserve natural resources. We've been quick to recognize these opportunities. With our eco-excellence products, in particular, we've also begun to leverage the growth potential they hold for infrastructure providers. Our repeated listing on the Climate Leadership Index of the Carbon Disclosure Project (CDP) is further testimony to the success of our strategy.

Resource efficiency and environmental management

Our Fit4More Best-in-Class in Sustainability program – based on the worldwide Siemens Environmental Information System – is increasing our resource efficiency and enhancing the performance of our environmental management system. We've also launched an energy-efficiency program at our 100 largest production facilities. Our goal is to cut primary energy consumption 20 percent by 2010.

Supply chain

Sustainability applies to every link in the value chain. From our suppliers, we expect transparency, efficiency and compliance with key international standards – and our customers expect exactly the same from us. By registering on our click2procure buy-side marketplace, some 5,000 suppliers have agreed to comply with our standards. We continually review these requirements and adjust them when necessary.

How did Siemens help the victims of the tsunami of 2004?

To cite one example of our involvement, we cooperated with a number of partner organizations on the construction of a community center, a medical clinic and housing in Thenampattinam. This tiny village is located in one of the regions hardest hit by the tsunami: India's southwest state of Tamil Nadu, where over 10,000 people were killed and 160,000 dwellings were destroyed. Today, a year and a half after the disaster, life in Thenampattinam has largely returned to normal.

Corporate citizenship

We take a proactive and long-term approach to corporate citizenship. Siemens Generation21, for instance, is making a major contribution to sustainable development worldwide by bundling our educational projects and initiatives to enhance the opportunities of young people all around the globe. The program focuses primarily on the natural sciences and technology – two main drivers of progress – and on fostering top talents in those areas. Siemens Caring Hands, our second global citizenship program, is contributing to the long-term improvement of living conditions in all the countries where we do business. Employee volunteering is also an important focus of Siemens Caring Hands.

Our corporate citizenship programs are contributing to our long-term success by strengthening our reputation as a good neighbor worldwide.

Siemens Generation21

Preschools: To give tomorrow's researchers a head start in understanding the phenomena of our world, we're providing children with a chance to learn about science and technology at a very early age. The experiment kits that we've begun distributing to many preschools around the world enable mini-scientists to experiment with electricity, sound, air and water in ways that are fun and geared to their capabilities.

Schools: We're giving young people new insights into the fascinating worlds of the natural sciences, technology and economics and encouraging them to pursue careers in these fields. Our school contests, prizes, awards and scholarships motivate talented students to be true high achievers. We support teachers by developing and distributing innovative, award-winning educational materials. A wide range of Siemens school partnerships provide the basis for long-term cooperation with teachers and students.

Universities: We've also made a major commitment to excellence in higher education. Through partnerships, joint projects, awards, scholarships and mentoring programs, we foster gifted university students in the natural sciences and engineering so that they can realize their full potential at an early age. Our university projects also bring us into contact with the managers, decision-makers and movers and shakers of tomorrow.

Siemens Caring Hands

Social giving: We provide financial assistance to charitable organizations and projects worldwide. Since 2003, we've supported an array of UNICEF programs. Working with the organization, we've enabled 35,000 girls in Afghanistan to resume their education. Some 1,800 Siemens employees are now project sponsors. Since July 2006, we've also been supporting UNICEF's Schools for Africa campaign.

Disaster relief: We contribute technical equipment and – together with our employees – donations to assist reconstruction in regions devastated by natural disasters. Following the Indonesian earthquake of May 2006, for example, we helped restore local infrastructures and provided victims with food, clothing and medical assistance.

Volunteering: All around the world, Siemens employees are strengthening their local communities through a wide range of voluntary activities. Support for employee volunteering is a vital part of our corporate citizenship strategy. Successful community projects heighten participants' awareness of social problems, foster team spirit and underscore our commitment to society.

Research and development

As the key driver of customer value, productivity and growth, our power of innovation is a clear reflection of our competitive strength.

Investments in research and development

Investments in research and development (R&D) are the prerequisite for successful innovation and sustainable business success. In fiscal 2006, we were once again a world leader in R&D outlays in the electronics and electrical engineering industry, increasing our spending on the development of new products, systems and solutions from €5.2 billion to €5.7 billion, including R&D investments related to specific customer requirements.*

Nearly 50,000 Siemens employees in 40 countries – more than 10 percent of our worldwide workforce – are employed in research and development. Over half of our 150 R&D locations are outside Germany, mainly in other European countries, North America and, increasingly, Asia-Pacific – and the trend toward internationalization is continuing. Now spanning the globe, our R&D activities are focused on regions marked by robust market growth and dynamic innovation. Our international setup enables us to rapidly develop new solutions for local customer requirements and provides us with access to a large global talent pool. Extensive contacts with leading universities around the world and roughly 1,000 cooperative projects a year with universities and research institutes worldwide are also helping us attract highly qualified scientists and engineers.

Increasing globalization and the challenges of demographic change and urbanization are placing ever-greater demands on R&D. By maintaining a leading technological position, leveraging our global presence and implementing a rigorous patent policy to safeguard our intellectual

* Including R&D investments related to specific customer requirements. These investments have been reclassified into cost of sales. For further information, see Note 2 of Consolidated Financial Statements.

Can Siemens technologies help control rising health-care costs?

The REMIND system developed by Dr. Bharat Rao of Siemens Medical Solutions is already making an important contribution. By integrating disparate healthcare information sources and recommending appropriate treatment, the system enables healthcare professionals to tailor care to patient needs and optimize patient outcomes.

property, we're helping shape the technologies of tomorrow and expanding our position as a leading innovator.

Numerous prizes and awards testify to the success of our R&D activities. For our innovative piezo fuel injection technology, which makes diesel and gasoline engines cleaner and more efficient, we received the 2005 German Future Prize from the President of Germany. In the medical field, Siemens engineers have been honored with the prestigious German Business Innovation Prize for developing the revolutionary total imaging matrix (TIM) technology used in magnetic resonance systems.
www.siemens.com/innovation

Intellectual property worldwide

A large number of outstanding inventions and patent applications reflect our innovative prowess and patent strength worldwide.

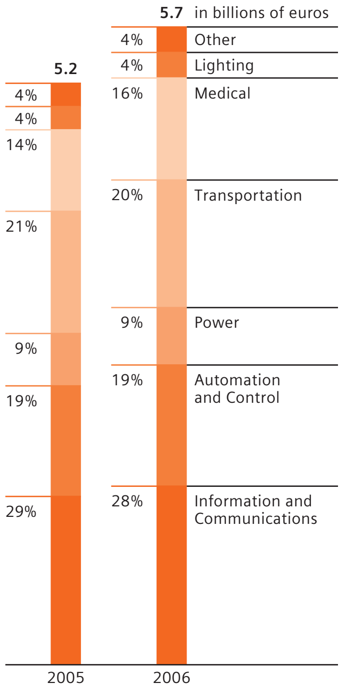
In fiscal 2006, our researchers submitted over 10,000 invention reports, roughly 17 percent more than in fiscal 2005. We filed patent applications for about two-thirds of these innovations.

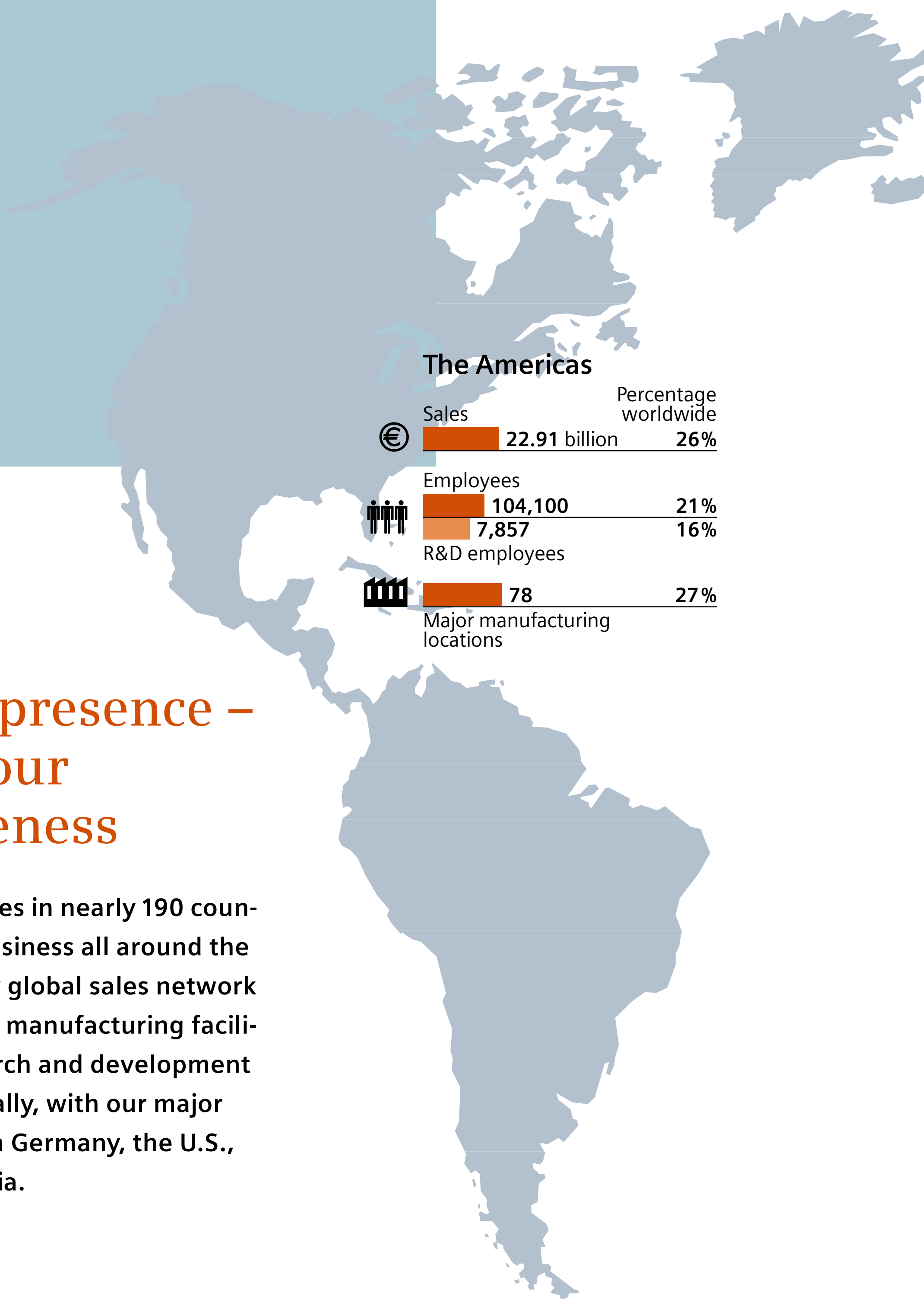
In Europe and the Americas, we generated a double-digit percentage increase in patent applications compared to fiscal 2005. In Asia, the expansion of our patent portfolio was driven by strong sales growth and the increasing significance of intellectual property – particularly in China.

In fiscal 2006, we filed over 36 percent more patent applications in China than the year before. Our leadership in the international patent statistics is further testimony to our power of innovation. In first-time patent applications, we're No. 1 in Germany, No. 2 in Europe and among the top ten in the United States. Our patent portfolio comprises more than 62,000 patents worldwide.

Our strong competitive position will continue to depend not only on the creativity of our people but also on the strategic management of our patent portfolio. A Company-wide, globally oriented patent initiative is driving our concerted efforts to systematically protect our innovations and leverage them in the face of stiff global competition. Patents provide our customers with unrestricted access to all key markets and support the entire innovation process.
www.siemens.com/intellectual_property

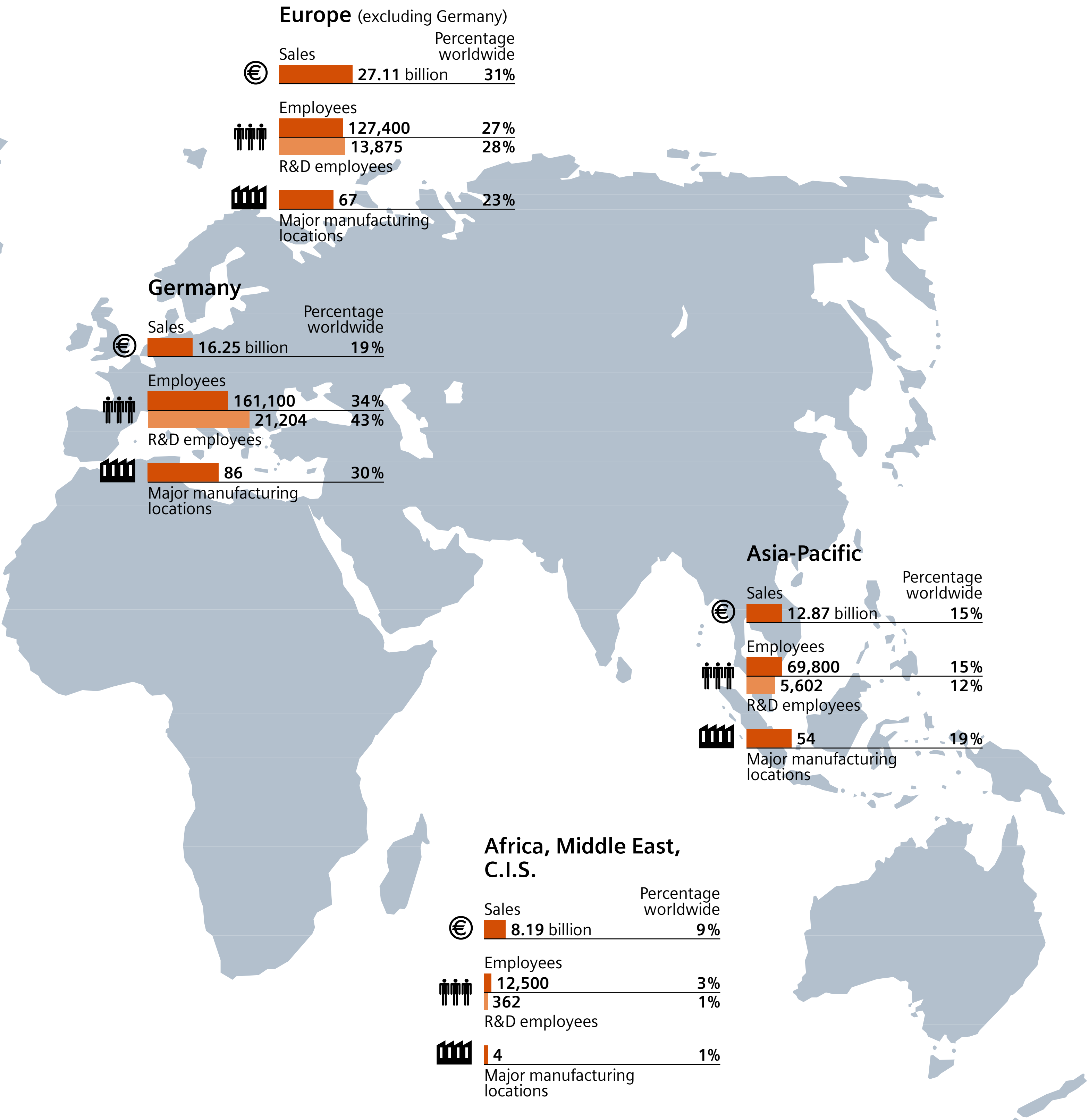
Research and development*





Worldwide presence – The key to our competitiveness

With 474,900 employees in nearly 190 countries, Siemens does business all around the world. We have a truly global sales network and operate some 290 manufacturing facilities worldwide. Research and development is also organized globally, with our major R&D centers located in Germany, the U.S., Austria, China and India.

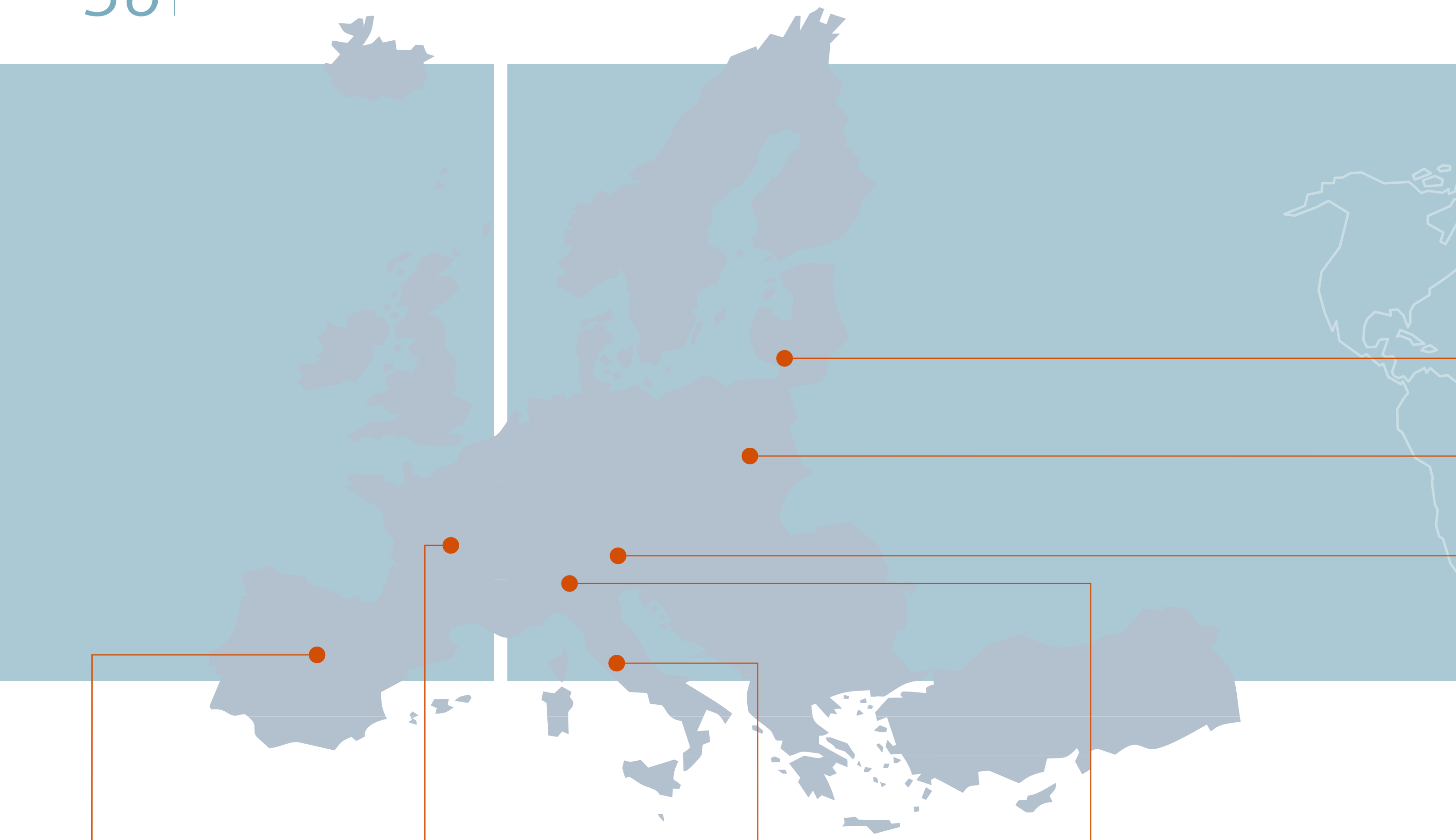


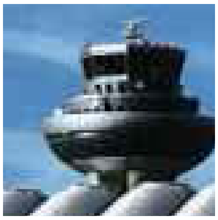
Sales (in billions of euros)

Employees

Major manufacturing locations

As of September 30, 2006





Spain

When the new T4 terminal at Madrid's Barajas International Airport opened in February 2006, a high-speed baggage sorting system – currently the largest in Europe – went into operation. Delivered by Siemens, the system handles roughly 16,500 pieces of luggage per hour. We also provided the electronic building security system, the main control center, building and runway lighting, and an automatic check-in system.

France

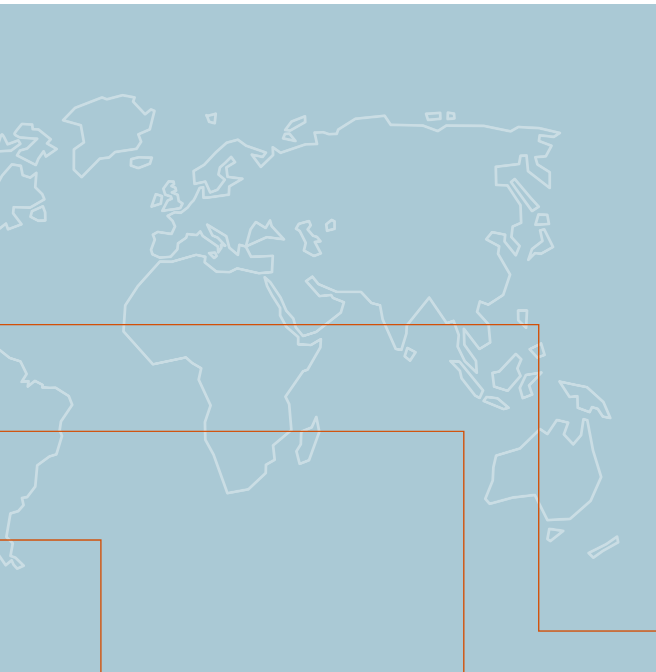
Together with Lohr Industries, our French partner, we're developing an automatic driverless transportation system that – unlike existing driverless metros – will run on tires rather than rails. A simpler infrastructure and the onboard storage of electrical energy are two of the project's key innovations. The solution, named Neoval, is slated to go into commercial operation by 2010. Lohr will build the vehicles in France, while we're responsible for the automatic control system and the market launch.

Italy

In Pisa, Siemens VDO Automotive has developed next-generation fuel injection systems that reduce fuel consumption by 20 percent. Following the successful completion of the test phase, series production of the new piezo injectors began in fiscal 2006. The project is reinforcing the Pisa plant's role as a center of excellence and a key production facility for Europe and Asia.

Switzerland

As part of a project to reengineer its mail processing system, the Swiss Postal Service has launched an ambitious reorganization of the logistics and sorting processes employed in its letter delivery division. We're providing letter sorting systems and innovative, automated warehouse technology as well as a flexible, highly efficient IT system for infrastructure control. The total value of the order to date is approximately €195 million.

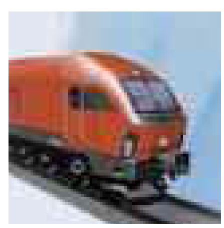


Europe (excluding Germany)

We maintained our strong position across the continent by landing orders for major projects in Western Europe and continuing our successful expansion in the growth markets of Eastern Europe. Our extensive portfolio enables us to offer solutions tailored to the diverse needs of our customers throughout the region.

Austria
All 8.2 million Austrian residents now have electronic healthcare cards, making the Alpine republic a global leader in the field of e-health services. Developed by Siemens, the e-card system networks healthcare applications throughout Austria. In addition to acting as general contractor for this €48-million project, we engineered the system's software solution and built – and now run – its IT operations center.

Poland
Mittal Steel Poland has awarded Siemens an order totaling some €270 million for the turnkey construction and commissioning of a high-capacity hot-strip rolling mill. The new mill, located in Cracow, will produce steel with strip widths of up to 2,100 mm. With a production capacity of 2.4 million tons per year, this facility will be one of the largest hot-strip mills in Europe. Siemens VAI – a part of Siemens' Industrial Solutions & Services Group – is responsible for project implementation.

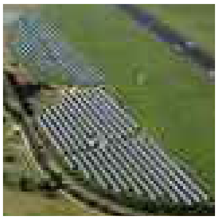


Lithuania
Lithuanian Railways has ordered 34 diesel-electric Eurorunner ER20 CF locomotives from Siemens. The total value of the order, which includes an option to purchase ten additional units, is €123 million. Like all Eurorunner models, the ER20 CF is extremely eco-friendly due to its low fuel consumption and emission levels.

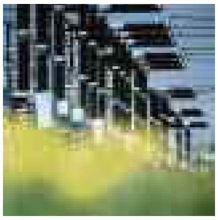
Germany

Siemens' roots are in Germany, where all of our Groups – with the exception of Siemens Building Technologies – are headquartered. The country is also one of our top R&D locations. In fiscal 2006, we again focused on implementing future-oriented, eco-friendly technologies.

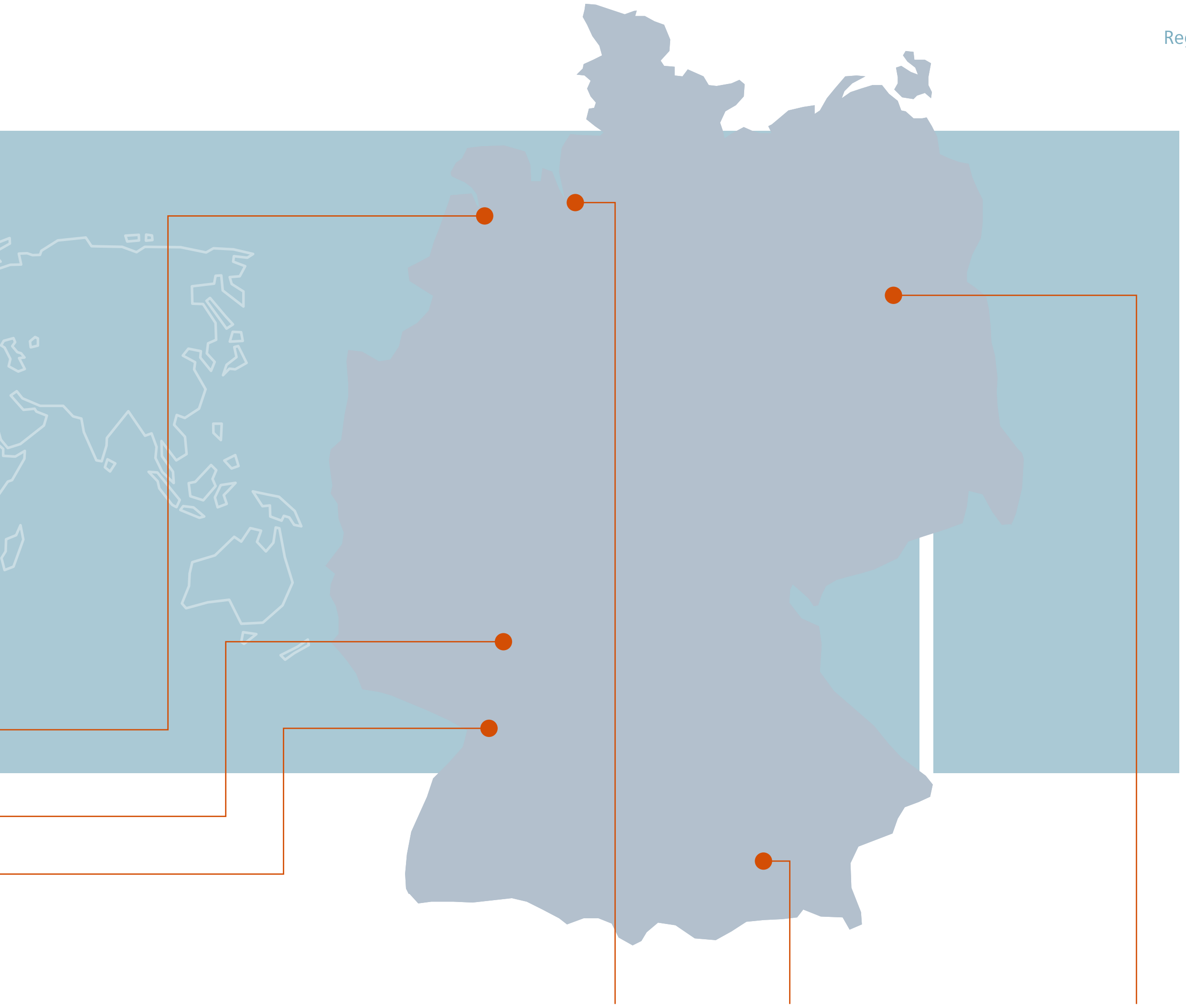
Papenburg
Siemens is equipping four ultra-modern cruise liners for AIDA Cruises. Part of the Carnival group, AIDA was Germany's leading cruise operator in 2005, with 233,000 passengers. Meyer Werft, one of the world's most advanced shipyards, has commissioned Siemens' Industrial Solutions and Services Group to equip the four vessels with diesel-electric propulsion systems, power generation systems and automation control and monitoring systems for all on-board functions. The total order volume is roughly €50 million.



Bad Kreuznach
City Solar is one of Germany's leading producers of large-scale photovoltaic power plants. Under a contract valued at several million euros, we're supplying this specialized company with switchgear, converter transformers and inverters while also handling the related engineering and electrical installations.



Karlsruhe
Energie Baden-Württemberg, a southwest German utility, has awarded us a contract to convert part of its high-voltage power grid from 220 kV to 380 kV. The challenge is to carry out the conversion step-by-step without interrupting the power supply. This expansion of its existing 380-kV grid will help the utility meet Germany's growing demand for energy and the increasing need to transmit large blocks of power. The project, worth some €170 million, is scheduled for completion in 2015.

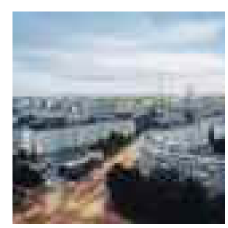


Hamburg

Starting in 2007, commuters in Hamburg – as well as in six other major cities and a number of smaller towns throughout Germany – will be able to purchase bus and rail tickets by making a call or sending a message from their mobile phones. The user-friendly software required can be installed directly on handsets. Implemented by Siemens, the project was initiated by the Verband Deutscher Verkehrsunternehmen (Association of German Transport Companies). The technology involved has potential application at some 400 public transit companies throughout Germany.

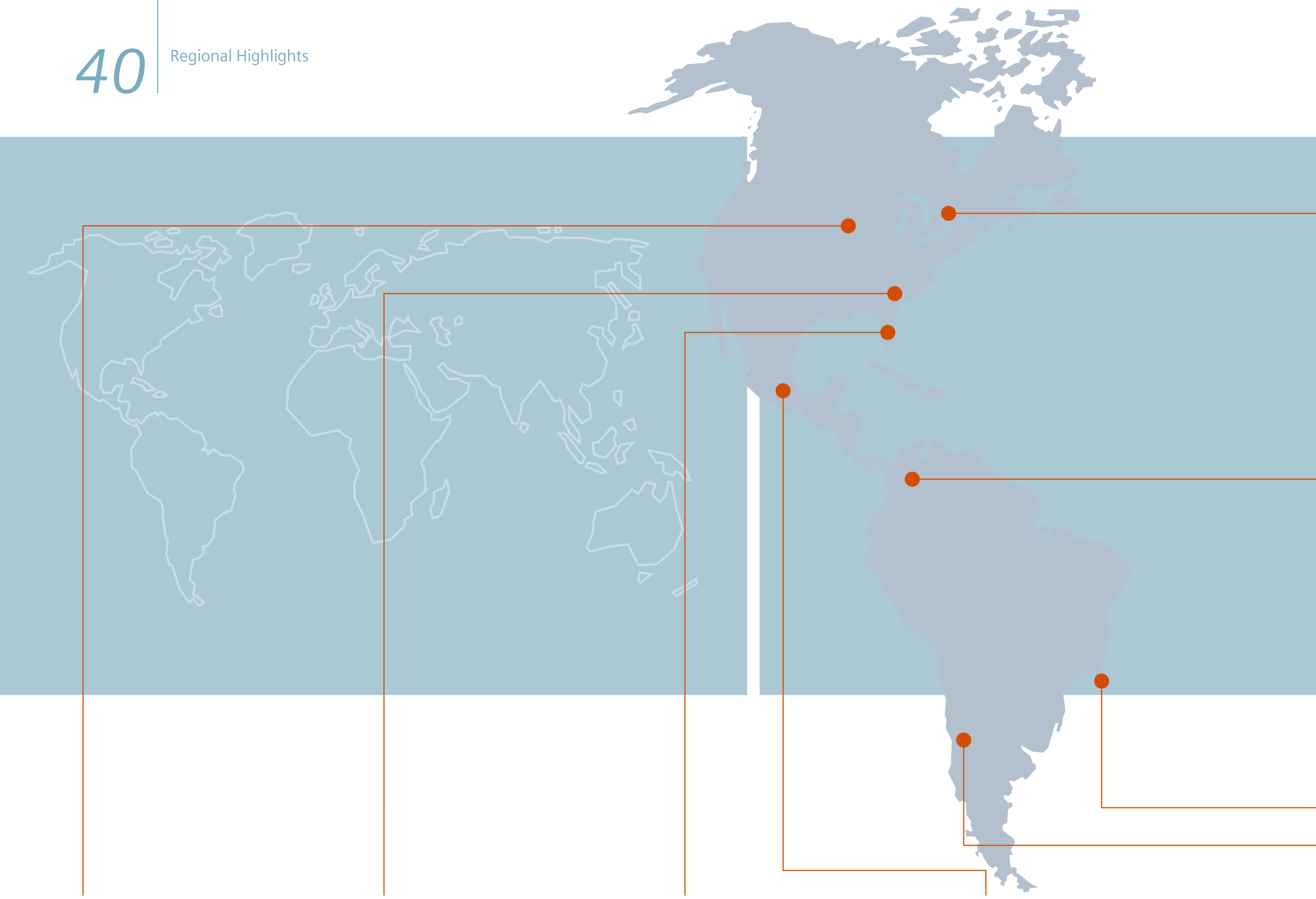
Munich

Geothermie Unterhaching and Siemens have signed a contract to construct Germany's most advanced and most powerful geothermal power plant in Unterhaching, near Munich. The plant, which employs Kalina technology, will supply several thousand households with power and heat beginning in mid-2007. We'll construct and service the complete above-ground power generation system. Geothermal energy has a major advantage: it provides a continuous, virtually inexhaustible supply of power and heat, with no fuel costs and no CO_2 emissions.



Berlin

As part of a long-term energy-saving partnership with the government of Berlin, Siemens Building Technologies (SBT) is responsible for optimal energy efficiency, heat generation and distribution, modernization, automation, energy management and the monitoring of energy use in over 200 buildings. Energy costs are being slashed by €4.5 million annually, with guaranteed budget savings of €1.1 million. At the same time, CO_2 emissions have been cut some 25 percent. At the end of May 2006, SBT was honored in Berlin with the award for Best European Energy Service Provider.



Fort Madison, Iowa

Wind energy is playing a growing role in power generation in the U.S., where the goal is to cover six percent of the nation's electricity needs with wind-generated power by 2020. To satisfy increasing demand, we're building a production facility for wind turbine blades in Iowa. Since 2004, we've received orders from the U.S. for equipment capable of generating 1,300 MW of electricity – enough to meet the energy needs of more than 400,000 households.

Florence, South Carolina

We're helping optimize patient care at the McLeod Regional Medical Center in South Carolina. After providing bar code technology for the pharmacy department, we've now introduced other innovative solutions such as the electronic patient file, in which lab results, patient care documentation and other data can be stored. The use of this efficiency-enhancing technology has reduced the average time from hospital admission to the first administration of medication from 93 minutes to eight and enabled the facility to cut costs by approximately $6.4 million within three years.

Fort Lauderdale, Florida

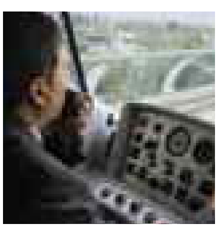
We've entered into a ten-year strategic alliance with Nova Southeastern University (NSU), one of the largest private universities in the United States. As part of a $100-million order, we'll supply the university with integrated communications solutions and medical, security, transportation and power technologies. NSU will also serve as an international showcase where Siemens customers can experience our technology solutions in action.

Mexico

With around 24 million passengers a year, Mexico City International is one of the top 50 airports in the world and Central America's major air hub. We've won a contract to provide all the technical equipment for the airport's new Terminal 2. The order includes a baggage handling system, electrical supply and distribution systems, an automated people mover, transport information solutions and all security systems.

The Americas

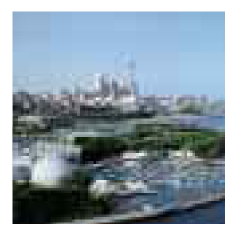
Siemens can look back on a long and successful history in North and South America. In fiscal 2006, we generated more than a quarter of our total sales on these two continents. The U.S. comprised our largest single market worldwide. In Latin America, we continued to achieve above-average profitable growth due to a stronger local presence and major infrastructure projects.



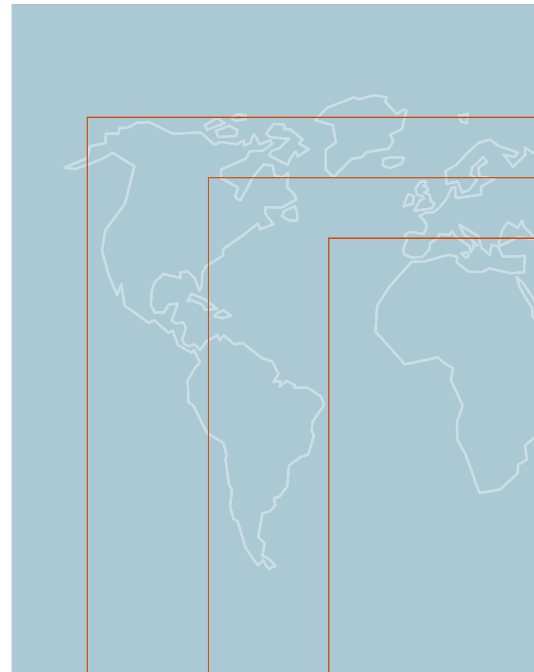
Chile
Santiago de Chile's metro is the backbone of its public transportation system. We've strengthened our position as the premier supplier to rapid transit operator Metro de Santiago S.A. by winning lucrative orders to provide the complete power supply, communications and radio systems required for the extension of selected metro lines. The order package includes a two-year maintenance contract for these extensions as well as a multi-service network for other system lines.

Brazil
In April 2006, the Brazilian oil company Petrobras launched its new P-50 offshore platform, which will help the country achieve oil self-sufficiency. In addition to furnishing all power supply, telecommunications and automation systems, we designed, manufactured, tested and commissioned the platform's entire electrical systems package.

Colombia
We've played a key role in Colombia's development ever since the late 19th century and currently boast an average market share of 20 percent across all the sectors in which we're active. We recently won a contract for the turnkey installation of five substations along a 1,000-km power transmission line. This new 500-kV line will reduce power losses and link the hydroelectric plants in the south of Colombia with the thermoelectric plants in the country's northern regions.



Canada
As preferred supplier, Siemens Canada is providing equipment, project implementation and services to support Toronto Hydro Telecom's plans to make Toronto the largest ubiquitous wireless fidelity (Wi-Fi) zone in Canada. The agreement includes the use of a mesh Wi-Fi network that provides coverage for an area of up to ten square kilometers. The network is slated to be fully deployed in downtown Toronto by the end of 2006. This solution will set the standard for Wi-Fi use in all major North American cities.



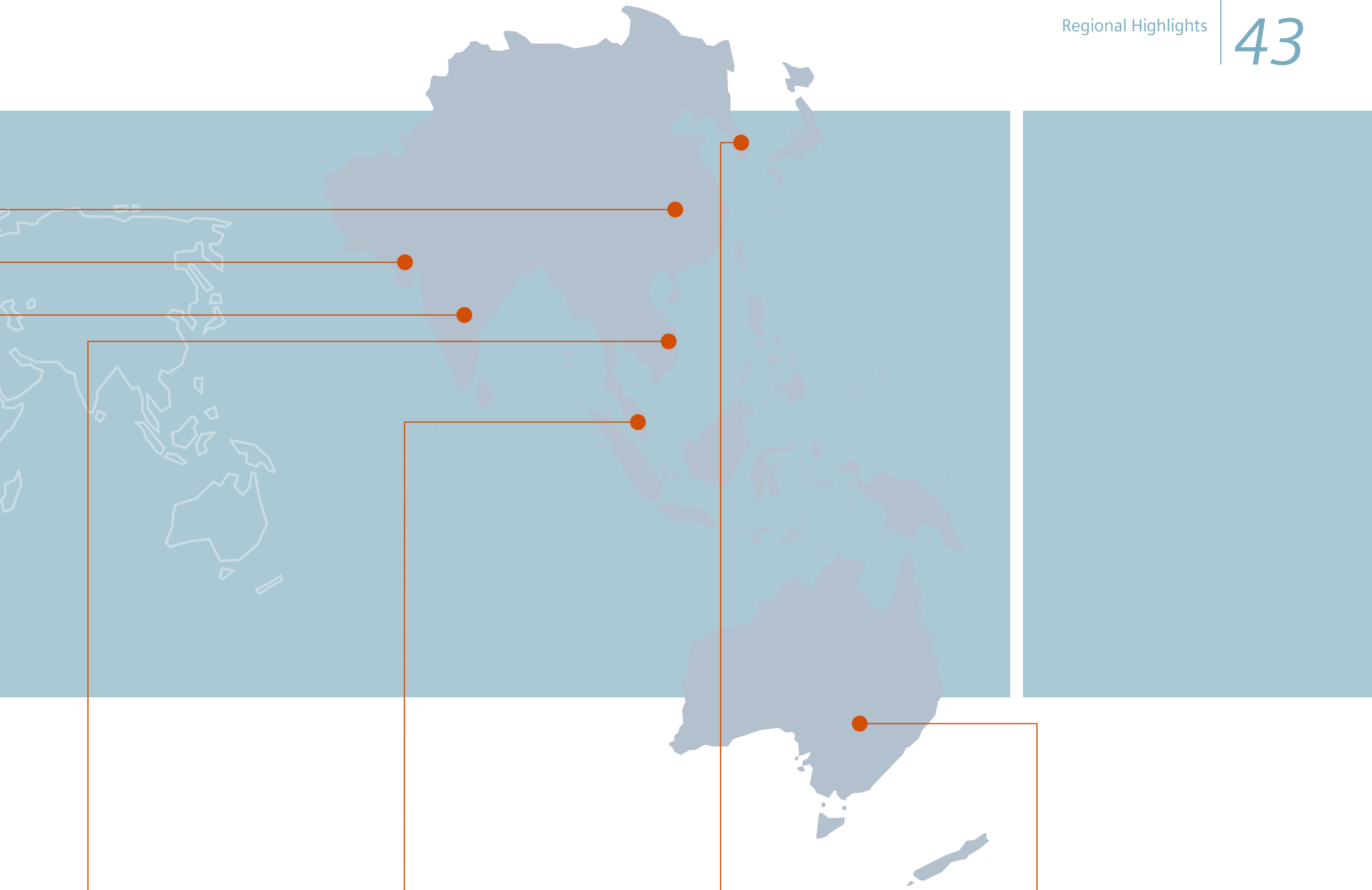
Asia-Pacific

We achieved steady growth in Asia-Pacific. China is now our third-largest market, after Germany and the United States. Our technology is substantially improving infrastructures and the quality of urban life for people in countries throughout the region.

China
China's Ministry of Railways ordered 60 high-speed trains from Siemens in November 2005. The trains, which reach peak speeds of 300 km/hr, will be built primarily in China. They'll start running on the Beijing-Tianjin line in 2008, with deployment on other lines to follow. The order has a total value of €669 million.

Pakistan
In the harbor city of Karachi, we're building a combined cycle power generation and seawater desalination plant. The new facility, the first of its kind in the country, will have an installed capacity of 85 MW and produce 14 million liters of drinking water daily. The €61-million project is scheduled for completion in June 2007.

India
Our Industrial Solutions and Services Group was awarded a €68-million contract to supply a five-meter-wide plate rolling mill for the new steel plant under construction by Jindal Steel & Power Limited (JSPL) in Angul, Orissa. The plant, which is part of JSPL's broader investment strategy in connection with India's current steel manufacturing boom, will enable the company to enter the plate steel market for the first time.



Vietnam

We won a €175-million contract to build the 750-MW Ca Mau II combined cycle power plant in the country's southernmost province. The order includes two state-of-the-art gas turbines, one steam turbine, three generators, all of the plant's electrical installations and all of its instrumentation and control systems. Coming on the heels of a contract in 2005 to build the 750-MW Ca Mau I power plant, this order has made us the leading supplier of gas turbines in Vietnam.

Malaysia

We received a €20-million order to supply and install a high-speed baggage handling system at Kuala Lumpur International Airport. KLIA is the fifth airport in Asia – after Hong Kong, Seoul, Beijing and Bangkok, where a new airport was opened in September 2006 – to select a baggage handling system from Siemens. The new system will quickly and efficiently process the baggage of passengers whose final destination is Kuala Lumpur.

South Korea

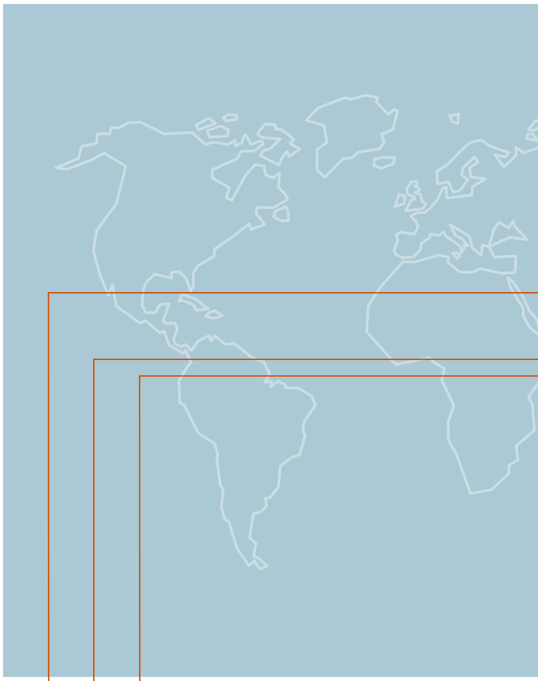
In October 2005, Korean utility LG Energy awarded us a contract for the turnkey construction of its new 550-MW Bugok II combined cycle power plant. The project is scheduled for completion in March 2008. As part of the order, which is worth €140 million, we're supplying generators and two gas turbines. It was our success in Phase 1 of the Bugok project that made us the preferred supplier for Bugok II.

Australia

In April 2006, we won a major order to provide Queensland Rail (QR) with 20 Class 3800 electric freight locomotives. Including spare parts, the order is worth €97 million. We'd previously signed a contract with QR to upgrade 60 electric locomotives used in coal transport. The upgrade will increase the locomotives' power rating and tractive effort by 67 percent and extend their service life by 20 years. The first upgraded locomotive will go into service in March 2007.

Africa, Middle East and C.I.S.

Innovative technologies and improved infrastructures are the keys to growth and progress for our customers throughout Africa, the Middle East and the C.I.S. Leveraging our knowledge network, we offer solutions and services geared to the needs of the highly diverse countries of these regions, where we've been a reliable partner for many years.



Algeria

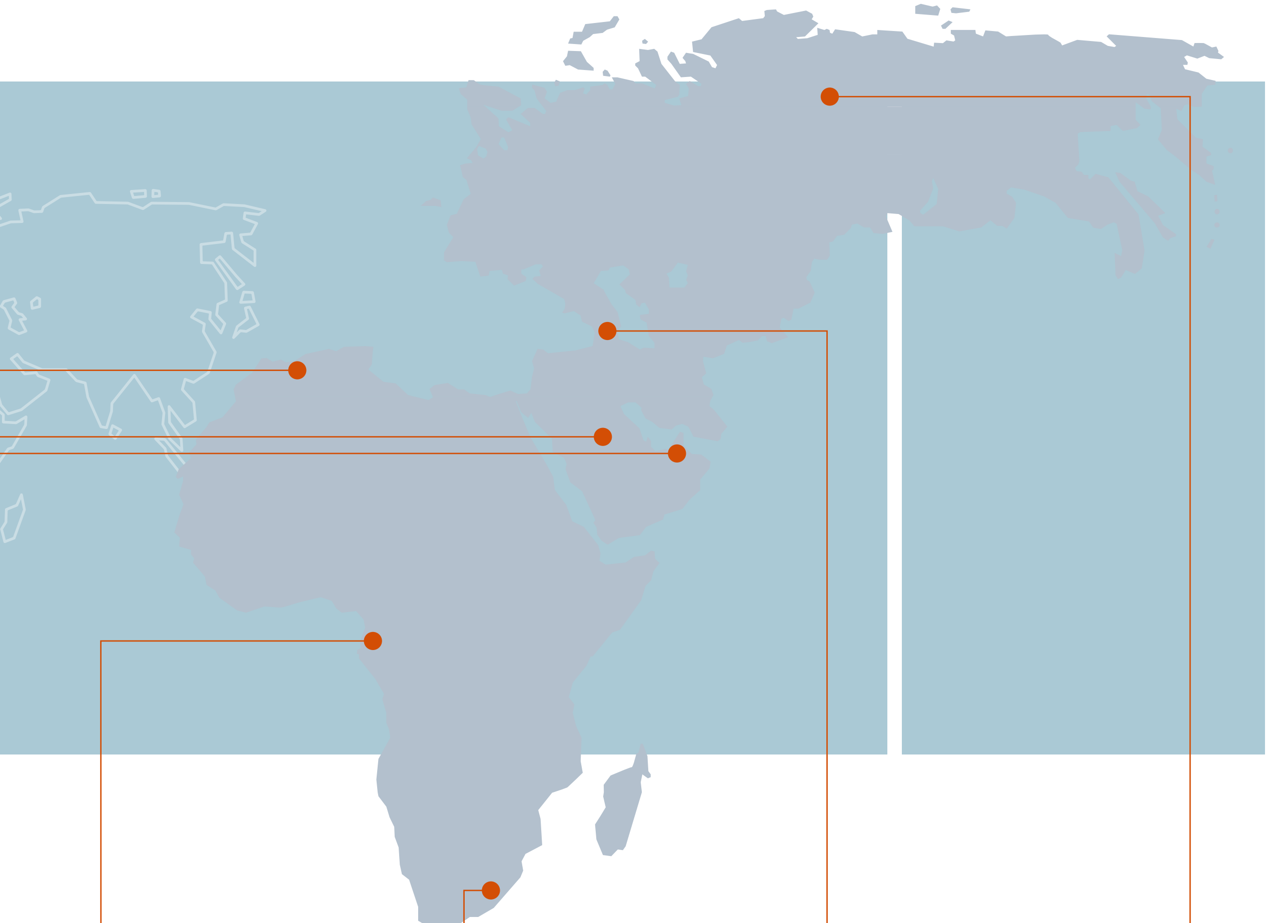
Algiers' first metro line is being constructed under the direction of Siemens France. The operator, Entreprise Métro d'Alger, awarded the contract for the first section of Line 1 to a Siemens-led consortium which includes Construcciones y Auxiliar de Ferrocarriles S.A. and Vinci Construction. The order has a total value of €380 million. In addition to the control, signaling, telecommunications and power supply systems, we'll provide ticketing solutions, track systems and control center equipment.

Saudi Arabia

We're partnering with Doosan Heavy Industries & Construction Co. Ltd. of Riyadh to build a turnkey power generation and seawater desalination facility for Shuaibah Water and Electricity Company. Our share of the total order volume of €1.5 billion is €836 million. We're supplying three 400-MW steam turbine generator units, all electrical installations, all instrumentation and control systems and a state-of-the-art flue gas treatment system. When commissioned in 2009, the plant, located south of Jeddah, will have a capacity of some 900 MW and provide about 880 million liters of drinking water per day.

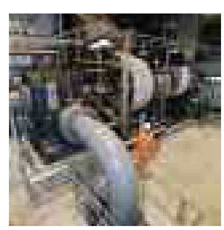
Dubai

When its current expansion is completed in 2008, Dubai International Airport will be the largest airport in the Gulf region and one of the biggest in the world. As part of the project, we've landed a €396-million contract to build a cargo center with an automated baggage handling system equipped to process 1.2 million tons of baggage per year. We're also supplying all low-voltage distribution boards – including the sub-distribution boards – and installing all building, security and IT systems.



Gabon
For a rural electrification project in Gabon, we're installing solar energy systems in 100 remote villages to power water treatment equipment and street lamps. We've engineered the solar equipment specifically for Africa: a special paint withstands the effects of the aggressive tropical climate, and the batteries are extremely durable. The project has attracted the interest of neighboring countries like Cameroon, where large areas are still not connected to power grids.

South Africa
At Africa's most modern hospital, Inkosi Albert Luthuli Central Hospital in Durban, the technical equipment – from telephones to the IT system and MR scanners – was supplied in large part by Siemens. The most remarkable feature of this 850-bed facility is that all laboratory reports, X-rays and other patient data are processed and stored electronically in a single patient file. The heart of this electronic network is our *syngo* platform, which enables seamless data and image transfer between all diagnostic and therapeutic applications.



Azerbaijan
SOCAR, the Azerbaijani state oil company, has awarded us a contract to supply turbomachinery equipment for the country's oil and gas industry. The order includes two compressor trains, each comprising one SGT-400 gas turbine driver and a two-body compressor. The equipment will be installed on a platform in the Gunashli oil field, located in the Azerbaijani waters of the Caspian Sea. The units will form part of a new gas compression module designed to extend the oil field's production life.

Russia
Siemens has received a supply and maintenance order worth €630 million from Russian Railways. Under the contract, Siemens will deliver eight high-speed Velaro RUS trains and service them for the next 30 years. These trains, which reach peak speeds of 250 km/hr, comprise ten cars and can accommodate more than 600 passengers. The design and project engineering work is being carried out at Siemens locations in Germany, where the trains will also be manufactured.

Udo Niehage, Dr.-Ing.
PTD

Helmut Gierse
A&D

Herbert Lohneiß, Dr. rer. nat.
SFS

Klaus Voges
PG

Heinrich Hiesinger, Dr.-Ing.
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Group Presidents

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Eduardo Montes
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Hans M. Schabert
TS

Christoph Kollatz, Dr. rer. pol.
SBS

Wolfgang Dehen
SV

Joergen Ole Haslestad
I&S

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

We're making our customers fit for the future.

Today, urbanization and demographic change are already shaping our lives and the world we live in. In the future, these megatrends are destined to create major challenges: shortages of natural resources, increasing environmental burdens, a regional shift in the center of economic gravity and a growing demand for everything from health-care and eldercare to mobility and security.

Siemens is better positioned than any other company to equip its customers – and their customers – to meet and master these challenges.

Conserving natural resources

As global consumption increases, reserves of oil, water and iron are steadily diminishing. Our technologies are making the extraction and use of these key natural resources more efficient.

A&D
I&S, PG
PTD
OSRAM

Protecting the environment

Eco-friendly technologies are needed to combat climate change and the increasing pollution of our soil, air and water. We comply with the strictest environmental regulations and develop products and solutions that protect the environment and help reduce harmful emissions.

A&D
I&S, SBT
PG, PTD
OSRAM

Providing high-quality, affordable healthcare

As the world's population grows and ages, the demand for efficient healthcare is increasing. Our solutions optimize the processes essential for premium, cost-effective diagnosis, treatment and follow-up care.

Med
SBT
SFS
Com
SBS

Optimizing mobility

In today's globalized world, mobility is vital for economic growth and prosperity. Our offerings are making transportation faster and safer and enabling companies to transport goods more efficiently.

I&S
SBT, SV
TS, SFS
OSRAM
Com, SBS

Meeting increasing security needs

Security is a basic prerequisite for a globally networked economy. Our products and solutions maximize personal safety and guarantee the free and secure flow of goods, data and capital.

A&D
I&S, SBT
SFS
OSRAM
Com, SBS

Adapting to shifts in the global economy

The center of economic gravity is shifting to the developing world. Due to their rapid economic growth, countries like Brazil, Russia, India and China are key future markets. Our global presence enables us to serve customers optimally on a local basis. As a good corporate citizen, we're a respected member of society in all the countries where we do business.

All
Siemens
Groups

What are the advantages of Siemens' industrial automation systems?

With our Totally Integrated Automation platform, we're the only company that can supply every industry sector with a comprehensive range of automation products and systems, covering everything from the handling of incoming and outgoing goods to manufacturing and operations control. Siemens Industry Suites also give customers quick and easy access to a complete array of sector-specific products and services.

Automation and Drives (A&D)

Manufacturers and industrial equipment makers everywhere face the same problems. They have to convert limited inventories into affordable and customized products for the maximum number of consumers, and they have to increase the efficiency of their extraction, transport and production processes in order to offset rising energy and raw materials costs. To master these challenges, producers need energy-saving industrial systems and equipment, networked manufacturing facilities and logistics systems, and advanced IT systems that provide precise information on production processes and goods flows.

As the No. 1 supplier of automation technology worldwide, we're a leader in the development of innovative manufacturing methods and systems. Our offerings range from standard products for the manufacturing and processing industries to electrical installation technologies, system- and sector-specific solutions, and complete automobile production lines and chemical plants. We also develop software for optimizing production workflows and linking manufacturing and administrative IT systems (horizontal and vertical IT integration).

Our Totally Integrated Automation (TIA) platform comprises a fully integrated range of products and systems designed to efficiently automate entire production processes. TIA can be adapted to all sectors and products, enabling manufacturers to optimize production workflows, improve process flexibility, shorten time-to-market and cut production costs while minimizing process complexity and maximizing investment security.

Our Totally Integrated Power (TIP) platform offers IT-integrated power distribution solutions based on carefully coordinated operations control components. TIP is helping customers cut energy consumption, use resources more efficiently and respond more flexibly to the needs of their markets.

www.siemens.com/automation

A&D supplies standard products for the manufacturing and processing industries, electrical installation technology, and system- and sector-specific automation solutions.

Highlights in fiscal 2006

- SIPROCESS – a modular micro process system used in the chemical and pharmaceutical industries – can produce both small and large quantities of substances for laboratories and industrial applications.
- The Sinamics drives family feeds braking energy back into a machine's power system to enhance the energy efficiency of manufacturing systems and help businesses cut power costs.
- Simatic RF-Manager, our radio frequency identification (RFID) software, tracks goods flows and provides manufacturing and merchandise management systems with the precise information they require to operate smoothly.

"During the Soccer World Cup 2006, parallel to handling the traffic bound for the Olympic Stadium, Berlin's public transport planners faced the challenge of managing more than 500,000 visitors headed for events in the city center. The city's traffic management center modified the switching of traffic lights to ease the downtown traffic burden. The data gathered in the process will help improve Berlin's traffic management during large-scale events in the future."

Ingeborg Junge-Reyer, Senator for Urban Development, Berlin

Industrial Solutions and Services (I&S)

I&S increases the competitiveness of customers in over 70 countries by combining Siemens products and process technologies to offer comprehensive solutions and services for industrial plants and infrastructure systems.

Highlights in fiscal 2006

- For the 2008 Beijing Olympics, we're building the world's most advanced water processing plant equipped with innovative membrane bioreactor technology.
- Our Ruhrpilot traffic management system is helping prevent traffic congestion and improving road safety in the German state of North-Rhine Westphalia by supplying traffic updates both online and via mobile phones.
- Our Metal Technologies Division is supplying a sinter plant, blast furnace and slab caster for a new iron and steel manufacturing facility in Taiwan.

By 2030, more than five billion people around the world will be living in cities. As urbanization increases, so will the need for mobility. In China, for example, more than 100 million people already commute to work every day. To help keep people and goods moving, we supply integrated traffic guidance, signaling and planning systems that enhance road safety and reduce environmental burdens. In the airport solutions sector, our offerings – which include airfield lighting, and baggage and cargo handling systems – enable operators to manage ever-greater volumes of passengers and freight safely and efficiently. We're also No. 1 worldwide in automated letter and parcel sorting systems.

Our water and wastewater processing solutions are helping safeguard the future of communities and production facilities around the world. Today, 1.2 billion people lack access to clean drinking water, and 2.4 billion are without basic sanitation. Our solutions are enabling municipalities and industrial customers to make better use of water resources and provide affordable water supplies. We're the world's largest supplier of water treatment products and systems. The solutions in our portfolio – backed by more than 1,100 patents – are meeting the strictest legal and industrial requirements at more than 200,000 locations.

With the acquisition of Voest-Alpine Industrieanlagenbau (VAI), we can now offer end-to-end solutions for every segment of the iron and steel industry – from the mining of metal ore to the manufacturing of finished iron, steel and aluminum products. Our process expertise and product and systems portfolio are helping customers boost their productivity in sectors like oil and gas, marine engineering, and pulp and paper. With a wide array of services – including design, development, modernization and maintenance – we also operate and support customer plants and facilities throughout their entire lifecycles.

www.siemens.com/industry

What can be done to cut energy consumption in glass-and-steel high-rise buildings?

Using our Total Building Solutions, operators can carefully configure and control heating, ventilation and air-conditioning systems to continuously optimize energy consumption throughout a building's lifecycle.

Siemens Building Technologies (SBT)

In today's crowded urban areas, space is often at a premium. So it's no wonder that buildings are getting taller and taller. Huge structures like the 452-meter Petronas Towers in Kuala Lumpur and Taiwan's 508-meter Taipei 101 – which can accommodate up to several thousand people – require highly efficient technical infrastructures and power supplies and must meet exacting safety and security standards.

We provide all the products and systems needed to maximize building performance, cut operating costs and increase productivity. Our building technologies – encompassing everything from heating, ventilation and air-conditioning systems to fire protection systems, emergency evacuation solutions, access controls and closed-circuit TV monitoring – are all tailored to our customers' specific needs. Already in the planning phase, we focus on a building's entire lifecycle. This approach results in cost certainty as well as optimal flexibility for any later modernizations or utilization changes. As a provider of maintenance, operating and energy management services, we help optimize system performance, reliability and efficiency. Around-the-clock remote surveillance and remote operation, coupled with the networking of IT-based building operations and customers' business systems, ensure high cost and operational transparency.

The market for safety solutions and building automation will continue to grow, driven by the demand for greater safety and security in hotels, skyscrapers, airports, sports stadiums and other large-scale structures. At the same time, the need for ever-greater energy efficiency – to minimize resource consumption and environmental impact – is creating a high-growth market for sophisticated building automation systems. In both of these promising areas, we hold a strong position and are achieving above-average growth.

www.siemens.com/buildingstechnologies

SBT cooperates closely with customers to create fire safety and energy management solutions that make buildings safer, more efficient and more comfortable for as long as they remain in use.

Highlights in fiscal 2006

- As the world's third-largest supplier of safety and security solutions, we equipped stadiums with complete building management and security systems for the Soccer World Cup 2006.
- We received an order from India's Bengaluru International Airport to supply a total security solution – complete with access control, security management, intrusion protection, fire safety and video surveillance systems.
- We're supplying a comprehensive security infrastructure and operating the command and control center for the Palm Islands, a man-made atoll off the coast of Dubai.

"We are proud that the plant is the first in the Gulf to simultaneously achieve ISO certifications for safety, quality and environmental excellence."

Dave Price, former Managing Director of Abu Dhabi's Shuweihat facility, the most powerful electricity generation and seawater desalination plant in the world

Power Generation (PG)

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

Urbanization, dwindling energy resources, environmental pollution and climate change are major challenges facing the world today. Population growth – particularly in developing and emerging countries – is boosting energy demand substantially. By 2020, electricity consumption worldwide will have risen roughly 70 percent. Energy efficiency and innovative power plant technology will play a key role in providing environmentally compatible, climate-friendly, reliable and economical power.

Meeting tomorrow's electricity needs will require a broad mix of energy sources and technologies. We offer a comprehensive portfolio of advanced power plant technologies for electricity and heat generation. In addition to coal-fired and combined cycle power plants, we also build wind power systems. We're a leader in the development of high-temperature solid oxide fuel cells (SOFCs). Via minority stakes in AREVA NP and Voith Siemens Hydro, we're active in the nuclear and hydroelectric power plant sectors. Our service offerings include engineering, construction, maintenance and plant operation. We also supply power plant instrumentation and control systems, turbines, compressors and complete solutions for industrial plants, particularly in the oil and gas sector.

Shrinking reserves are driving up oil prices. New sources of oil and gas are often located in remote areas where conditions are harsh and production is difficult. Liquefying and shipping natural gas to consumer countries has become an increasingly attractive alternative to pipeline transport. By mid-2007, Siemens will have completed the construction of a new test center in Duisburg, Germany and expanded its facilities for producing and testing the large compressor trains needed to equip the giant gas liquefication plants currently planned. Coal is becoming increasingly important as a power plant fuel. As a result, more and more high-efficiency steam power plants are now under construction, and orders for pilot IGCC installations – combined cycle generating facilities with upstream gasification – are also increasing. With our acquisition of Sustec's gasification technology, we're ideally positioned to serve this growing market.

www.siemens.com/powergeneration

Highlights in fiscal 2006

- We developed the world's largest and most powerful gas turbine, which generates enough power to supply a city of one million people.
- Our acquisition of the Sustec Group's technology and engineering activities augmented our power plant business with coal gasification products and solutions.

"Basslink is a historic interconnector that will play a vital part in securing mainland Australia's energy needs. I wish to thank Siemens and all those people who delivered this massive infrastructure project in a safe, reliable and efficient manner."

Bill Russell, Managing Director, National Grid Australia

Power Transmission and Distribution (PTD)

The growing demand for energy worldwide – coupled with increasing urbanization and resource scarcity – is shaping the way power is transmitted and distributed. These trends are also creating major challenges for power grid operators:

- Larger and larger quantities of energy are being transported over longer and longer distances.
- More and more power is being generated from renewable energy sources.
- Power distribution in the world's megacities is becoming more complex.

As a result, utilities and industrial consumers are relying increasingly on future-proof, intelligent power transmission and distribution solutions.

We're a leading supplier of products, solutions and services in areas like power automation, high-voltage circuit breakers, power network planning and high-voltage direct-current (HVDC) power transmission. The successful integration of VA Tech Transmission and Distribution has strengthened our market position, raised our global profile, given us new expertise and sharpened our customer focus.

We generate some 90 percent of our sales outside Germany. To achieve greater proximity to our customers, we're reorganizing our manufacturing, engineering and R&D activities. As part of this initiative, we're setting up collaborative ventures and manufacturing locations in China and India. We're also shifting from a centrally organized manufacturing and engineering network to a distributed network structure.

As No. 1 or No. 2 in every major power transmission and distribution market in the world, we're expanding operations in the U.S. and Russia as well as in China and India. By increasing our production capacity and intensifying local participation in development initiatives, we'll be able to capitalize on these countries' high growth rates. In the Middle East and in large parts of Europe and South America – regions in which we've long been the market leader – we're ideally positioned to benefit from new capital spending on power infrastructures.

www.siemens.com/energy

PTD is a world leader in power transmission and distribution. As a systems integrator and supplier of products, services and complete solutions, we enable utilities and energy-intensive manufacturers to transport and distribute electricity economically and reliably.

Highlights in fiscal 2006

- We won a major order worth nearly €600 million for turnkey substations in Qatar.
- In an €80-million project, we're equipping Russia's extra-high-voltage power grid with innovative instrumentation and control systems.
- We launched a new vacuum circuit breaker for all types of medium-voltage switchgear.
- An innovative Siemens solution is increasing the power transmission performance of India's HVDC East-South Interconnector.

"Siemens locomotives have demonstrated their merits in everyday operation. They ensure the quality of our transportation services."

Giuseppe Sciarrone, Managing Director and CEO of Rail Traction Company (RTC). The Italian private rail company currently operates eight ES64F4 multi-system locomotives on cross-border services linking Italy and Austria via the Brenner Pass.

Transportation Systems (TS)

As a full-range supplier and systems integrator, TS is a leader in the international rail industry. Our activities in the areas of automation and power, rolling stock, turnkey systems and integrated services encompass operations management, rail electrification systems and vehicles for mass transit, regional and mainline systems.

Highlights in fiscal 2006

- We landed a contract to build and manufacture eight high-speed trains for Russia.
- We also received a number of major orders from China to supply 60 high-speed trains, 180 double locomotives, 72 cars for the Shanghai metro, train control and signaling systems for Beijing's metro and signaling, communications and power supply systems for the Beijing-Tianjin high-speed link.

Two global megatrends – urbanization and demographic change – are driving the demand for mobility solutions. As the number and size of megacities and conurbations increases, the need for efficient, energy-saving and eco-friendly transportation infrastructures continues to grow. Networking different modes of transport is becoming increasingly vital. Demand for high-speed transportation links between population centers is also growing. And more and more fast cross-border rail services are needed to carry ever-larger volumes of goods.

As our recent orders show, we've accurately gauged and effectively leveraged the opportunities provided by today's increasingly globalized rail market. Our Velaro platform for high-speed multiple-unit trains and our Desiro platform for regional multiple-unit trains are only two examples of our internationally successful rail systems.

Asia-Pacific accounted for almost a quarter of our orders in fiscal 2006. We supplied metro systems in Bangkok, Shanghai, Singapore, Guangzhou and Taipei. We also built and extended urban rail networks in Kaohsiung (Taiwan) and Hong Kong. Our participation in the construction of a 28-kilometer line linking Bangkok's new airport to the city center testifies to the market's confidence in our expertise as a systems supplier.

In North America, where more and more cities are considering building or expanding rapid transit systems, we're the market leader and partner of choice in the light rail sector. Today, our vehicles and infrastructure systems are in operation on every continent. By developing vehicle platforms and infrastructure components and implementing a future-focused innovation strategy, we're strengthening our position as a driving force in rail technology.

www.siemens.com/transportation

SV is the leading maker of airbag electronics. What are you doing to make automobile accidents a thing of the past?

Our pro.pilot network of electronic aids helps drivers avoid potential hazards and assists them when dangerous situations arise. These aids include systems that automatically monitor speed and inter-vehicular distance, display speed-limit information and alert drivers to vehicles in blind spots. Night Vision – another pro.pilot safety feature – spots people and objects on roads when visibility is limited and posts a warning for drivers in a head-up display on the car's windshield.

Siemens VDO Automotive (SV)

As the world's population burgeons, new markets are emerging in developing and threshold countries. Urbanization is intensifying. Natural resources – fossil fuels in particular – are in ever-shorter supply. Environmental awareness is increasing worldwide.

All these trends are having a major impact on the movement of people and goods. To meet and master the challenges they pose, we develop and build intelligent products and systems for cars and commercial vehicles that facilitate personal mobility and make the transport of goods more economical and efficient. Innovative automotive electronics and mechatronics are our specialties. Some 90 percent of the innovations installed in automobiles today are based on electronics and software – a development that has given us a leading position in one of the most promising areas of the automobile industry.

Our product portfolio includes cutting-edge vehicle drive and engine control technologies. The piezo direct injection system that we've developed for gasoline and diesel engines cuts emissions and fuel consumption while enhancing vehicle performance. We're also an innovator in the field of vehicle safety. As traffic volumes increase – particularly in large cities – and as the number of older motorists swells, driver assistance technology, including night vision systems and lane-changing and parking assistants, is becoming more and more essential. Our pro.pilot solution, which combines a wide range of systems to create a complete driver assistance network, is making accident-free driving a real possibility. With our automobile information and communication systems, which link vehicles to the outside world, we're turning our vision of a fully networked automobile into reality.

In the commercial vehicle sector, we develop intelligent software and hardware solutions for onboard information and electronics systems – everything from digital tachographs and telematics equipment to navigation aids and road toll monitoring systems. Without our technologies, advanced, economical fleet management would not be possible.
www.siemensvdo.com

Our technology is shaping the future of automobile travel. As a trusted partner to the car industry, we develop and produce electronic and mechatronic systems and components for powertrain and engine control systems, chassis electronics and safety and driver assistance systems as well as information, communications and multimedia systems. Our products are making automobiles safer, more comfortable, more economical and more eco-friendly.

Highlights in fiscal 2006

- We were awarded the prestigious German Future Prize by President Horst Köhler for our innovative piezo direct injection system.
- Together with Korea's Hyundai Motor Company, we acquired a 56 percent stake in Hyundai Autonet Corporation – a company formed by the merger of leading Korean electronics suppliers Autonet Ltd. and Bontec Co. Ltd. This investment is strengthening our position as a local supplier to Asian markets.

As demographics change, how can Siemens help prepare healthcare systems for the challenges of tomorrow?

IT-based innovation and process optimization are the main levers for improving the quality of care and cutting costs. Our goal is to achieve high-efficiency, patient-oriented healthcare based on proven outcomes.

Medical Solutions (Med)

Med will soon be the first healthcare supplier to provide a full range of diagnostics procedures featuring all key in-vitro and in-vivo technologies. Networked on the Soarian and *syngo* IT platforms, our comprehensive offerings have enabled us to capture a strong position in our market.

Highlights in fiscal 2006

- Acquiring Bayer Diagnostics and Diagnostic Products Corporation will make us the world's first integrated diagnostics company.
- We signed agreements to keep London's St. Bartholomew's Hospital and the Royal London Hospital equipped with state-of-the-art healthcare systems for 35 years, starting at the end of 2009.
- Rhön-Klinikum AG commissioned us to supply a particle therapy system in Marburg, Germany. Treatment will be available to patients by 2010. The system will be operated in close collaboration with Universitätsklinikum Gießen und Marburg GmbH.

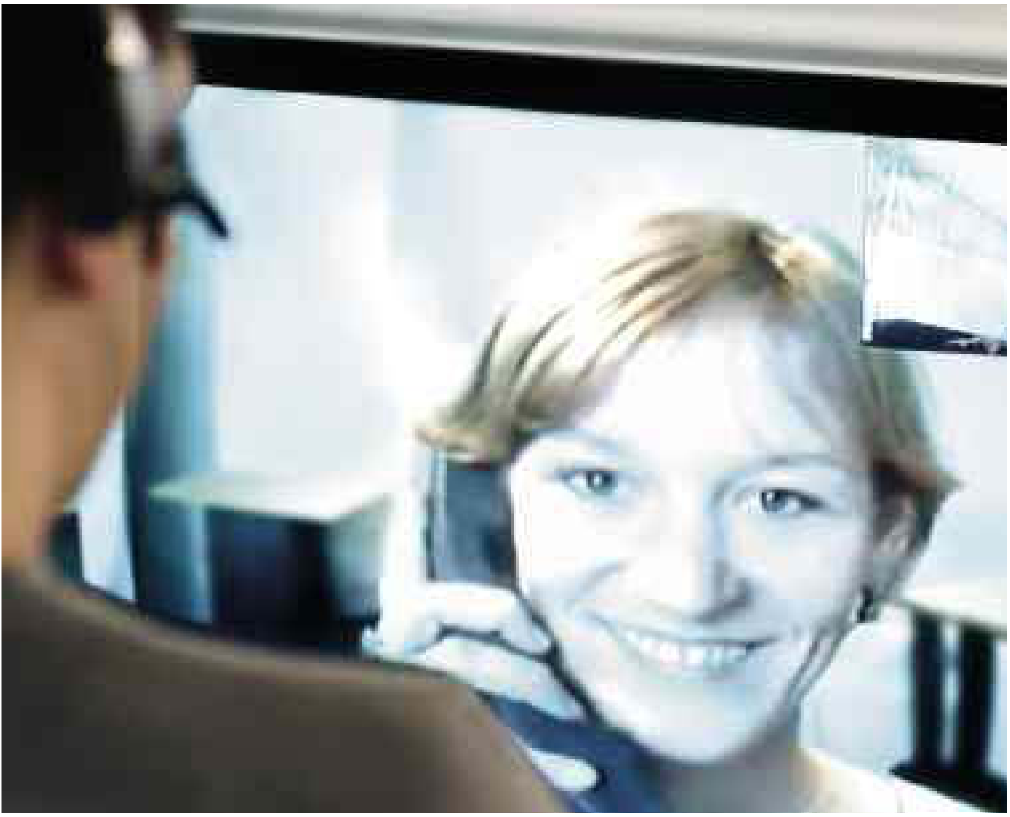
By 2050, there will be more people over 60 than under 14. As the world's population grows and ages, the demand for healthcare products, services and solutions will increase. To ensure high-quality, patient-centric and affordable medical services in the future, it will be necessary to optimize efficiencies all along the healthcare continuum.

We're convinced that breakthroughs in the fields of early diagnosis and intervention as well as high-performance IT solutions for optimizing clinical and administrative workflows are the keys to success. With the help of these innovative technologies, we're equipping healthcare delivery systems around the world to meet the needs of the future by enhancing the quality of care while cutting costs. Important innovative trends include knowledge-based decision support and an intense focus on all the factors contributing to disease. Due to its many applications in individualized therapy and early disease detection, molecular diagnostics – the use of in-vivo and in-vitro technologies in gene and protein analysis – is steadily gaining in importance.

To serve these new growth areas and optimize financial outcomes, we've extended our portfolio and broadened our expertise through acquisitions over the last few years. Expanding into the field of molecular diagnostics, we recently acquired CTI Molecular Imaging. The acquisition of Diagnostic Products Corporation and Bayer Diagnostics will widen our focus to include in-vitro as well as in-vivo procedures. Together, these acquisitions will make us the world's first full-service diagnostics company, combining imaging diagnostics, laboratory diagnostics and clinical IT under one roof.

We now provide comprehensive solutions – networked on our Soarian and *syngo* platforms – across the entire healthcare continuum, from prevention and diagnosis to treatment and follow-up care.

www.siemens.com/medical



What are the advantages of VDSL2 technology?

Very fast digital subscriber line (VDSL) transmission is currently the fastest DSL technology. It can be used for high-bandwidth applications like video streaming in HDTV quality. Siemens is supplying fully standard-compliant VDSL2 components for Deutsche Telekom's new high-speed network.

Communications (Com)

Telecommunications is removing barriers to dialogue and cooperation all around the world. In India, for example, where 100 million people are already using mobile phones, the number of mobile subscribers is increasing by four million a month. And in Germany, Deutsche Telekom's new high-speed network – based on the latest VDSL2 technology from Siemens – is already providing millions of users with super-fast Internet access. With data transmission rates of up to 50 megabits per second, the network supports high-bandwidth applications and so-called triple play services that combine voice, data and video.

High-speed communication is a key requirement in today's business world. Efficient data exchange and fast, direct contact with colleagues and customers accelerate business processes. Enterprises of all sizes can count on us to supply the communications systems they require. And because reliability is crucial, more and more companies are turning to us to run their voice and data communications systems.

The telecommunications market is undergoing a major transformation. Competition is fiercer than ever before. Low-cost infrastructure providers from Asia are undercutting their higher-priced rivals around the world. Hopes for a new mass market in third-generation mobile phones have not materialized. Market consolidation has intensified within the last few months. While research and development costs are high, prices for network infrastructure and enterprise networks are continuing to fall. To counteract these developments, we're repositioning ourselves in the industry. As soon as regulatory approval is obtained, we intend to establish a powerful new player on the mobile and fixed networks markets: Nokia Siemens Networks, a 50-50 joint venture with Nokia. In the area of enterprise networks, we plan to set up a partnership that will put our business on a new, more solid footing and offer customers and employees a stable and promising long-term perspective.

www.siemens.com/communications

Pending regulatory approval, the carrier business of Siemens Communications will be transferred to the joint venture Nokia Siemens Networks in the second quarter of fiscal 2007.

Com provides network operators and enterprise customers with the high-quality communications solutions they need to reach their business goals. As an innovation leader in mobile communications infrastructure and fixed and enterprise networks, we're making voice and data communications easier and more efficient.

Highlights in fiscal 2006

- At the CeBIT trade show, we exhibited VoIP phones that configure themselves and eliminate the need for dedicated exchanges.
- Telenor Cinclus AS ordered 680,000 wireless modules for transmitting consumption data.
- We built the world's smallest and lightest mobile communications base station, which now makes it safe to use mobile phones in airplanes.

"One important consideration that convinced us to select SBS was that you – as part of Siemens – are a strong long-term IT partner. Now we're particularly pleased to see that your project team has acquired a keen understanding of our internal structures and is devising solutions well-suited to our requirements."

Dr. Rolf Dörendahl,
Krombacher Brauerei, Germany

Siemens Business Services (SBS)

SBS offers private- and public-sector customers a full range of multi-vendor IT solutions and services – ranging from consulting and systems integration to IT infrastructure management.

Highlights in fiscal 2006

- People in the UK will soon have faster access to their money thanks to the new IT system that we supplied and are maintaining for the UK Department for Work and Pensions.
- We're supporting the data processing centers of Finnish paper manufacturer UPM Kymmene Oyj on a global basis and providing helpdesk services for all 30,000 UPM employees.
- We're supplying the entire infrastructure and all broadcasting systems for BBC Scotland's digital broadcasting center in Glasgow. The facility will be the most advanced of its kind in the world.

The demand for mobility, flexibility and security is growing. Companies must continuously integrate new technologies into existing IT systems, accelerate their workflows and manage ever-larger amounts of information. IT quality, security and performance now play a major role in our customers' success – and will continue to do so in the future.

Our services help private- and public-sector customers meet today's complex requirements. We're among the top ten providers of IT outsourcing worldwide. We operate existing IT systems and optimize IT-supported business processes and related infrastructures to improve the efficiency of our customers' workflows and reduce their costs.

Our IT solutions are increasing the efficiency of emergency call systems. Our biometric identification procedures are helping make national borders more secure. Our new electronic ticketing system is enabling travelers to buy bus and train tickets and pay parking fees by mobile phone. As one of Europe's leading e-government providers, we're facilitating communication between public authorities and the people they serve.

In January 2007, our activities will be combined with those of four IT companies and software houses (Program and System Engineering of Austria, Siemens Information Systems Ltd. of India, Development Innovation and Projects of Greece and the Business Innovation Center in Switzerland) to form one Group. Under our new name – Siemens IT Solutions and Services – we'll leverage our specific know-how to broaden offerings Company-wide. Expanding our IT operator-related and IT solutions businesses with external enterprises and bundling the operation of IT systems throughout Siemens will enable our customers to benefit even more from our comprehensive expertise while obtaining end-to-end, sector-specific IT and software solutions at competitive prices.

www.siemens.com/sbs

How can intelligent lighting systems help protect the environment?

In the area of fluorescent lighting alone, replacing conventional systems with intelligent energy-saving light sources could save some 320 million megawatt-hours of electricity worldwide every year – thus reducing CO_2 emissions by roughly 160 million tons.

OSRAM

Increasing resource scarcity – a consequence of the megatrends now shaping our world – is driving the use of intelligent light sources. Our advanced lighting systems have penetrated virtually every corner of today's megacities, casting just the right light along highways, in skyscrapers and shopping centers, in football stadiums and concert halls. In architecture, too, intelligent lighting is playing an increasingly vital role. For example, the 508-meter Taipei 101 Tower in Taiwan boasts some 35,000 lamps, many of them energy-saving, and roughly 25,000 electronic ballasts – all installed by OSRAM.

In the lighting industry, comprehensive systems solutions are crucial since innovative lamps cannot achieve their full lifespan, luminosity or color intensity without electronic control gear. Electronics also play a key role in eco-friendly light sources. Today's intelligent lamps and lighting systems are up to 80 percent more energy-efficient than conventional products. In the medium term, LED technologies will be increasingly used in these applications.

As the world leader in automotive lighting, we're ideally positioned to capitalize on the growing demand for mobility. Our solutions are found not only in automobile headlights. All in all, we supply some 250 different vehicle lamps – conventional lights, electronic semiconductor-based solutions, rain sensor applications and night vision systems. In fiscal 2006, we developed the SFH 5711 ambient light sensor, making us the first semiconductor producer to successfully simulate the spectral sensitivity curve of the human eye. This new technology increases driving safety and comfort by allowing drivers to adjust the brightness of displays to ambient light conditions more precisely than ever before.
www.osram.com

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

Highlights in fiscal 2006

- We provided world-class lighting solutions, including the stunning exterior shell of the Allianz Arena in Munich and the Ring of Fire special-effects lighting at Berlin's Olympic Stadium.
- Our new LED Systems Division is bundling expertise in LED modules and components such as optics, electronics and cooling elements.
- Our eco-friendly, space-saving flashbulbs – LED OSLUX™ and CERAMOS™ – are used in mobile phones and digital cameras.

"A tailored financial solution from Siemens Financial Services gave us access to new customer segments, enabling us to expand our business."

Léo Apotheker, Member of the Executive Board of SAP AG

Siemens Financial Services (SFS)

With some 1,800 employees and an international network of companies, SFS offers a broad array of financial solutions in the areas of sales and investment financing, treasury services, fund management and insurance.

Highlights in fiscal 2006

- We developed the SAP Financing Program 2006, which was rolled out in over 40 countries.
- We made an equity investment in the construction of India's most modern airport, in Bengaluru. Scheduled for completion in 2008, this US$450-million project will create the country's first privately financed airport.
- The city of Freiburg in Germany deployed traffic signals featuring the latest LED technology from Siemens. Our solution enabled the city to finance the project entirely from savings on power and maintenance.
- In a survey of 120 German leasing companies conducted by Frankfurter Rating- und Finanzberatung (FRF), SFS was No. 1 in three categories.

New orders for infrastructure projects and decisions on equipment investments often hinge on a supplier's ability to provide customized financing solutions. Our customers expect first-class technology and financial expertise from a single source.

With a workforce of some 1,800, we deliver a wide range of financial solutions – from sales and investment financing to insurance – that lay the basis for offerings tailored to specific risk profiles. In infrastructure projects, we also take utilization strategy into account. We're currently developing and structuring financial solutions for around 600 Siemens projects. Our total project financing volume – amounting to more than €52 billion – is managed by one of the largest project and export financing teams in the banking and business world. We also make equity investments in infrastructure projects in which Siemens is involved.

As a global center of competence for financing and risk management, we're Siemens' preferred provider of financial solutions in areas like treasury services and pension asset management. Our cash and liquidity management system covers around 90 percent of the Company's liquidity and includes 4,500 accounts in all convertible currencies.

We've substantially expanded our business with non-Siemens clients – particularly in equipment financing, an area in which we have total assets of about €7 billion – and now serve a broad range of external companies. Our financial expertise, coupled with many years of experience in industry and technology, enables us to offer our customers unique advantages. We focus on providing innovative financial solutions in fields ranging from information and communications, medical technology and transportation systems to power generation and plant engineering and construction. Other areas of external business include receivables financing, asset-based lending, investment management and investment brokerage.

www.siemens.com/financial_services

"Siemens Real Estate's Natural Resources Management is a model project launched to optimize resource use in Siemens' buildings around the world. It's helping us achieve the sustainability called for by the Fit4More program."

Dr. Ronald Neuhaus,
Siemens Corporate Technology

Siemens Real Estate (SRE)

Worldwide energy consumption is expected to double by 2050, and energy costs will continue to rise. To counteract these developments, we're seizing the initiative. Natural Resources Management is the name of our project to reduce the amount of energy and raw materials consumed in buildings and expand the use of renewable energy.

To make our resource management more efficient, we're currently assessing electricity, heat and water consumption rates and waste and wastewater volumes at all the locations we manage.

One approach is to optimize water, energy, heating and air-conditioning systems. In new buildings, we address these issues already in the planning phase. We also ensure that the materials used in new real estate projects are safe and environmentally friendly. To improve our efficiency, we've recently introduced a checklist of measures for eco-friendly construction. The substantial cost-savings that we expect to achieve in energy, water supply and consumable materials over the next few years will considerably reduce building overheads.

We're also implementing a tailored real estate strategy and intelligent initiatives at individual locations to help Siemens strengthen its presence in global markets. Our efforts are laying the foundation for future businesses and creating the infrastructure for Siemens' growth worldwide.

To support high sales growth in China, for example, we've implemented a regionalization strategy that has increased the number of local sales offices from 24 to 55 since fiscal 2004. And in India, where economic growth has also accelerated in the last few years, Siemens' need for space has increased substantially as its sales and workforce have expanded.
www.siemens.com/realestate

SRE currently manages around 42 million square meters of land and 20 million square meters of building space at more than 3,000 locations around the world. As a real estate specialist, we plan, build, finance and develop Siemens facilities and advise and support customers in all matters relating to real estate.

Highlights in fiscal 2006

- We're managing a project to construct a nine-story expansion building with 10,700 square meters of floor space at the new Siemens facility now being built in India. The project is located in the Keonics industrial area of Bengaluru, the country's foremost IT and software center.
- The operating, energy and maintenance costs of Siemens' Regional Company in Belgium were reduced by €2.5 million a year following relocation to a modern new headquarters building.

How is BSH making its products more user-friendly?

Our motto "Design for all" applies to all our products. By taking a great many factors into account throughout the entire production process, we ensure that our appliances are easy to use and adapted to the needs and capabilities of people of all ages.

BSH Bosch und Siemens Hausgeräte GmbH

Offering a full range of high-performance, convenient and easy-to-use household appliances, we're one of the world's leading manufacturers of white goods and the No. 1 supplier in Germany and Western Europe.

Environmental performance, resource conservation and energy efficiency are key concerns at BSH Bosch und Siemens Hausgeräte GmbH. In the last ten years alone, the world's population has grown by nearly one billion. Although demographic growth is now slowing, the demand for water and energy continues to increase substantially – with major consequences for the environment.

Some 95 percent of the environmental burdens attributable to household appliances are generated during operation rather than production. That's why our most important contribution to environmental protection is to develop products that consume fewer natural resources. The popularity of our eco-friendly products has helped make Bosch and Siemens the best-selling names in household appliances in Europe. We also manufacture products for specialty brands like Neff and Gaggenau as well as for regional brands such as Balay in Spain and Pitsos in Greece, whose appliances are tailored to national culinary traditions.

Our product portfolio covers the entire range of household appliances. The demographic shifts of the past few years – particularly the aging of the world's population – have led us to develop new products adapted to a wide array of user needs. From the very beginning of the development process, we take into account the requirements of a broad range of consumers. In keeping with our motto "Design for all," we want people of every age and capability to be able to use our appliances with ease.

Looking to the future, we'll continue leveraging our researchers' expertise in centers of competence all around the world to create innovative appliances with a clear focus on environmental compatibility and user friendliness.
www.bsh-group.com

Highlights in fiscal 2006

- The Appliance Park in Nanjing, China – a milestone in our successful growth in Asia – is being expanded.
- Products like our LiftMatic wall-mounted oven testify to our role as a leading innovator.
- Designed for use in developing countries, our Protos stove, which uses vegetable oil as fuel, underscores our commitment to good corporate citizenship and environmental protection.

What is the focus of innovation at Fujitsu Siemens Computers?

We're currently defining "innovation intents" in fields where we can develop highly attractive products and technologies. In the area of mobility, for example, we're concentrating on enhancing connectivity. In the server segment, we're working intensively on virtualization. And in the field of consumer products, our top priorities are design and ease-of-use.

Fujitsu Siemens Computers (Holding) BV

Over the past few decades, advances in the IT sector have transformed communications and revolutionized our daily lives. The ability to exchange data and information globally – virtually anytime anywhere – has become fundamental to the way we work and live.

As Europe's leading IT vendor with a global presence, we're driving innovation with state-of-the art information technology and an extensive product portfolio for enterprise customers, small to midsize businesses and home users. True to our motto "Understanding you better – serving you best," we put our customers first, delivering individually tailored, high-quality IT products, infrastructure and services. Our portfolio encompasses everything from high-performance servers and enterprise-class storage solutions to PCs, notebooks, workstations, tablet PCs, handhelds and digital home entertainment technologies. Our strategic focus is now on dynamic data centers and mobility, two key areas for our customers. We offer best-in-class solutions that enable users to deploy optimum infrastructures in both of these strategic business fields.

To further expand our service offerings and extend our global reach, we acquired the Product Related Services Division of Siemens Business Services. This move enabled us to create our new Services Division, which began operation on April 1, 2006. With our roots in Europe, we're active in all the continent's major markets as well as those of Africa and the Middle East. Our new Services Division comprises a global network with operations in some 170 countries. Customer-centric innovation and a sense of responsibility – the keys to our future success and business growth – drive all our activities.

www.fujitsu-siemens.com

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

Highlights in fiscal 2006

- On April 1, 2006, we acquired the Product Related Services Division of Siemens Business Services.
- Innovations included the first notebook PC with built-in UMTS technology, handheld PCs with phone capabilities, BladeFrame (a virtualized server pool platform) and FlexFrame (a grid computing solution for Oracle).

Megacities

Growth engines of the future

Cities are the heart of our civilization – the hubs of modern cultural and economic life. Nowhere else do so many people encounter so many ideas and so many opportunities. And cities are expanding. By 2007, 50 percent – and by 2030, over 60 percent – of the world's population will live in urban areas. To prevent collapse, strong and efficient infrastructures that can provide millions of people with power, water and eco-friendly transportation are crucial.

The impact of rapid urbanization is being compounded by the consequences of demographic change. The world's population is not only growing, it's also growing older. As a result, the cities of tomorrow will require high-quality, efficient and affordable healthcare systems as well as smoothly functioning infrastructures.

Siemens is better positioned than virtually any other company to master these challenges. We have the technological solutions to further improve healthcare quality and, by simultaneously cutting healthcare costs, to ensure that healthcare systems remain affordable in the future. Our comprehensive portfolio and innovation leadership make us the prime technology partner for urban centers – for example, in China, where we're supporting the breathtaking rise of Shanghai, a megacity of 13 million people.

Shanghai – What a megacity needs

Klaus Kleinfeld talks to Han Zheng, the mayor of Shanghai, about the city's rapid development and Siemens' role in building a world-class infrastructure in the Chinese metropolis.

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

Klaus Kleinfeld: *Shanghai is an outstanding example of a megacity that is mastering the challenges of the 21st century. I sincerely admire the city's determination and speed in managing its development and completing its projects.*

Han Zheng: *Indeed, its fast-paced development has made Shanghai one of the most exciting places on earth. Over the last two decades, the city has changed almost beyond recognition. Twenty years ago, there was hardly a single building over 16 stories tall. Today, there are 5,000. In the Pudong District, which was swampland until 1990, the Jin Mao Tower, featuring the world's tallest hotel, pierces the skyline immediately next to the site of the 492-meter World Financial Center, which is now under construction. Within the next few years, new suburban cities like Luchao Harbor City, Jia Ding, the Medical Zone and the world's largest deep-water container terminal will further transform the city's appearance. In developing Shanghai, we've set clear priorities that focus on the modern service industry and advanced manufacturing and that leverage state-of-the-art technologies to achieve sustainable success across the board. In keeping with the Expo 2010 motto – "Better city, better life" – we want Shanghai to be a city where people like to live and work.*

Klaus Kleinfeld: *The slogan captures the spirit of this great city perfectly. I'm very interested in discussing the ways in which we can leverage the know-how we gained as partners at the Expo 2000 in Hanover for the World Expo 2010. I believe Siemens can make a major contribution to strengthening the city's role as a 21st century center of knowledge.*

Han Zheng: *We're delighted to invite Siemens to participate in Expo 2010. In the end, of course, this is about more than just hosting a major event. We have clear ideas about how we want to implement the concepts shown at the Expo in order to make Shanghai one of the most welcoming and efficient cities in the world. As urbanization spreads, covering 85 percent of the whole of Shanghai in the next few years, the subject of mobility, for instance, will become even more important. We're mastering this challenge by expanding Pudong International Airport and by constructing an extensive mass transit network. Naturally, all development projects will comply with social, economic and environmental requirements, improve education, healthcare and social welfare, and safeguard the environment. These are challenges that all major cities face worldwide. We're convinced that we can meet them successfully.*

Klaus Kleinfeld: *Urbanization and demographic change – that is, the increase in average population age – are global trends. Our portfolio provides focused and comprehensive responses to both developments. Our mobility solutions optimize public transportation and the shipment of goods. Our wide range of transportation solutions and intelligent guidance systems facilitates the coordination*

Han Zheng
Mayor of Shanghai

of traffic flows. Our highly efficient power plants are helping conserve precious resources and lowering carbon dioxide emissions. The power they generate is being used more efficiently thanks to our building automation systems. Our water technologies keep rivers clean and enable cities to reclaim wastewater. And finally, our comprehensive healthcare solutions ensure that the quality of life remains high when people are older and that healthcare remains affordable.

Han Zheng: *Healthcare and medical engineering are at the forefront of our planning. In our view, life sciences are vital to Shanghai's development. As the city grows, its residents will become more health-conscious. And as their incomes increase, they'll demand more and better medical services. As a cosmopolitan center and host of Expo 2010, we have to ensure that our medical technology and healthcare system meet international standards. We expect our international Medical Zone, which will combine research and production facilities with state-of-the-art hospitals, to be a benchmark in the healthcare field.*

Klaus Kleinfeld: *We're contributing to this project by locating the Siemens Medical Asia Center of Excellence in the Medical Zone. The SOMATOM Spirit – a 100 percent Chinese product developed and manufactured in Shanghai for the world market – is further proof of our commitment to medical research and development. Overall, we've doubled our investment in this area over the last two years.*

Our commitment – not just to healthcare – is also evident in the size of our Shanghai workforce. With some 13,000 Siemens employees, Shanghai is our largest location outside Germany. I'd like to underscore that the close partnership between Siemens and Shanghai has a long tradition. In 1879, the company supplied the first power generator – a device to light the Shanghai harbor. The first Siemens office in China was opened in 1904 – in Shanghai. And most of us can recall the first commercial launch of the Transrapid in Shanghai.

Han Zheng: *Over the course of our successful partnership, we've developed a strong relationship of mutual trust. Siemens will continue to supply the products, systems and solutions that are vital for our future. I'm convinced that our win-win partnership will continue for many years to come.*

Shanghai and Siemens – A partnership for the future

With some 5,000 buildings over 16 stories tall, Shanghai is one of the fastest-growing urban areas in the world. Satellite towns and ambitious plans for projects like a new medical zone and the world's largest deep-sea container port are catapulting the Chinese megacity into the future.

Mobility and transportation

Siemens has equipped Shanghai's Pudong International Airport with state-of-the-art building and security systems.

The technologies installed include building automation, fire protection, power supply and flight information systems as well as baggage handling and runway lighting solutions. The Transrapid rail system, built by Siemens and ThyssenKrupp, provides a fast link between the airport and the city. With a top speed of 430 km/hr, the magnetic levitation train covers the 33-kilometer stretch in less than eight minutes. We've also provided project management, signaling systems, telecommunications equipment, the complete power supply system and 96 vehicles for two new metro lines.

Power

Thanks largely to powerful turbines and generators from Siemens, Waigaoqiao, China's largest and most advanced coal-fired power plant, is not only the most efficient facility of its type in the country; it's also setting environmental standards with its low nitrogen oxide and sulfur dioxide emission levels. For Waigaoqiao's third stage, we're supplying the key components for a generator and two steam turbines. We've also provided controls and instrumentation for a transformer substation in the south of Shanghai.

Shanghai boasts one of the world's most advanced CT production facilities. The plant, in operation since March 2005, has already turned out well over 300 SOMATOM Spirit CT scanners.

Industrial automation and building security

In Shanghai, Siemens has equipped one of the world's tallest skyscrapers – the Jin Mao Tower, which houses the Grand Hyatt Hotel – and several other buildings, like Fortune Plaza and Citigroup Tower, with comprehensive automation and security systems. The technologies provided include fire protection, security and IT systems and complete building automation solutions. We've also delivered production automation solutions and building systems for plants like Volkswagen's Shanghai facility.

Water and wastewater

Shanghai operates one of China's largest wastewater treatment plants. Sophisticated control technology from Siemens makes the facility, which has a daily purification capacity of 1.7 million metric tons, 40 times more efficient than any of the 30 other treatment plants located in the city.

Healthcare

Siemens has equipped Shanghai's main healthcare facilities – for example, Huadong Hospital – with cutting-edge technologies ranging from computed tomography (CT) and magnetic resonance (MR) scanners to accelerators for nuclear medicine applications.

We've also supplied many of the diagnostic devices now in use at Zhongshan Hospital. Siemens Shanghai Medical Equipment (SSME) develops and manufactures CT scanners geared to the Chinese market. But versatile, easy-to-operate products like the SOMATOM Spirit, which is made in Shanghai, are also popular in other countries as well. In fact, 300 of the 400 orders received to date have come from outside China. The reason: many hospitals that already have expensive multifunctional high-end equipment still need reliable, lower-priced, user-friendly secondary devices for less complicated procedures.


Power distribution
Transformer substa-
tion controls
Fortune Plaza complex
Advanced building
automation, lighting
Zhongshan Hospital at Shanghai Medical University
Linear accelerator and
oncology systems

360-degree view from Grand Hyatt Hotel / Jin Mao Tower
Facility automation, lighting, safety systems, fire protection system


Shanghai Volkswagen
Production and facility automation, OEM components
B.M. Tower
Entire power supply and extra-low-voltage package
Baosteel
Advanced metallurgy technologies, power generation and distribution, SCADA process visualization software, crane drives and other products and services
Siemens Center Shanghai
Headquarters for 13,000 employees in Shanghai

Waigaoqiao Power Plant
Turbines and generators for the largest and most efficient coal-fired power plant in China (three 900-MW units), low nitrogen oxide and sulfur emission levels

Water
Control systems for one of the largest wastewater treatment plants in China (1.7 million metric tons of wastewater processed every day)

Transrapid
Magnetic levitation train (430 km/hr) from airport to Pudong District (Long Yang Road)

Pudong International Airport
Building automation, security, fire protection and integrated flight information systems, control system for baggage handling, power supply and airfield lighting systems

Contents

"The Supervisory Board supports current measures to ensure the Company's continued strategic development."

Prof. Dr. Heinrich v. Pierer
Chairman of the Supervisory Board,
Siemens AG

Dear Shareholders,

In fiscal 2006, the Supervisory Board focused intensively on the Company's situation and prospects as well as on a number of specific issues. The Managing Board regularly provided us with timely and comprehensive information. We were involved in major Company decisions and held six regular and two extraordinary meetings during the year.

Between meetings, the Managing Board informed us in writing about important developments. As Chairman of the Supervisory Board, I was kept up-to-date on major issues and upcoming management decisions.

Company strategy and portfolio policies

In fiscal 2006, we considered in detail and – in cases requiring our consent due to the size of the relevant transaction – approved acquisitions of some €5.6 billion.

Also during fiscal 2006, we discussed measures to further develop Siemens' business portfolio, primarily in the area of medical solutions and at the Communications and Siemens Business Services Groups.

At our meeting on April 26, 2006, we approved the acquisition of Diagnostic Products Corporation (DPC). This acquisition will expand our current portfolio in the medical solutions sector to include in-vitro diagnostics.

At a special Supervisory Board meeting on June 17, 2006, we approved the formation of a joint venture between Siemens and Nokia in the fixed and mobile networks sectors.

This 50-50 joint venture, to be called Nokia Siemens Networks, is expected to be a leader in the telecommunications industry, with strong positions in the key growth segments of infrastructure and services for fixed and mobile networks.

At the same meeting, we approved the formation of a legally independent company in the enterprise networks sector.

At an extraordinary Supervisory Board meeting on June 29, 2006, we approved the acquisition of Bayer Diagnostics, a world leader in clinical chemistry and No. 1 in near-patient testing, laboratory automation and hematology.

The acquisitions of Bayer Diagnostics and DPC will make our Medical Solutions Group (Med) the world's first integrated diagnostics company, supplying imaging and laboratory diagnostics as well as clinical IT solutions across the entire value chain from a single source.

The Supervisory Board received a report on the strategic reorientation of Siemens Business Services GmbH & Co. OHG (SBS). Plans call for strengthening the Group through the addition of four Siemens IT and software development companies: Program and System Engineering (PSE) in Austria, Siemens Information Systems Ltd. (SISL) in India, Development Innovation and Projects (DIP) in Greece, and the Business Innovation Center (BIC) in Switzerland. Software and solutions know-how that have been dispersed within the Company will now be bundled and oriented toward Siemens' own business activities.

At our September meeting, the Managing Board presented an overview of the Company's business strategy for our consideration. Agreement was reached on the following key issues:

- Siemens will profit over the long term from two global megatrends: increasing urbanization and demographic change. These two developments are posing major challenges in the areas of energy, the environment and transportation. They are also generating a large number of infrastructure projects and greater demand for industrial automation and healthcare solutions.
- Siemens' aim is to grow twice as fast as the world economy; at least half of our growth is to be generated internally.

We held our September meeting at Med's plant in Forchheim, Germany to enable members to obtain first-hand, in-depth information regarding production processes and selected development projects.

Financing and pensions

At our April meeting, we received a detailed report regarding the development of the Company's liquidity and financial situation. The large number of acquisitions, the strong growth of business volume, the related high level of capital expenditures on property, plant and equipment, and the associated increase in non-fixed assets as well as problem areas like the mobile phone business and Siemens Business Services have absorbed substantial financial resources. As a result, the Supervisory Board authorized the Corporate Executive Committee to obtain up to €9 billion in additional financing.

At the same meeting, we were given an overview of the current status of the Company's pension system and the anticipated further development of its pension fund assets.

Group- and Region-specific issues

As in previous years, the regular meetings of the Supervisory Board were devoted not only to Company-wide matters. We also gave individual Groups and Regional Units an opportunity to describe their business prospects in detail. In fiscal 2006, the Transportation Systems Group, the Industrial Solutions and Services Group, OSRAM and the Regions Middle East, India and China reported to the Supervisory Board.

The operations of the remaining Groups and larger Regional Units had been intensively discussed in the years before. Like all our activities, these operations are also reviewed as part of our quarterly reporting system and in connection with specific issues.

At our September meeting, we received extensive information on the status of the Service Initiative, which aims to expand the volume of product-related and stand-alone services offered by Siemens and further increase the contribution of these profitable, fast-growing businesses to Company sales. At this meeting, we also received a status report regarding the transition of Siemens' financial reporting system to the International Financial Reporting Standards (IFRS).

Corporate governance

The Supervisory Board regularly deals with the implementation and further development of the Company's corporate governance principles; our December 2005 meeting was held without the Managing Board in attendance.

At our December 2006 meeting, the Supervisory Board discussed in detail the background to and present status of investigations into allegations of embezzlement, bribery and tax evasion on the part of former and current Company employees. We expressed our unconditional support for the measures introduced by the Audit Committee (see page 77 of this Report).

At the same meeting, the Supervisory Board determined that Siemens AG – in accordance with the Company's Declaration of Conformity – had complied with the recommendations of the German Corporate Governance Code in fiscal 2006. As stated in the Declaration of Conformity approved by the Supervisory Board, Siemens complies with all but one of the Code's recommendations: the Company does not comply with the new recommendation of the German Corporate Governance Code (as amended on June 12, 2006) regarding the annual statement of the allocation to accrued pension liabilities or pension funds for pension commitments to Managing Board members.

Further information on corporate governance at the Company and a detailed report on the level and structure of the remuneration paid to members of the Supervisory and Managing Boards appear on pages 80 ff. and 86 ff. of this Report.

Committee meetings

As one of the Supervisory Board's four committees, the Chairman's Committee remained in close contact with the Managing Board between the regular meetings of the Supervisory Board. The Chairman's Committee met three times, primarily to address personnel matters, issues relating to Managing Board remuneration, and the determination of variable and stock-based remuneration components. In addition, the Chairman's Committee dealt with the Company's strategy and performance and with matters relating to corporate governance.

Together with the independent auditors, the President and Chief Executive Officer, and the Chief Financial Officer, the Audit Committee discussed the Annual Financial Statements of Siemens AG and the Consolidated Financial Statements of Siemens worldwide, the appropriation of net income and the Annual Report on Form 20-F for the U.S. Securities and Exchange Commission (SEC). During the year, the Committee also gave in-depth consideration to the Company's quarterly reports, the appointment of the independent auditors, oversight of the auditors' independence and efficiency, and their fee. In addition, the Audit Committee dealt intensively with the Company's risk management system and with the authorization and findings of the internal financial audit and the reports concerning legal and regulatory risks as well as the transition of the Company's financial reporting system to the IFRS. In addition, the Audit Committee devoted several meetings to compliance with the provisions of Section 404 of the Sarbanes-Oxley Act (SOA) regarding internal control systems.

At the beginning of fiscal 2006, the annual Compliance Report for fiscal 2005 was presented to the Audit Committee and explained by the Chief Compliance Officer. At subsequent meetings, the Chief Compliance Officer reported regularly to the Audit Committee on the status of current and impending legal proceedings, the handling of complaints regarding the Company's financial statements, the implementation of compliance-related measures and new developments in compliance law. At its December meeting, the Audit Committee – in connection with the legal proceedings relating to allegations of embezzlement, bribery and tax evasion on the part of former and current Company employees – retained the law firm Debevoise & Plimpton LLP to:

- clarify the circumstances relating to the criminal allegations at Com
- analyze the implications of current findings for the efficiency of the Company's compliance system and its internal control system
- investigate whether similar situations have arisen at any other Siemens Group.

Debevoise & Plimpton will also commission independent auditors to support them in the examination of Siemens' control systems by providing forensic accounting experts. At the suggestion of the Corporate Executive Committee, the Audit Committee appointed the internationally recognized expert Michael J. Hershman as Siemens' compliance advisor.

The Audit Committee met six times during the year, sometimes without the Managing Board in attendance, to evaluate its own activities and review its bylaws.

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

All committees reported to the Supervisory Board on a regular basis.

Financial statements

Our independent auditors, KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft (KPMG), Berlin and Frankfurt/Main, audited the Annual Financial Statements of Siemens AG and the related management's discussion and analysis (MD&A) as well as the consolidated MD&A for the year ended September 30, 2006 in accordance with the requirements of the German Commercial Code (HGB) and approved them without qualification. The Consolidated Financial Statements were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). KPMG's audit was conducted in accordance with German generally accepted standards for the audit of financial statements promulgated by the "Institut der Wirtschaftsprüfer in Deutschland e.V." (IDW). KPMG confirmed that the Consolidated Financial Statements and the consolidated MD&A fulfill the conditions for exemption from compliance with reporting rules under German law.

The above-mentioned documents as well as the Managing Board's proposal for the appropriation of net income were submitted to us by the Managing Board in a timely manner. The Audit Committee discussed these documents in detail. We also examined them. The KPMG audit reports were presented to all members of the Supervisory Board, and we reviewed them comprehensively at our meeting on December 11, 2006, in the presence of the independent auditors, who reported on the main findings of their audit. At this meeting, the Managing Board explained the Annual and Consolidated Financial Statements as well as the risk management system. It also provided a detailed report on the scope, focal points and costs of the audit.

As a result of the definitive findings of the examination by the Audit Committee and the full Supervisory Board, we raised no objections. In view of our approval, the financial statements are accepted as submitted.

We endorse the Managing Board's proposal that the net income available for distribution be used to pay out a dividend of €1.45 per share entitled to a dividend. In addition, we approve the proposal that the amount attributable to treasury stock be carried forward.

Changes in the composition of the Supervisory and Managing Boards

The composition of the Supervisory Board of Siemens AG changed in fiscal 2006. Thomas Rackow succeeded Klaus Wigand, who resigned at the conclusion of the Annual Shareholders' Meeting on January 26, 2006, as representative of the Company's senior executives. We thanked Mr. Wigand for his long years of service.

There were also changes in the composition of the Managing Board. Heinz-Joachim Neubürger, who had been a member of the Managing Board since November 1997 and Chief Financial Officer since January 1998, left the Company on April 30, 2006. Joe Kaeser was appointed member of the Managing Board and Chief Financial Officer. In this latter capacity, Mr. Kaeser is also a member of the Corporate Executive Committee. He was previously head of Corporate Strategies.

Dr. h.c. Thomas Ganswindt left the Company on September 30, 2006. A member of the Managing Board since December 2002, he was elected in October 2004 to the Corporate Executive Committee, where he had special responsibility for the Company's Information and Communications business area.

Eduardo Montes was appointed member of the Managing Board of Siemens AG and President of the Communications Group, effective May 1, 2006. Mr. Montes was previously President of Siemens in Spain.

Professor Dr. Edward G. Krubasik, who had been a member of the Corporate Executive Committee since the beginning of 1997, and Professor Dr. Claus Weyrich, who had been a member of the Managing Board and head of Corporate Technology since October 1996, left the Company at the end of their terms of office on September 30, 2006.

We thanked the departing members of the Managing Board for their many years of extraordinary commitment to the Company.

Professor Dr. Hermann Requardt, who has been a member of the Managing Board since May 1, 2006, was elected to the Corporate Executive Committee, effective October 1, 2006. Within the Committee, he has special responsibility for Siemens VDO Automotive (SV) and the Region Japan. He is also head of Corporate Technology.

Berlin and Munich, December 11, 2006
For the Supervisory Board

Heinrich v. Pierer

Prof. Dr. Heinrich v. Pierer
Chairman

Corporate Governance Report

In keeping with its traditions, Siemens places a high priority on corporate governance. Siemens complies with the recommendations of the German Corporate Governance Code (Code), which was first issued in 2002 and later expanded in May 2003, in June 2005 and in June 2006, in all but one respect: no individual disclosure of the annual allocation to accrued pension liabilities or pension funds for members of the Managing Board in the case of pension plans. Since disclosure of pension awards to members of the Managing Board is statutorily required only by the next annual report, the isolated disclosure of the individual allocation to accrued pension liabilities or pension funds in the case of pension plans does not appear to be appropriate.

The Managing Board and the Supervisory Board of Siemens AG, respectively, discussed compliance with the recommendations of the Code, in particular with regard to the amendments of June 12, 2006. Based on these deliberations, the Boards approved the Declaration of Conformity (with the Code) which is set forth below (on page 85 of this Report), posted on our website and updated as necessary. Siemens voluntarily complies with the Code's non-obligatory suggestions, with only minor exceptions.

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

Management and Control Structure

The Supervisory Board

As a German stock corporation, Siemens is subject to German corporate law and has a two-tier management and oversight structure, consisting of a 10-member Managing Board and a 20-member Supervisory Board. The German Codetermination Act (Mitbestimmungsgesetz) requires that the Company's shareholders and its employees each select one-half of the Supervisory Board's members.

According to the Bylaws for the Supervisory Board, the shareholder representatives must be independent. Some Supervisory Board members hold, or held in the past year, high-ranking positions at other companies; nevertheless, our sales and purchases of products and/or services to or from such companies are transacted on an arm's length basis. We believe that these dealings do not compromise the independence of the associated Supervisory Board members.

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

The Supervisory Board's Bylaws establish four committees, whose duties, responsibilities and procedures fulfill the requirements of the Code, reflect applicable SOA requirements and incorporate applicable NYSE rules, as well as certain NYSE rules not mandatorily applicable to Siemens AG.

The **Chairman's Committee** performs the collective tasks of a nominating, compensation and corporate governance committee. In particular, it makes proposals regarding the appointment of Managing Board members and establishes guidelines for the conditions of employment and for the structure and level of the remuneration of Managing Board members.

The **Audit Committee** consists of three shareholder representatives and two employee representatives. The Supervisory Board monitors the independence of the members of the committee and sees to it that they have special knowledge and experience in the application of accounting principles and internal control processes. The Audit Committee oversees the appropriateness and the effectiveness of the Company's external and internal accounting processes. Together with the independent auditors, it also reviews the Company's financial statements prepared quarterly and annually by management. On the basis of the independent auditors' report on the annual financial statements, the Audit Committee makes a recommendation to the Supervisory Board whether or not it should approve those financial statements. In addition, the Audit Committee oversees the Company's internal control system and its procedures for assessing, monitoring and managing risk. It also monitors statutory and regulatory compliance. The Company's Financial Audit Department reports regularly to the Audit Committee. In addition, the Audit Committee monitors the independence, qualifications, rotation and performance of the independent auditors and performs the other functions required of it under the SOA.

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

The **Ownership Rights Committee** is responsible for decisions regarding the exercise of Siemens' shareholder rights in subsidiaries subject to the German Codetermination Act.

The Managing Board

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

Directors' dealings of Managing Board and Supervisory Board

Pursuant to § 15a of the German Securities Trading Act (WpHG), members of the Managing and Supervisory Boards are required to disclose purchases or sales of shares of Siemens AG or financial instruments based on such shares if the total amount of transactions of a board member and any closely associated person is at least €5,000 during any calendar year.

The following transactions were executed in fiscal 2006 and reported to Siemens:

Date of transaction	First and family name	Function/Status	Form and place of transaction	Financial instrument and ISIN	Number of shares	Share price	Total amount	Comment
09/15/2006	Uriel Jonathan Sharef	Member of Managing Board	Sale of shares XETRA	Siemens Share DE0007236101	7,875	€67.42	€530,932.50	Sale of shares in line with 1999 Siemens Stock Option Plan
09/15/2006	Klaus Kleinfeld	President of Managing Board	Sale of shares XETRA	Siemens Share DE0007236101	3,900	€67.42	€262,938	Sale of shares in line with 1999 Siemens Stock Option Plan
09/15/2006	Erich R. Reinhardt	Member of Managing Board	Sale of shares XETRA	Siemens Share DE0007236101	8,775	€67.42	€591,610.50	Sale of shares in line with 1999 Siemens Stock Option Plan
09/13/2006	Edward G. Krubasik	Member of Managing Board	Sale of shares XETRA	Siemens Share DE0007236101	17,250	€67.15	€1,158,337.50	Sale of shares in line with 1999 Siemens Stock Option Plan
02/14/2006	Klaus Wucherer	Member of Managing Board	Sale of shares XETRA	Siemens Share DE0007236101	11,250	€75.15	€845,437.50	Sale of shares in line with 1999 Siemens Stock Option Plan
02/02/2006	Heinrich v. Pierer	Chairman of the Supervisory Board	Sale of shares XETRA	Siemens Share DE0007236101	17,250	€73.96	€1,275,810	Sale of shares in line with 1999 Siemens Stock Option Plan
02/01/2006	Heinz-Joachim Neubürger	Member of Managing Board	Sale of shares XETRA	Siemens Share DE0007236101	30,000	€75.40	€2,250,000	Sale of shares in line with 2001 Siemens Stock Option Plan
12/16/2005	Klaus Wigand	Member of Supervisory Board	Sale of shares XETRA	Siemens Share DE0007236101	200	€70.44	€14,088	Regular Sale of Siemens shares
12/07/2005	Jürgen Radomski	Member of Managing Board	Sale of shares XETRA	Siemens Share DE0007236101	11,250	€66.47	€747,787.50	Sale of shares in line with 1999 Siemens Stock Option Plan
11/25/2005	Claus Weyrich	Member of Managing Board	Sale of shares XETRA	Siemens Share DE0007236101	10,000	€65.01	€650,100	Sale of shares in line with 2001 Siemens Stock Option Plan
11/25/2005	Claus Weyrich	Member of Managing Board	Sale of shares XETRA	Siemens Share DE0007236101	10,500	€65.01	€682,605	Sale of shares in line with 1999 Siemens Stock Option Plan
11/18/2005	Thomas Ganswindt	Member of Managing Board	Sale of shares XETRA	Siemens Share DE0007236101	20,000	€64.99	€1,299,800	Sale of shares in line with 2001 Siemens Stock Option Plan

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

Shareholder relations

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

Among other things, the Annual Shareholders' Meeting decides on the appropriation of net income, ratification of the acts of the Managing and Supervisory Boards, and the appointment of the independent auditors. Amendments to the Articles of Association and measures which change the Company's capital stock are approved exclusively at the Annual Shareholders' Meeting and are implemented by the Managing Board. Shareholders may submit counter-proposals to the proposals of the Managing and Supervisory Boards and may contest decisions of the Annual Shareholders' Meeting. Shareholders owning Siemens stock with an aggregate notional value of €100,000 or more may also demand the appointment of special auditors to examine specific occurrences.

As part of our investor relations activities, the CEO, the CFO and individual members of the Groups' executive management meet regularly with analysts and institutional investors. We hold a conference for analysts once a year, as well as telephone conferences with analysts upon the publication of our quarterly results.

Business Conduct Guidelines and Code of Ethics

The Managing Board has established Business Conduct Guidelines that contain rules regarding compliance with applicable laws, conflicts of interest, the use of Company assets and facilities, and insider trading. The Guidelines also specify procedures for dealing with complaints. These rules are binding for all Siemens employees and the Managing Board. The members of the Supervisory Board shall comply with them where applicable.

A compliance officer, who reports to the Audit Committee, processes all complaints, including those submitted anonymously. In accordance with the requirements of the SOA, procedures for handling potential complaints related to accounting practices, and procedures for handling relevant complaints from specific attorneys (internal and external) have also been implemented. In addition to the internal procedures for reporting and handling complaints, an external attorney has been engaged recently to act as an independent "ombudsman" and to provide a new protected communication channel for Siemens employees and third parties. Furthermore, the Managing Board and the Supervisory Board have implemented a Code of Ethics for Financial Matters, as required by the SOA rules. Both the Business Conduct Guidelines and the Code of Ethics for Financial Matters are available on our website.

Corporate Governance Guidelines

Our Articles of Association, the Bylaws for the Supervisory Board and its committees, the Bylaws for the Managing Board, all declarations of conformity, the report on our fulfillment of the requirements of the Code, and various other documents pertaining to our corporate governance may be found on our Internet website at www.siemens.com/corporate_governance.

Significant differences from NYSE Corporate Governance Standards

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

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

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

Two-tier board

The German Stock Corporation Act requires Siemens AG to have a two-tier board structure consisting of a Managing Board and a Supervisory Board. The two-tier system provides a strict separation of management and supervision. Roles and responsibilities of each of the two boards are clearly defined by law. The composition of the Supervisory Board is determined in accordance with the Codetermination Act, which requires that one-half of the required 20 Supervisory Board members must be elected by our domestic employees. In the event of a tie vote at the Supervisory Board, the Chairman of the Supervisory Board is entitled to cast a deciding vote.

Independence

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

Committees

In contrast to the NYSE Standards, which require the creation of several specified board committees, composed of independent directors and operating pursuant to written charters that set forth their tasks and responsibilities, the Supervisory Board of Siemens AG has combined the functions of a nominating, compensation and corporate governance committee in the Chairman’s Committee. Both the Audit Committee and the Chairman’s Committee have written bylaws – adopted by the Supervisory Board based on the NYSE Standards – addressing their respective purposes and responsibilities.

The Audit Committee of Siemens AG is subject to the standards of the SOA and the Securities Exchange Act of 1934, as applicable to a foreign private issuer, and performs functions similar to those of an audit committee subject to the full NYSE Standards. Nevertheless, German law precludes certain responsibilities from being delegated to a committee, such as the selection of the independent auditors, who are required by German law to be elected at the shareholders' meeting.

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

Shareholder approval of equity compensation plans; stock repurchases
The NYSE Standards generally require U.S. domestic companies listed on the NYSE to obtain shareholder approval of all equity compensation plans (including stock option plans) and any material revisions to them. Similarly, our adoption of stock option plans and any material revisions thereto require the approval by our shareholders in so far as the issuance of shares and/or stock options under authorized or contingent capital authorizations requires shareholder approval (which approval requires consideration of the key elements of the applicable option plan or relevant modifications). The 2001 Siemens Stock Option Plan, for example, was approved in 2001 by our shareholders. This approval expires in December 2006 (five years after the first grant of options under this authorization). Similarly, under German law, share buy-backs generally require the prior authorization by shareholders. Such approval was provided at our January 26, 2006 Annual Shareholders' Meeting, and this matter will generally be voted upon annually.

Declaration of Conformity with the Code
On December 6 and December 11, 2006, respectively, the Managing Board and the Supervisory Board approved the following Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act:

Siemens AG fully complies and will continue to comply with the recommendations of the German Corporate Governance Code (Code) in the version of June 12, 2006 with one exception (no individual disclosure of the annual allocation to accrued pension liabilities or pension funds for members of the Managing Board in the case of pension plans, Section 4.2.5 para. 2, 2nd sentence of the Code). Since making its last Declaration of Conformity dated November 9, 2005, Siemens AG has fully complied with the recommendations of the Code in the version of June 2, 2005.

Berlin and Munich, December 11, 2006

Siemens Aktiengesellschaft
Managing Board Supervisory Board

Compensation Report

The Compensation Report outlines the principles used for determining the compensation of the Managing Board of Siemens AG and sets out the level and structure of Managing Board remuneration.

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

The 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 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 this 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 Prof. 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 paid by peer companies. 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 market for highly qualified executives and to provide incentives in a high-performance culture.

In fiscal year 2006, the Managing Board remuneration had four components: (i) a fixed annual salary, (ii) a variable bonus which the Chairman's Committee may adjust upward or downward by up to 20 percent of the amount of target attainment, (iii) stock-based compensation, and (iv) a pension benefit contribution. With regard to fixed salary and bonus, an annual target compensation is determined, consisting of 50% fixed and 50% variable components. The target compensation is reviewed every two to three years on the basis of an analysis of the compensation paid by peer companies to their top managers. The last review was conducted as of April 1, 2006. In the course of this review, the target compensation was adjusted upward by approximately 20%. In addition, the composition of the total compensation was changed with the goal of giving greater importance to stock-based compensation, excluding the payment of the LT bonus in the form of a commitment to issue or transfer shares (see below), in the future. Therefore, this compensation component was raised. The granting of stock options is no longer planned. Overall the average compensation was adjusted upward by approximately 30%. This adjustment is not obvious in the Managing Board remuneration reported in this section as the values were reduced by the amount of increase related to the target compensation for one year and the proposed amount of increase of the stock-based compensation for fiscal year 2006, in connection with the hardship fund to provide financial support for employees of BenQ Mobile in Germany (see below).

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

- The fixed compensation is paid as a monthly salary.
- The variable bonus is based on the level of the Company's attainment of certain EVA targets and other financial goals, if any, that are set at the start of the fiscal year by the Chairman's Committee of the Supervisory Board (for details on EVA as a performance measure, see Management's discussion and analysis, on pages 116 ff.). One half of the bonus is paid as an annual bonus and is contingent upon achieving the Company-wide EVA target established for the fiscal year. The other half is granted as a long-term bonus (LT bonus), the amount of which depends on the average attainment of EVA targets over a three-year period. In any year, the annual bonus and the LT bonus may not exceed 250 percent of the base amount applicable to the variable compensation component. In addition to the EVA-oriented targets in fiscal 2006 a target relating to net cash from operating and investing activities was established. For fiscal year 2005 for the last time, one half of the LT bonus was paid in the form of a commitment to issue or transfer shares of Siemens AG (stock awards), while the other half was paid in cash. Beginning with the fiscal year 2006, the LT bonus is paid entirely in cash.
  The same principles for determining the bonus apply to Managing Board members who are not members of the Corporate Executive Committee. Their targets, however, may additionally depend on the financial performance of the corporate units they lead. The LT bonus was already paid out fully in cash in fiscal 2005.
- The stock-based compensation consists of stock options issued under the terms of the 2001 Siemens Stock Option Plan as authorized by shareholders at the Annual Shareholders' Meeting of Siemens AG on February 22, 2001 (for details on the Siemens Stock Option Plans, see the Notes to Consolidated Financial Statements, pages 211 ff.) and a commitment to issue or transfer shares of Siemens AG (stock awards). The Chairman's Committee of 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. The Chairman's Committee of the Supervisory Board has decided that only stock awards will be granted for fiscal year 2006 and with effect from fiscal year 2007 onwards.
- 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. However, severance payments may result from individually agreed termination arrangements.

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.

On November 7, 2006, the Chairman's Committee of the Supervisory Board determined the bonus amounts and the number of stock awards to be granted, after assessing the attainment of the targets set at the start of the fiscal year.

For the fiscal year 2006, the aggregate cash compensation amounted to €27.8 million (2005: €20.9 million) and total remuneration amounted to €30.4 million (2005: €28.0 million), representing an increase in total remuneration of 8.5 percent.

In the process, both the variable cash bonus and the stock-based compensation were reduced by the amount of increase related to the target compensation for one year and the proposed amount of increase for fiscal year 2006, respectively. The resulting total of €4.52 million was transferred to the hardship fund to provide financial support for employees of BenQ Mobile in Germany.

The following compensation was determined for the members of the Managing Board for fiscal year 2006:

(Amounts in €)[1]		Cash compensation	Fair value of stock-based compensation	Total
Prof. Dr. Heinrich v. Pierer[2]	2006	–	–	–
	2005	*958,389*	*244,414*	*1,202,803*
Dr. Klaus Kleinfeld[2]	2006	3,248,462	375,058	3,623,520
	2005	*2,323,193*	*946,911*	*3,270,104*
Prof. Johannes Feldmayer	2006	2,363,217	250,016	2,613,233
	2005	*1,821,301*	*716,666*	*2,537,967*
Dr. Thomas Ganswindt	2006	2,420,147	–	2,420,147
	2005	*1,764,948*	*641,515*	*2,406,463*
Joe Kaeser[3]	2006	963,983	300,046	1,264,029
	2005	*–*	*–*	*–*
Prof. Dr. Edward G. Krubasik	2006	2,453,825	–	2,453,825
	2005	*1,832,685*	*716,666*	*2,549,351*
Rudi Lamprecht	2006	2,272,986	250,016	2,523,002
	2005	*1,730,431*	*625,190*	*2,355,621*
Heinz-Joachim Neubürger[4]	2006	1,422,636	–	1,422,636
	2005	*1,822,925*	*716,666*	*2,539,591*
Dr. Jürgen Radomski	2006	2,351,448	250,016	2,601,464
	2005	*1,818,389*	*716,666*	*2,535,055*
Dr. Uriel J. Sharef	2006	2,360,975	250,016	2,610,991
	2005	*1,831,833*	*716,666*	*2,548,499*
Prof. Dr. Klaus Wucherer	2006	2,350,989	250,016	2,601,005
	2005	*1,822,218*	*716,666*	*2,538,884*
Eduardo Montes[5][6]	2006	1,071,137	200,054	1,271,191
	2005	*–*	*–*	*–*
Prof. Dr. Erich R. Reinhardt[6]	2006	2,038,914	200,054	2,238,968
	2005	*1,756,836*	*200,034*	*1,956,870*
Prof. Dr. Hermann Requardt[5][6]	2006	913,559	200,054	1,113,613
	2005	*–*	*–*	*–*
Prof. Dr. Claus Weyrich[6]	2006	1,606,982	–	1,606,982
	2005	*1,381,990*	*150,007*	*1,531,997*
Total	**2006**	**27,839,260**	**2,525,346**	**30,364,606**
	2005	***20,865,138***	***7,108,067***	***27,973,205***

(1) The amounts for 2006 shown in this table are those obtained after reducing the variable cash bonus and the stock-based compensation in connection with the transfer of Managing Board remuneration to the hardship fund for BenQ Mobile employees in Germany. The fair value of stock-based compensation relates to stock options and stock awards granted in November 2006 and 2005 for fiscal years 2006 and 2005, respectively.

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

(3) Joe Kaeser was appointed a full member of the Managing Board of Siemens AG, effective May 1, 2006.

(4) Heinz-Joachim Neubürger resigned from the Managing Board on April 30, 2006.

(5) Eduardo Montes and Prof. Dr. Hermann Requardt were appointed deputy members of the Managing Board of Siemens AG, effective May 1, 2006.

(6) Deputy members of the Managing Board. Prof. Dr. Hermann Requardt was appointed a full member of the Managing Board of Siemens AG, effective October 1, 2006.

The following table describes the details of cash compensation:

(Amounts in €)[1]		Cash compensation: Salary	Annual bonus	LT bonus	Other[2]	Total
Prof. Dr. Heinrich v. Pierer[4]	2006	–	–	–	–	–
	2005	405,000	299,257	244,445[3]	9,687	958,389
Dr. Klaus Kleinfeld[4]	2006	1,160,480	1,055,707	998,721	33,554	3,248,462
	2005	950,040	768,794	571,883[3]	32,476	2,323,193
Prof. Johannes Feldmayer	2006	845,520	747,819	728,408	41,470	2,363,217
	2005	755,040	571,280	466,627[3]	28,354	1,821,301
Dr. Thomas Ganswindt	2006	755,040	835,790	715,529	113,788	2,420,147
	2005	755,040	571,280	391,452[3]	47,176	1,764,948
Joe Kaeser[5]	2006	325,000	337,448	291,460	10,075	963,983
	2005	–	–	–	–	–
Prof. Dr. Edward G. Krubasik	2006	755,040	835,790	817,839	45,156	2,453,825
	2005	755,040	571,280	466,627[3]	39,738	1,832,685
Rudi Lamprecht	2006	845,520	747,819	651,022	28,625	2,272,986
	2005	755,040	571,280	375,136[3]	28,975	1,730,431
Heinz-Joachim Neubürger[6]	2006	440,440	487,544	477,073	17,579	1,422,636
	2005	755,040	571,280	466,627[3]	29,978	1,822,925
Dr. Jürgen Radomski	2006	845,520	747,819	728,408	29,701	2,351,448
	2005	755,040	571,280	466,627[3]	25,442	1,818,389
Dr. Uriel J. Sharef	2006	845,520	747,819	728,408	39,228	2,360,975
	2005	755,040	571,280	466,627[3]	38,886	1,831,833
Prof. Dr. Klaus Wucherer	2006	845,520	747,819	728,408	29,242	2,350,989
	2005	755,040	571,280	466,627[3]	29,271	1,822,218
Eduardo Montes[7][8]	2006	325,000	400,416	330,411	15,310	1,071,137
	2005	–	–	–	–	–
Prof. Dr. Erich R. Reinhardt[8]	2006	714,990	658,513	633,237	32,174	2,038,914
	2005	525,030	506,841	692,671[3]	32,294	1,756,836
Prof. Dr. Hermann Requardt[7][8]	2006	291,750	321,558	292,633	7,618	913,559
	2005	–	–	–	–	–
Prof. Dr. Claus Weyrich[8]	2006	505,500	543,031	531,368	27,083	1,606,982
	2005	450,000	344,205	562,285[3]	25,500	1,381,990
Total	**2006**	**9,500,840**	**9,214,892**	**8,652,925**	**470,603**	**27,839,260**
	2005	**8,370,390**	**6,489,337**	**5,637,634**[3]	**367,777**	**20,865,138**

(1) The amounts for 2006 shown in this table are those obtained after reducing the variable cash bonus in connection with the transfer of Managing Board remuneration to the hardship fund for BenQ Mobile employees in Germany.
(2) Other compensation includes non-cash benefits in the form of company cars of €300,753 (2005: €282,112), subsidized insurance of €80,527 (2005: €85,665), accommodation and moving expenses of €10,500 (2005: €0.00), and a cash settlement of stock awards of €78,823 (2005: €0.00).
(3) LT bonus cash portion.
(4) On January 27, 2005, Prof. Dr. Heinrich v. Pierer was elected to the Supervisory Board of Siemens AG. Dr. Klaus Kleinfeld was appointed to succeed Prof. Dr. Heinrich v. Pierer as CEO and President of the Managing Board of Siemens AG, effective January 27, 2005.
(5) Joe Kaeser was appointed a full member of the Managing Board of Siemens AG, effective May 1, 2006.
(6) Heinz-Joachim Neubürger resigned from the Managing Board on April 30, 2006.
(7) Eduardo Montes and Prof. Dr. Hermann Requardt were appointed deputy members of the Managing Board of Siemens AG, effective May 1, 2006.
(8) Deputy members of the Managing Board. Prof. Dr. Hermann Requardt was appointed a full member of the Managing Board of Siemens AG, effective October 1, 2006.

Both, the number of units and the values of the stock-based compensation components, are shown in the following 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 stock awards are not eligible to receive dividends. The resulting value amounted to €67.70 (2005: €57.28).

For fiscal year 2006, the members of the Managing Board received a total of 37,302 stock awards, with a total fair value of €2,525,346. Stock options were no longer granted.

Accordingly, stock-based compensation was as follows:

		Stock-based compensation						
		Number of units			Fair value			
(Amounts in number of units or €)[1]		Stock awards from LT bonus[2]	Other stock awards[2]	Stock options[3]	Stock awards from LT bonus[2]	Other stock awards[2]	Stock options[3]	Total
Prof. Dr. Heinrich v. Pierer[4]	2006	–	–	–	–	–	–	–
	2005	4,267	–	–	244,414	–	–	244,414
Dr. Klaus Kleinfeld[4]	2006	–	5,540	–	–	375,058	–	375,058
	2005	9,984	3,470	43,415	571,884	198,762	176,265	946,911
Prof. Johannes Feldmayer	2006	–	3,693	–	–	250,016	–	250,016
	2005	8,146	2,314	28,945	466,603	132,546	117,517	716,666
Dr. Thomas Ganswindt	2006	–	–	–	–	–	–	–
	2005	6,834	2,314	28,945	391,452	132,546	117,517	641,515
Joe Kaeser[5]	2006	–	4,432	–	–	300,046	–	300,046
	2005	–	–	–	–	–	–	–
Prof. Dr. Edward G. Krubasik	2006	–	–	–	–	–	–	–
	2005	8,146	2,314	28,945	466,603	132,546	117,517	716,666
Rudi Lamprecht	2006	–	3,693	–	–	250,016	–	250,016
	2005	6,549	2,314	28,945	375,127	132,546	117,517	625,190
Heinz-Joachim Neubürger[6]	–	–	–	–	–	–	–	–
	2005	8,146	2,314	28,945	466,603	132,546	117,517	716,666
Dr. Jürgen Radomski	2006	–	3,693	–	–	250,016	–	250,016
	2005	8,146	2,314	28,945	466,603	132,546	117,517	716,666
Dr. Uriel J. Sharef	2006	–	3,693	–	–	250,016	–	250,016
	2005	8,146	2,314	28,945	466,603	132,546	117,517	716,666
Prof. Dr. Klaus Wucherer	2006	–	3,693	–	–	250,016	–	250,016
	2005	8,146	2,314	28,945	466,603	132,546	117,517	716,666
Eduardo Montes[7] [8]	2006	–	2,955	–	–	200,054	–	200,054
	2005	–	–	–	–	–	–	–
Prof. Dr. Erich R. Reinhardt[8]	2006	–	2,955	–	–	200,054	–	200,054
	2005	–	1,851	23,155	–	106,025	94,009	200,034
Prof. Dr. Hermann Requardt[7] [8]	2006	–	2,955	–	–	200,054	–	200,054
	2005	–	–	–	–	–	–	–
Prof. Dr. Claus Weyrich[8]	2006	–	–	–	–	–	–	–
	2005	–	1,388	17,365	–	79,505	70,502	150,007
Total	**2006**	**–**	**37,302**	**–**	**–**	**2,525,346**	**–**	**2,525,346**
	2005	***76,510***	***25,221***	***315,495***	***4,382,495***	***1,444,660***	***1,280,912***	***7,108,067***

(1) The amounts for 2006 shown in this table are those obtained after reducing the stock-based compensation in connection with the transfer of Managing Board remuneration to the hardship fund for BenQ Mobile employees in Germany. The fair value of stock-based compensation relates to stock options and stock awards granted in November 2006 and 2005 for fiscal years 2006 and 2005, respectively.

(2) After a holding period of four years, the stock awards will be settled on November 10, 2010 (awards granted for fiscal year 2005 on November 11, 2009). Under the stock award agreement, the eligible recipients will receive a corresponding number of Siemens shares without additional payment.

(3) The stock options issued for fiscal year 2005 will be exercisable after a holding period of two years between November 19, 2007 and November 18, 2010 at a price of €74.59 per share under the terms and conditions specified in the 2001 Siemens Stock Option Plan (for details see the Notes to Consolidated Financial Statements, pages 212 ff.). 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 of the stock options granted for fiscal year 2005 would have been €4.06 per option, which amount was taken as the basis in this table.

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

(5) Joe Kaeser was appointed a full member of the Managing Board of Siemens AG, effective May 1, 2006.

(6) Heinz-Joachim Neubürger resigned from the Managing Board on April 30, 2006.

(7) Eduardo Montes and Prof. Dr. Hermann Requardt were appointed deputy members of the Managing Board of Siemens AG, effective May 1, 2006.

(8) Deputy members of the Managing Board. Prof. Dr. Hermann Requardt was appointed a full member of the Managing Board of Siemens AG, effective October 1, 2006.

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 2006, the members of the Managing Board were granted contributions under the BSAV totaling €4.2 million (2005: €3.4 million), based on a resolution adopted by the Chairman's Committee of the Supervisory Board on November 7, 2006. Of this amount, €0.7 million relates to funding of pension commitments earned prior to transfer to the BSAV and the remaining €3.5 million to contributions granted under the BSAV.

The projected benefit obligation (PBO) of all pension commitments to members of the Managing Board as of September 30, 2006 amounted to €54.8 million (2005: €52.9 million), which amount is included in Note 21 to the Consolidated Financial Statements.

Former members of the Managing Board and their surviving dependents received emoluments within the meaning of § 314 (1), no. 6 b of the HGB, totaling €14.4 million (2005: €15.6 million) for the year ended September 30, 2006.

The projected benefit obligation (PBO) of all pension commitments to former members of the Managing Board and their surviving dependents as of September 30, 2006 amounted to €125.6 million (2005: €128.9 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 determined 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 2006 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 2006, the Supervisory Board's remuneration was determined on the basis of earnings per share in the amount of €3.40. 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. Each member of the committees and additionally the chairmen of these committees (in each case other than the Chairman's Committee, the Mediation Committee, and the Ownership Rights Committee) each receive an additional half of the fixed and the short-term variable compensation. The members of the Supervisory Board are reimbursed for any out-of-pocket expenses incurred in connection with their duties and for any sales taxes to be paid on their remuneration. The Chairman of the Supervisory Board is provided a company car and an office with secretarial services.

(Amounts in €)	2006 Fixed compensation	2006 Short-term variable compensation	2006 Long-term variable compensation	2006 Total	2005 Fixed compensation	2005 Short-term variable compensation	2005 Long-term variable compensation	2005 Total
Dr. Karl-Hermann Baumann[(1)(2)]	–	–	–	–	50,000	22,800	–	72,800
Prof. Dr. Heinrich v. Pierer[(1)(2)]	125,000	86,250	–	211,250	93,750	42,750	–	136,500
Ralf Heckmann[(2)]	100,000	69,000	–	169,000	100,000	45,600	–	145,600
Dr. Josef Ackermann[(2)]	75,000	51,750	–	126,750	83,333	38,000	–	121,333
Lothar Adler	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Gerhard Bieletzki	50,000	34,500	–	84,500	50,000	22,800	–	72,800
John David Coombe	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Hildegard Cornudet	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Dr. Gerhard Cromme[(2)]	100,000	69,000	–	169,000	87,500	39,900	–	127,400
Birgit Grube	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Heinz Hawreliuk[(2)]	75,000	51,750	–	126,750	75,000	34,200	–	109,200
Berthold Huber	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Prof. Dr. Walter Kröll	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Wolfgang Müller	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Georg Nassauer	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Thomas Rackow[(3)]	37,500	25,875	–	63,375	–	–	–	–
Dr. Albrecht Schmidt	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Dr. Henning Schulte-Noelle[(2)]	75,000	51,750	–	126,750	75,000	34,200	–	109,200
Peter von Siemens	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Jerry I. Speyer	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Lord Iain Vallance of Tummel	50,000	34,500	–	84,500	50,000	22,800	–	72,800
Klaus Wigand[(3)]	16,667	11,500	–	28,167	50,000	22,800	–	72,800
Total	**1,254,167**	**865,375**	**–**	**2,119,542**	**1,264,583**	**576,650**	**–**	**1,841,233**

(1) Prof. 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.

(2) Each of Prof. 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 in the prior year. The same applies to Dr. Josef Ackermann as a former member of the Audit Committee.

(3) Thomas Rackow, formerly a substitute member of the Supervisory Board of Siemens AG, became a member of the Supervisory Board as a successor to Klaus Wigand with effect from January 26, 2006.

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 13, 2006, Managing Board members serving on the board during the fiscal year held a total of 1,338,539 (2005: 1,104,459) Siemens shares and stock options on Siemens shares, representing 0.150 percent (2005: 0.124 percent) of the capital stock of Siemens AG. As of the same day, members of the Supervisory Board serving on the board during the fiscal year held 177,019 (2005: 185,544) Siemens shares and stock options on Siemens shares, representing 0.020 percent (2005: 0.021 percent) of the capital stock of Siemens AG. These figures do not include 10,607,390 (2005: 10,786,521) shares, or 1.2 percent (2005: 1.2 percent) of the capital stock that are held by the von Siemens-Vermögensverwaltung GmbH (vSV) – a German limited liability entity that functions much like a trust – and 39,144,979 (2005: 38,102,921) shares, or some 4.4 percent (2005: 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, para. 2, of the German Corporate Governance Code).

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We achieved a great deal in an eventful fiscal year 2006, particularly in shaping Siemens for profitable growth. We executed a major part of our strategic reorientation of the Information and Communications business area and the Logistics and Assembly Systems Group (L&A), while building on our strengths with focused acquisitions in energy, industrial automation, and healthcare. In our view, sales and order growth for the year confirmed that our portfolio is well aligned with customer demands.

Net income was €3.033 billion and basic earnings per share were €3.40, both 35% higher compared to €2.248 billion and €2.52, respectively, a year earlier. Diluted earnings per share rose to €3.26 from €2.42 a year earlier. Income from continuing operations was €3.087 billion, a 1% increase from €3.058 billion a year earlier. Basic and diluted earnings per share from continuing operations were €3.47 and €3.31, respectively. A year earlier, basic and diluted earnings per share from continuing operations were €3.43 and €3.29, respectively.

A majority of the Groups in Operations posted higher profits year-over-year. Major earnings contributions came from Automation and Drives (A&D), Medical Solutions (Med), Power Generation (PG), Siemens VDO Automotive (SV), Osram, and Power Transmission and Distribution (PTD). Severance charges at Communications (Com) were higher year-over-year, at €393 million compared to €113 million. This rise was partially offset by higher gains on sale of shares in Juniper Networks, Inc. (Juniper), which increased to €356 million in fiscal 2006 from €208 million a year earlier. Severance charges rose at Siemens Business Services (SBS) as well, totaling €393 million compared to €228 million. A year earlier, SBS also took a goodwill impairment of €262 million. The net effect of severance, Juniper gains and the goodwill impairment was a negative €430 million in fiscal 2006 compared to a negative €395 million in the prior year.

Sales rose 16%, to €87.325 billion, on a balance of organic growth and acquisitions. The increase in sales included double-digit growth at A&D, Industrial Solutions and Services (I&S), PG and PTD. Orders increased 15%, to €96.259 billion on strong demand at the Groups mentioned above, as well as Siemens Building Technologies (SBT) and Transportation Systems (TS). Both sales and order growth included new volume from acquisitions, including VA Technologie AG (VA Tech), Flender Holding GmbH (Flender) and Robicon Corp. (Robicon), all acquired late in fiscal 2005. Sales and orders in fiscal 2006 also reflect significant divestments. For additional information on portfolio transactions in fiscal 2006 see "Strategic Overview." Excluding currency translation and the net effect of acquisitions and dispositions, growth for Siemens on an organic basis was 8% in sales and 6% in orders.

Net cash provided by operating and investing activities was €367 million, compared to net cash used of €2.703 billion in fiscal 2005. On a continuing basis, net cash provided by operating and investing activities was €739 million in fiscal 2006 compared to net cash used of €1.489 billion a year earlier. Both periods included substantial outflows for acquisitions and investments. Fiscal 2006 benefited from €1.127 billion in proceeds from the sale of Siemens' remaining shares in Infineon Technologies AG (Infineon), while fiscal 2005 included €1.496 billion in cash used for supplemental contributions to Siemens pension plans.

Siemens Managing and Supervisory Boards have proposed a dividend of €1.45 per share. The dividend in the prior year was €1.35 per share.

Strategic overview

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

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 both established and new regional markets. In fiscal 2006, 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 October 2005 (the first quarter of fiscal 2006), we expanded our offerings for clean power generation infrastructure with the acquisition of Wheelabrator Air Pollution Control Inc. (Wheelabrator) in the U.S.
- In April 2006, we sold our Product Related Services (PRS) business unit to Fujitsu Siemens Computers (Holding) BV (Fujitsu Siemens), our joint venture with Fujitsu Limited of Japan.
- In June 2006, we expanded our alternative energy portfolio by acquiring the coal gasification business of the Swiss Sustec-Group, a leading provider of products and solutions for clean conversion of coal to electricity.
- In June 2006, we announced an agreement to contribute our carrier networks business to a joint venture with Nokia Corporation (Nokia). Closing for this transaction is expected for the first half of fiscal 2007. Com's carrier networks and its enterprise business are being held for disposal.
- In June 2006, we announced an agreement to acquire the Diagnostics division of Bayer AG, headquartered in the U.S. Upon closing, which is scheduled to occur in the first half of fiscal 2007, we expect this transaction to significantly strengthen our position in molecular diagnostics, a high-growth segment of the healthcare market.
- In July 2006, we entered a complementary segment of the medical diagnostics market by acquiring Diagnostic Products Corporation (DPC) in the U.S., a leading provider of in vitro immunodiagnostics solutions.
- In August 2006, we divested a significant portion of our Dematic business, which consisted of nearly all of the distribution and industry logistics businesses carved out of L&A effective with the beginning of fiscal 2006.

We further improved our business portfolio in fiscal 2006 through 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 2006, international business accounted for more than €70 billion in revenues, representing more than 80% of total sales. In particular, we expanded our business in the Americas and Asia-Pacific at more than twice the rate of growth in gross domestic product (GDP) of these regions, highlighted by strong demand for our solutions in the U.S., India and China. In the Middle East, we also grew beyond the region's gross domestic product, fueled by infrastructure investments of oil-producing nations. Siemens operates in approximately 190 countries, enabling us to bring our offerings to customers throughout the world.

We maintain a strong, conservative financial position, close 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 2006, yet our equity ratio remained above 30%. In addition, we have significantly strengthened our pension plans in recent years through regular annual contributions and substantial supplemental contributions.

Worldwide economic environment

Based on estimates of Global Insight, Inc., gross domestic product (GDP) in 2006 will grow 3.9% on a global basis, much faster than expected. Despite rising oil prices and higher interest rates, most major regions of the world will record favorable GDP growth in 2006 compared to 2005. The Americas and Europe will grow more slowly than the global rate, at 3.5% and 2.9%, respectively. In contrast, Asia-Pacific is expected to record 5.2% GDP growth, and aggregate growth for Africa, the Middle East and the Commonwealth of Independent States (CIS) will be even faster at 6.0%.

Among major national economies, China is expected to post growth of 10.6% in 2006 and India will not be far behind at 7.6%. Siemens' two largest national markets, the U.S. and Germany, will grow at 3.3% and 2.5%, respectively. Resource production and resource consumption play key roles in the distribution of national GDP growth during the year. High oil prices fuel infrastructure investments by cash-rich, oil-producing nations in the Middle East, CIS and Latin America and dampen growth in oil-dependent economies.

Market development

The market for electronics and electrical engineering solutions remained strong, with particular interest in advanced technologies that could provide cleaner and more efficient energy, increase manufacturing production efficiency, improve diagnostic and preventive healthcare, and enhance transportation.

Siemens' portfolio focus positioned the company well to meet customer demands in all these areas. Increased infrastructure investments e.g. by oil-producing nations expanded the opportunities for Siemens' Groups in power generation, power transmission and distribution, transportation and mobile networks. Rapid industrialization continued in Asia-Pacific, driven by China's economic expansion and increased off-shoring of manufacturing by companies in the U.S., Europe and Japan. This in turn fueled demand for Siemens' offerings in factory and process automation and electronics assembly. In developed nations, trends such as aging populations, healthcare and homeland security concerns and rising energy costs played to Siemens' established strengths in medical diagnostics and building security, as well as to new capabilities in alternative energy and automobile safety.

Market trends

Within the broad macroeconomic trends discussed above, there are numerous technological, geographic and customer demand trends that affect our business. Important trends that we are monitoring closely for risks and opportunities are discussed in the paragraphs that follow.

In the Information and Communications business area, information technology (IT) in general and web-based solutions in particular continued to penetrate virtually every industry, and wireless telecommunications infrastructure continued to expand rapidly, primarily in emerging economies and regions lacking established ubiquitous landline infrastructure. While the market for corporate IT services also continued to expand on a global basis, growth rates lagged in Europe.

In the Automation and Control business area, demand for factory and process automation, as well as infrastructure engineering solutions continued to rise, particularly in Asia-Pacific countries that are expanding manufacturing capacity to meet the demands of their outsourcing customers in other regions. In the U.S. and Europe, demand for automation and control solutions was strong in sectors focused on exports. In the building market, customers continued to seek technology enabling more secure, energy-efficient structures. In all regions, there is a growing trend toward reduced use of raw materials and more energy-efficient production processes.

In the Power business area, China's fast-growing economy continued to drive global demand for fossil power generation and transmission systems, followed by rising power infrastructure needs in the Middle East and the CIS countries. In the U.S. and Europe, concerns about rising energy costs and security of supply continued to stimulate investment in alternative power generation.

In the Transportation business area, Asia-Pacific's growing economies and concentration of population in cities continued to increase demand for urban transit solutions. In contrast, rail infrastructure investment slowed in Europe, particularly in Germany, which is preparing to privatize its national rail service. Growth in the global automotive industry also slowed despite rapid expansion in China, in particular resulting in volume reduction for original equipment manufacturers (OEMs). Higher fuel costs stimulated rising sales of hybrid vehicles in the U.S., and China initiated policy development to address rapidly rising auto emissions.

In the Medical business area, aging populations and increased emphasis on preventative care in developed countries continued to fuel demand for advanced in vivo diagnostics, such as computer-aided tomography and magnetic resonance imaging, along with sophisticated in vitro diagnostics based on immunology. In the U.S. and China, this trend began to meet growing societal pressure to slow increases in expenditures for health care, particularly for higher-cost tests and treatments. In the U.S., consolidation and privatization continued in the hospital market, and advanced healthcare IT systems began to expand beyond the first wave of early adopters.

In the Lighting business area, Asia-Pacific and Eastern Europe led growth in the general lighting market, and OEMs continued to shift manufacturing to these lower-cost, faster-growing markets. Demand also grew for advanced solutions, such as light emitting diodes (LEDs) and precision components, and for energy-efficient, environmentally friendly products.

Research and development

Siemens patent portfolio consists of about 62,000 patents worldwide, as well as numerous patent exchange and licensing agreements and patents for technology standards. In fiscal 2006, our researchers and developers made more than 10,000 inventions, an increase of approximately 17% compared to the prior year. We filed patent applications on approximately two-thirds of these inventions. In the patent statistics for calendar year 2005, Siemens was ranked number one in Germany, number two in Europe and among the top ten in the U.S. In fiscal 2006, Siemens increased R&D, compared to the prior year. In fiscal 2006, Com was continuously involved in developing marketable components, products and systems, such as for a new generation of wireless communications technology. Med spent in R&D, particularly to improve technology and clinical applications for medical imaging systems, such as magnet resonance imaging, computed tomography, x-ray angiography and ultrasound. R&D spending at SV was primarily focused on products increasing driver and pedestrian safety, infotainment systems as well as products for new hybrid vehicles and diesel technology. A&D focused its R&D activities on manufacturing automation. Osram spent in R&D for miniaturization of halogen lamps, increased brightness and lower production costs of LEDs. PG's R&D activities emphasized gas turbine, steam power and fossil power plant development.

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 the Groups in Operations 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. Based on a decision of the Managing Board in the fourth quarter of fiscal 2005, L&A was dissolved effective October 1, 2005. The Airport Logistics division and Postal Automation division were transferred to I&S and the Electronics Assembly Systems division was transferred to A&D. In addition, following an intensive analysis by the Managing Board associated with the strategic reorientation of Com's operations, the division Siemens Home and Office Communication Devices was reclassified from Com to Other Operations during fiscal 2006. Prior-year information was reclassified for comparability purposes. Com's Mobile Devices business is reported as discontinued operations and therefore excluded from Com's results.

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 eleven operating Groups 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)
- 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

* 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.

Effective April 1, 2007, the activities of SBS will be bundled with other corporate IT activities within a new Group called Siemens IT Solutions and Services (SIS).

A new segment called Strategic Equity Investments (SEI) was created as of October 1, 2006. SEI will include centrally managed at equity investments and will initially consist of BSH Bosch und Siemens Hausgeräte GmbH and Fujitsu Siemens Computers (Holding) BV. NSN will also be part of SEI, once the transaction is closed.

In fiscal 2006, Siemens announced significant changes that will result in dissolving Com as a Group and reportable segment during fiscal 2007.

In this report we include information concerning new orders for each of the years presented. Under our order recognition policy, we generally recognize a new order when we enter into a contract that we consider "effective and binding" based on our review of a number of different criteria. As a general rule, if a contract is considered effective and binding, we recognize the total contract value as promptly as practicable, where total contract value is defined as the agreed price for the goods to be delivered and services to be rendered, or the agreed fee, in each case for the irrevocable term of the contract. For service, maintenance and outsourcing contracts with a contractual term of greater than 12 months, if management determines that there is a high degree of uncertainty concerning whether the customer will adhere to the full contract term, the agreed fees for the next 12 months are recognized as new orders on a revolving basis. In the event an order is cancelled or modified in amount during the ongoing fiscal year, we adjust our new order total for the current period accordingly, rather than retroactively adjust previously published new order totals. However, if an order from the previous year is cancelled, it is generally not adjusted from current period new orders, but instead from existing orders on hand. There is no standard system among companies in our areas of activity for the compilation of new order information, with the result that our new order totals may not be comparable with new order totals published by other companies. Our new order totals are not audited by our external auditors, but we do subject them to internal documentation and review requirements. We may change our policies for recognizing new orders in the future without previous notice.

Fiscal 2006 – Results of Siemens

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

(€ in millions)	2006	2005
New orders	96,259	83,791
New orders in Germany	16,523	16,333
New international orders	79,736	67,458
Sales	87,325	75,445
Sales in Germany	16,245	15,685
International sales	71,080	59,760

Orders in fiscal 2006 were €96.259 billion, a 15% increase from €83.791 billion in the prior year. A majority of the Groups in Operations posted double-digit growth in orders compared to fiscal 2005. Sales of €87.325 billion were up 16% from €75.445 billion a year earlier, led by substantial increases at I&S, A&D, PTD and PG. Excluding currency translation and the net effect of acquisitions and dispositions (organic growth), orders climbed 6% and sales rose 8%. Growth was driven by international markets, where major orders were both numerous and well-distributed. International orders were up 18% year-over-year, to €79.736 billion. Sales rose 19%, to €71.080 billion. In Germany, orders were up 1% and sales increased 4% year-over-year, to €16.523 billion and €16.245 billion, respectively, primarily due to acquisitions between the periods under review.

On a regional basis, international growth was fastest in Middle East/Africa/CIS, including a 35% rise in orders, to €10.910 billion, and a 33% increase in sales, to €8.191 billion. Growth was nearly as rapid in Asia-Pacific, where orders climbed 26%, to €15.058 billion, and sales rose 28%, to €12.871 billion. Within Asia-Pacific, orders in China increased 23%, to €5.089 billion, and sales were up 39%, at €4.438 billion. Orders in India rose 67%, to €1.962 billion, and sales climbed 47%, to €1.202 billion. In the Americas, order and sales grew 16% and 20%, respectively, benefiting from strong portfolio and currency translation effects. Within this trend, the U.S. posted orders of €18.509 billion and sales of €17.388 billion, for increases of 17% and 18%, respectively. In Europe outside Germany, orders and sales each increased 11%, to €29.117 billion and €27.105 billion, respectively, benefiting strongly from portfolio effects.

(€ in millions)	2006	2005
Gross profit on sales	23,513	21,299
as percentage of sales	26.9%	28.2%

Gross profit for fiscal 2006 increased 10% year-over-year, as a majority of the Groups in Operations increased both sales and profit compared to fiscal 2005. In contrast, gross profit margin declined to 26.9% from28.2% a year earlier. While the change year-over-year included moderate decreases in gross profit margin at a majority of the Groups, the major factors were a sharp decline at PG, which took substantial charges in its fossil power generation business, and lower gross profit margins at Com and SBS, which took higher severance charges compared to a year earlier.

(€ in millions)	2006	2005
Research and development expenses	(5,024)	(4,511)
as percentage of sales	5.8%	6.0%
Marketing, selling and general administrative expenses	(15,470)	(13,684)
as percentage of sales	17.7%	18.1%
Other operating income (expense), net	205	(9)
Income from investments in other companies, net	647	584
Income from financial assets and marketable securities, net	337	297
Interest income (expense) of Operations, net	(39)	(32)
Other interest income, net	202	241

Research and development expenses increased to €5.024 billion from €4.511 billion in the prior year, led by higher outlays at Med, A&D and PTD. Due to the significant increase in our sales year-over-year, R&D expenses as a percent of sales declined to 5.8% from 6.0% in fiscal 2005. For additional information with respect to R&D, see "Business Overview and Economic Environment – Research and Development" and "Notes to Consolidated Financial Statements." Marketing, selling and administrative expenses also declined as a percent of sales, to 17.7% from 18.1% a year earlier, even as expenses rose to €15.470 billion from €13.684 billion.

Other operating income, net was €205 million in fiscal 2006, compared to a net expense of €9 million a year earlier. The primary factor in this comparison is the fiscal 2005 goodwill impairment of €262 million at SBS. Gains from the sale of real estate, net in fiscal 2006 were lower year-over-year, at €136 million compared to €177 million, and gains from disposals of businesses turned negative primarily due to a loss of €53 million on the Dematic sale. These factors were partly offset by a €70 million positive effect in the current period related to the settlement of an arbitration proceeding.

Income from investments in other companies, net increased to €647 million from €584 million a year earlier, mainly due to higher gains from sales of investments in fiscal 2006. Income from financial assets and marketable securities, net was €337 million compared to €297 million a year earlier. The current period includes higher Juniper gains, partially offset by lower income from financial assets and marketable securities, net at Corporate Treasury.

(€ in millions)	2006	2005
Income from continuing operations before income taxes	4,371	4,185
Income taxes	(1,078)	(979)
as percentage of income from continuing operations before income taxes	25%	23%
Minority interest	(206)	(148)
Income from continuing operations	3,087	3,058
Income (loss) from discontinued operations, net of income taxes	(54)	(810)
Net income	3,033	2,248

Income from continuing operations before income taxes in fiscal 2006 rose to €4.371 billion from €4.185 billion a year earlier, even as severance charges at Com and SBS increased to €786 million compared to €341 million in the prior year.

Income from continuing operations in fiscal 2006 was €3.087 billion, up 1% from €3.058 billion in fiscal 2005, due to a higher income from continuing operations before income taxes. The effective tax increased slightly to 25% in fiscal 2006 compared to 23% in the prior year. The tax rate in fiscal 2006 benefited from a release of tax liabilities for prior periods and from domestic tax free income, while it was negatively impacted by income tax charges related to the investigation launched in November 2006. For further information see “Subsequent events.” The prior year was positively affected from a reorganization of certain businesses in the U.S. generating previously unrecognized tax deductions. Minority interest increased from €148 million in fiscal 2005 to €206 million in fiscal 2006. The loss from discontinued mobile devices operations, net of income taxes was €54 million in the current period compared to a loss of €810 million a year earlier. For additional information with respect to discontinued operations, see “Notes to Consolidated Financial Statements.” Net income was €3.033 billion, up 35% from €2.248 billion in fiscal 2005.

Segment information analysis

Operations

Information and Communications

Communications (Com)

	Year ended September 30,		% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	283	421	(33)%	
Group profit margin	2.2%	3.5%		
Sales	13,080	12,201	7%	4%
New orders	13,571	12,869	5%	2%

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

In fiscal 2006, following an intensive analysis by the Managing Board on Com's strategic reorientation, Siemens announced significant changes that will result in dissolving Com as a Group and reportable segment. Effective with the third quarter, Com's two largest businesses, one serving telecommunications carriers and the other serving corporate enterprises, were classified as held for disposal. Also effective with the third quarter, the Siemens Home and Office Communications Devices division (SHC) was carved out of Com as a separate business and reported within Other Operations. Com's remaining business, Wireless Modules, will be included in A&D, effective with the beginning of fiscal 2007. SHC has been included retroactively in Other Operations to maintain a meaningful basis of comparison with prior periods. Beginning with fiscal 2007, results for Wireless Modules will be included retroactively in A&D.

Sales at Com rose 7% compared to fiscal 2005, to €13.080 billion, and orders were up 5%, at €13.571 billion. Group profit was €283 million compared to €421 million a year earlier, as severance charges increased to €393 million from €113 million a year earlier. This rise was partly offset by higher gains on sales of Juniper shares, which were €356 million compared to €208 million a year earlier. Profitability improved significantly in the carrier business, where sales rose to €9.819 billion from €8.867 billion a year earlier. In contrast, the enterprise business saw sales decline to €3.338 billion from €3.455 billion, and posted a larger loss than in the prior year. As part of its previously announced severance program, the enterprise business took the majority of the charges mentioned above.

During fiscal 2006, Siemens reached an agreement to transfer the carrier networks and services business into a joint venture with Nokia, to be called Nokia Siemens Networks (NSN). We expect this transaction to close in the first half of fiscal 2007 and result in a significant gain. We also expect that equity earnings from NSN will contribute positively to Group profit from Operations in fiscal 2007, despite integration costs and charges that may arise from severance programs related to merging Siemens and Nokia operations into a single organization. Forming the NSN joint venture and divesting the enterprise business will be a significant management focus in fiscal 2007.

Siemens Business Services (SBS)

	Year ended September 30,		% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	(549)	(690)	20%	
Group profit margin	(10.6)%	(12.8)%		
Sales	5,157	5,373	(4)%	2%
New orders	5,014	6,531	(23)%	(16)%

* Excluding currency translation effects of 1% on sales and orders, and portfolio effects of (7)% and (8)% on sales and orders, respectively.

SBS narrowed its loss year-over-year to €549 million, including €393 million in severance charges. For comparison, the prior year included a goodwill impairment of €262 million in the Operation Related Services (ORS) business and €228 million in severance charges, only partly offset by a €26 million gain on the sale of an investment. As part of its strategic reorientation, SBS divested its PRS business midway through the fiscal year. For further information on the sale of PRS see "Notes to Consolidated Financial Statements." Fiscal 2006 sales of €5.157 billion were consequently lower than the level a year earlier. Orders of €5.014 billion were also lower than the prior-year level, due to the PRS divestment, as well as more selective order intake and a reduction in major orders year-over-year.

After the close of the fourth quarter, following an intensive analysis by the Managing Board, Siemens announced plans to bundle the activities of SBS with other corporate IT activities worldwide into a new Group, to be called Siemens IT Solutions and Services (SIS). We expect that integrating the activities described above will be a significant management focus in fiscal 2007. SIS will be reported as a Group beginning with the third quarter of the fiscal year 2007.

Automation and Control

Automation and Drives (A&D)

	Year ended September 30,		% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	1,572	1,253	25%	
Group profit margin	12.2%	12.1%		
Sales	12,848	10,366	24%	9%
New orders	14,108	10,674	32%	13%

* Excluding currency translation effects of 2% on sales and orders, and portfolio effects of 13% and 17% on sales and orders, respectively.

Beginning in fiscal 2006, A&D includes the Electronics Assembly Systems division on a retroactive basis, to present a meaningful comparison with prior periods. The division was formerly part of the Logistics and Assembly Systems Group (L&A), which was dissolved as of the beginning of fiscal 2006.

A&D delivered Group profit of €1.572 billion, up 25% compared to the prior year even as the Group made significant investments to build up distribution in major growth markets. Acquisitions made late in fiscal 2005 and early fiscal 2006 contributed to earnings growth for the year. Sales for fiscal 2006 overall rose 24%, to €12.848 billion, and orders climbed 32%, to €14.108 billion, as the Group added acquired volume to organic growth on a Group-wide basis. Demand was well distributed regionally, including topline growth in Asia-Pacific well above 50% year-over-year. In fiscal 2007, A&D will include the Wireless Modules division formerly included in Com.

Industrial Solutions and Services (I&S)

	Year ended September 30,		% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	289	167	73%	
Group profit margin	3.3%	2.6%		
Sales	8,819	6,307	40%	14%
New orders	9,025	7,189	26%	(2)%

* Excluding currency translation effects of 2% on sales and orders, and portfolio effects of 24% and 26% on sales and orders, respectively.

Beginning in fiscal 2006, I&S includes the Airport Logistics and Postal Automation divisions, formerly of L&A, on a retroactive basis.

Group profit at I&S rose to €289 million, up 73% compared to the prior year, due primarily to the metallurgy business included in the VA Tech acquisition in the fourth quarter of fiscal 2005. Profitability improved in part due to sales channel synergy associated with the acquisition. Sales for the fiscal year rose 40%, to €8.819 billion, including double-digit organic growth, and orders were up 26%, at €9.025 billion. For comparison, the prior year included a particularly large order in the fourth quarter.

Siemens Building Technologies (SBT)

	Year ended September 30,		% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	234	181	29%	
Group profit margin	4.9%	4.1%		
Sales	4,796	4,415	9%	7%
New orders	5,235	4,518	16%	13%

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

In fiscal 2006, SBT continued to improve its profitability, posting a 29% increase in Group profit to €234 million. The Group's fire safety and security business contributed strongly to the increase in Group profit. Sales for the year rose 9% compared to the prior year, to €4.796 billion, and orders climbed 16% to €5.235 billion. All the Group's divisions contributed to business growth, including greater penetration of their installed base and success in services.

Power

Power Generation (PG)

	Year ended September 30,		% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	782	951	(18)%	
Group profit margin	7.8%	11.8%		
Sales	10,086	8,061	25%	19%
New orders	12,532	10,964	14%	5%

* Excluding currency translation effects of 1% on sales and orders, and portfolio effects of 5% and 8% on sales and orders, respectively.

A combination of focused acquisitions and robust organic growth, particularly in the fossil power generation business, generated a 25% increase in sales year-over-year, to €10.086 billion. Orders of €12.532 billion were up 14% compared to fiscal 2005, including a very large fossil power generation contract in the Middle East. The wind power business significantly increased its earnings and profit margin, and won two large contracts in the U.S. that nearly tripled orders year-over-year. Sales and orders for the year also include the acquisition of Wheelabrator, a provider of emissions reduction technology for the energy industry. PG's fossil power generation business saw a significant decline in earnings in fiscal 2006, due in part to the bankruptcy of a consortium partner and charges related to major projects. In addition, equity earnings from PG's stake in a European joint venture declined by €106 million and turned negative. These factors limited Group profit for PG overall to €782 million compared to €951 million a year earlier. While PG expects its earnings margin to return to the target range in fiscal 2007, the earnings volatility of equity investments could continue to affect the Group's profitability. On a long-term basis, margins at PG may also reflect continued growth in the fields of industrial applications and wind energy, where profitability is rising from below the level of PG's fossil power generation business.

Power Transmission and Distribution (PTD)

	Year ended September 30,		% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	390	212	84%	
Group profit margin	6.0%	5.0%		
Sales	6,509	4,250	53%	27%
New orders	8,028	5,283	52%	29%

* Excluding currency translation effects of 3% and 4% on sales and orders, respectively, and portfolio effects of 23% and 19% on sales and orders, respectively.

In fiscal 2006, PTD recorded rapid growth in Group profit, sales and orders in a strong global market for secure, high-efficiency power transmission and distribution. Group profit rose 84%, to €390 million for the year, as PTD leveraged improved operating performance into a much larger revenue base resulting from its portion of the VA Tech acquisition. For comparison, the prior year included charges related to a project in the CIS and charges for capacity adjustments at a transformer facility in Germany. Sales rose 53%, to €6.509 billion, and orders increased 52%, to €8.028 billion, on a balance of Group-wide organic growth and acquired volume.

Transportation

Transportation Systems (TS)

	Year ended September 30,		% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	80	45	78%	
Group profit margin	1.8%	1.1%		
Sales	4,502	4,190	7%	5%
New orders	6,173	4,599	34%	32%

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

TS posted a solid increase in earnings in fiscal 2006, on improved project execution. Group profit of €80 million was up 78% year-over-year, and higher in all four quarters compared to corresponding periods of fiscal 2005. Group profit in both years included charges related to major projects that are now moving toward or into the latter stages of completion. Broad-based growth increased sales for TS overall by 7%, to €4.502 billion. The Group's order backlog continued to rise on a 34% increase in orders, to €6.173 billion, including especially high order volume in the first quarter. Highlights for the full year include large contracts for trains in China, Russia (including a substantial maintenance contract), Spain and Austria.

Siemens VDO Automotive (SV)

	Year ended September 30,		% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	669	630	6%	
Group profit margin	6.7%	6.6%		
Sales	10,017	9,610	4%	1%
New orders	10,014	9,787	2%	(1)%

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

In fiscal 2006, SV continued to invest in advanced solutions, such as for hybrid electric vehicles, advanced driver assistance systems (ADAS) and electronic wedge brakes, while increasing its competitiveness through cost-reduction programs. Group profit of €669 million, up 6% year-over-year, included higher R&D expenses year-over-year and charges associated with capacity adjustments. Group profit benefited from gains on divestments related to joint ventures in the U.S and Europe. Sales and orders rose to €10.017 billion and €10.014 billion, respectively.

Medical

Medical Solutions (Med)

	Year ended September 30,			
			% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	1,061	976	9%	
Group profit margin	12.9%	12.8%		
Sales	8,227	7,626	8%	5%
New orders	9,334	8,641	8%	6%

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

Med was again a top earnings performer, with €1.061 billion in Group profit in fiscal 2006. Broad-based earnings increases in the Group's diagnostics imaging businesses more than offset increases in R&D investments compared to the prior year. CTI Molecular Imaging, Inc. (CTI), acquired in the third quarter of fiscal 2005, also contributed to earnings growth for the year. Sales and orders both rose 8% compared to a year earlier, to €8.227 billion and €9.334 billion, respectively.

In the fourth quarter of fiscal 2006, Med acquired DPC, a leading provider of in-vitro clinical diagnostics headquartered in the U.S. The purchase price for DPC, including cash acquired, was approximately €1.4 billion. In the third quarter, Siemens announced an agreement to acquire the Diagnostics division of Bayer AG, which is strongly positioned in the field of immunodiagnostics. This transaction, with an expected purchase price of approximately €4.2 billion, has already received European Union and U.S. regulatory approval and is expected to close in the first half of fiscal 2007. The two acquisitions will substantially expand Med's total available market and bring the Group new capabilities that are highly complementary to its existing offerings and we expect that integrating the diagnostics acquisitions will be a significant management focus at Med in fiscal 2007.

Lighting

Osram

	Year ended September 30,			
			% Change	
(€ in millions)	2006	2005	Actual	Adjusted*
Group profit	481	465	3%	
Group profit margin	10.5%	10.8%		
Sales	4,563	4,300	6%	4%
New orders	4,563	4,300	6%	4%

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

In fiscal 2006, Osram stepped up its commitment to its fastest-growing regional markets, including the build-out of a new regional office and expanded sales efforts in Asia-Pacific. The Group also increased up-front investments in innovative products. Group profit rose 3% to €481 million while sales and orders rose 6%, to €4.563 billion, on regionally balanced growth.

Other Operations

Other Operations consist of centrally held operating businesses not related to a Group, such as joint ventures and equity investments. In fiscal 2006 (retroactively to all periods presented), Other Operations include SHC, which was carved out of Com, and Dematic, which was carved out of the former L&A Group. Other Operations also include a portion of the VA Tech acquisition. In aggregate, sales from Other Operations were €4.828 billion compared to €4.220 billion in the prior year, with VA Tech accounting for much of the increase. A significant portion of our Dematic business was divested at a loss of €53 million in the fourth quarter. Group profit from Other Operations was a negative €36 million compared to a positive €76 million a year earlier. Equity investments were the main earnings contributors in both the current and prior year, and Dematic reduced its negative result year-over-year despite the loss on the sale. SHC posted a loss compared to positive earnings in fiscal 2005.

Reconciliation to Financial Statements

Reconciliation to financial statements includes various categories of items, which are not allocated to the Groups because the Managing Board has determined that such items are not indicative of Group performance.

Corporate items, pensions and eliminations

Corporate items, pensions and eliminations totaled a negative €1.248 billion in fiscal 2006 compared to a negative €1.072 billion in fiscal 2005. Corporate items were a negative €616 million in fiscal 2006 compared to a negative €537 million a year earlier. Within Corporate items, a significant investment in information technology was the major factor in higher central costs in fiscal 2006 compared to the prior year. Corporate items benefited in fiscal 2006 from a gain of €95 million on the sale of an investment and €70 million in positive effects from settlement of an arbitration proceeding. Sales of marketable securities produced gains including €33 million on the sale of Infineon shares and €15 million on the sale of shares in Epcos AG (Epcos), partly offset by a €20 million impairment on shares in BenQ Corporation. Centrally carried pension expense increased to €598 million from €519 million a year earlier primarily due to a reduction in the discount rate assumption at September 30, 2005.

Other interest expense

Other interest expense of Operations for fiscal 2006 was €355 million compared to interest expense of €191 million a year earlier. The change was mainly due to increased intra-company financing of Operations by Corporate Treasury year-over-year.

Financing and Real Estate

Siemens Financial Services (SFS)

	Year ended September 30,		
(€ in millions)	2006	2005	% Change
Income before income taxes	307	319	(4)%
Total assets	10,522	10,148	4%

Income before income taxes at SFS was €307 million in fiscal 2006 compared to €319 million a year earlier. While both periods included a special dividend related to an investment, the prior year also benefited from gains on the sale of an investment and the sale of a 51% stake in the real estate funds management business of Siemens Kapitalanlagegesellschaft mbH (SKAG). Total assets at the end of fiscal 2006 were 4% higher than at the end of the prior year due to expansion of the leasing business.

Siemens Real Estate (SRE)

	Year ended September 30,		
(€ in millions)	2006	2005	% Change
Income before income taxes	122	144	(15)%
Sales	1,705	1,621	5%
Total assets	3,234	3,496	(7)%

Income before income taxes at SRE was €122 million in fiscal 2006, compared to €144 million a year earlier. While gains on sales of real estate increased year-over-year, SRE's results for the year were influenced by higher costs for development projects and vacancy, as well as lower rental income. Total assets declined 7% primarily due to real estate disposals.

Eliminations, reclassifications and Corporate Treasury

Income before taxes from eliminations, reclassifications and Corporate Treasury was €289 million compared to €298 million a year earlier. The difference was mainly due to negative effects from derivative activities not qualifying for hedge accounting at Corporate Treasury, which more than offset increased interest income from intra-company financing.

EVA performance

During fiscal 2006, 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 in 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.

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 a 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.

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

Based on continuing operations, Siemens created EVA of €1.324 billion in fiscal 2006 compared to €1.311 billion a year earlier. Including discontinued operations, EVA was up to €1.263 billion in fiscal 2006 compared to €414 million in fiscal 2005.

Economic Value Added (EVA) calculation
For the fiscal years ended September 30, 2006 and 2005

	Siemens		Eliminations, reclassifications and Corporate Tresury		Operations		Financing and Real Estate	
(€ in millions)	2006	2005	2006	2005	2006	2005	2006	2005
Income from continuing operations	**3,087**	**3,058**	**218**	**228**	**2,546**	**2,475**	**323**	**355**
Minority interest	206	148	–	–	206	148	–	–
Income taxes(1)	1,078	979	71	70	901	801	106	108
Income from continuing operations before income taxes	**4,371**	**4,185**	**289**	**298**	**3,653**	**3,424**	**429**	**463**
Other interest income of Operations, net	355	191	–	–	355	191	–	–
Taxes and financial adjustments	(1,226)	(1,094)	(87)	(90)	(1,046)	(902)	(93)	(102)
Net operating profit from continuing operations after taxes	**3,500**	**3,282**	**202**	**208**	**2,962**	**2,713**	**336**	**361**
	Sept. 30, 2006	Sept. 30, 2005	Sept. 30, 2006	Sept. 30, 2005	Sept. 30, 2006	Sept. 30, 2005	Sept. 30, 2006	Sept. 30, 2005
Total assets	**90,973**	**86,117**	**(5,869)**	**(8,553)**	**83,547**	**81,366**	**13,295**	**13,304**
Other asset related and miscellaneous reconciling items (see table segment information)	–	–	–	–	(58,734)	(59,699)	–	–
Financial adjustments	–	–	–	–	848	927	–	–
Pension adjustment and average calculation(2)	–	–	–	–	3,166	3,133	–	–
Liabilities(3)	–	–	–	–	–	–	(11,244)	(11,401)
Average net operating assets for Operations (continuing operations)/allocated equity for Financing and Real Estate	**–**	**–**	**–**	**–**	**28,827**	**25,727**	**2,051**	**1,903**
	2006	2005	2006	2005	2006	2005	2006	2005
Net operating profit from continuing operations after taxes	3,500	3,282	202	208	2,962	2,713	336	361
Capital charge(4)	(2,176)	(1,971)	(11)	(13)	(2,020)	(1,825)	(145)	(133)
EVA from continuing operations	**1,324**	**1,311**	**191**	**195**	**942**	**888**	**191**	**228**
EVA from discontinued operations	(61)	(897)	–	–	(51)	(897)	(10)	–
EVA from continuing and discontinued operations	**1,263**	**414**	**191**	**195**	**891**	**(9)**	**181**	**228**

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

The underlying assumptions of our EVA calculations are continuously reviewed. For fiscal 2007, we will adjust the key assumptions for our EVA calculation, particularly with respect to the market risk. This will result in the following figures of Weighted Average Cost of Capital (WACC):

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

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. With the transition to IFRS in fiscal 2007, Siemens will modify the definition of net capital employed, in particular, liabilities deducted within net capital employed will be defined more comprehensively. Prior year data will be adjusted for incentive and reporting purposes to maintain a meaningful comparison.

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	
Financing and Real Estate Groups	new	old
Siemens Financial Services (SFS)	8.5%	7.5%
Siemens Real Estate (SRE)	7.5%	6.5%

Dividend

Siemens AG, the parent company of businesses discussed in this report, recorded net income under German accounting principles (HGB) of €1.426 billion for fiscal 2006 compared to €1.451 billion in the previous year.

At the Annual Shareholders' Meeting scheduled for January 25, 2007, the Managing Board, in agreement with the Supervisory Board, will submit the following proposal: to pay €1.45 per share as a dividend, which aggregates to an expected total payout of €1.292 billion. The prior-year dividend was €1.35 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, 2006 and September 30, 2005. The first table below presents separate figures for continuing operations and discontinued operations. The second table below excludes discontinued operations, and presents separate figures for Operations and the other two components of Siemens: Financing and Real Estate and Corporate Treasury.

	Continuing Operations		Discontinued operations		Continuing and discontinued operations	
	Year ended September 30,					
(€ in millions)	2006	2005	2006	2005	2006	2005
Net cash provided by (used in):						
Operating activities	5,174	4,217	(193)	(1,096)	4,981	3,121
Investing activities	(4,435)	(5,706)	(179)	(118)	(4,614)	(5,824)
Net cash provided by (used in) operating and investing activities	**739**	**(1,489)**	**(372)**	**(1,214)**	**367**	**(2,703)**

Net cash provided by operating and investing activities for Siemens was €367 million in fiscal 2006, compared to net cash used of €2.703 billion in the prior year. Discontinued mobile devices operations used net cash in operating and investing activities of €372 million, compared to net cash used of €1.214 billion a year earlier. In accordance with the contracts relating to the sale of the mobile devices business, cash outflows for operating and investing activities in fiscal 2006 included payments for product platform transition. In the prior year, discontinued operations used net cash in operating activities of €1.096 billion, which included a loss of €810 million. Investing activities within discontinued operations used net cash of €179 million in fiscal 2006 compared to €118 million in net cash used a year earlier.

Continuing operations	Operations		SFS, SRE and Corporate Treasury*		Siemens	
	Year ended September 30,					
(€ in millions)	2006	2005	2006	2005	2006	2005
Net cash provided by (used in):						
Operating activities	3,738	3,565	1,436	652	5,174	4,217
Investing activities	(3,115)	(4,787)	(1,320)	(919)	(4,435)	(5,706)
Net cash provided by (used in) operating and investing activities	**623**	**(1,222)**	**116**	**(267)**	**739**	**(1,489)**

* Also includes eliminations and reclassifications.

Within Operations, net cash provided by operating activities rose to €3.738 billion in fiscal 2006 from €3.565 billion a year earlier. The current period included higher cash payouts for severance at Com and SBS, which rose to €612 million from €171 million in fiscal 2005, while the prior-year period included €1.496 billion in cash outflows for supplemental pension contributions. Net working capital increased approximately €1.4 billion in fiscal 2006 compared to an increase of approximately €0.3 billion in fiscal 2005, reflecting business growth combined with an increase in net working capital turnover year-over-year. Net cash provided by operating activities in Corporate Treasury and Financing and Real Estate rose to €1.436 billion from €652 million a year earlier, primarily due to higher proceeds from foreign currency exchange derivatives. For Siemens overall, net cash provided by operating activities on a continuing basis rose to €5.174 billion from €4.217 billion in fiscal 2005.

Within Operations, investing activities used net cash of €3.115 billion in fiscal 2006, compared to net cash used of €4.787 billion in the prior year. The major changes year-over-year were cash proceeds of €1.127 billion from the sale of Infineon shares in the current period and higher cash outflows for acquisitions and investments in the prior period. In fiscal 2006, cash used for acquisitions and investments totaled €2.421 billion. The acquisitions include the major acquisition DPC at Med with approximately €1.3 billion net of €94 million cash acquired, as well as Electrium at A&D, Bewator at SBT, and the coal gasification business of Sustec-Group and Wheelabrator at PG with a combined preliminary purchase price of approximately €0.4 billion. We made a higher number of major acquisitions a year earlier, including VA Tech, 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 in fiscal 2005. Investing activities at Corporate Treasury and Financing and Real Estate in fiscal 2006 used net cash of €1.320 billion compared to net cash used of €919 million a year earlier, mainly due to higher net investment in marketable securities. For Siemens overall, net cash used in investing activities in continuing operations declined to €4.435 billion from €5.706 billion in fiscal 2005.

On a continuing basis, operating and investing activities for Siemens overall provided net cash of €739 million in fiscal 2006, compared to net cash used of €1.489 billion in fiscal 2005. Within Operations, net cash from operating and investing activities increased particularly at A&D, due to the factors mentioned above. Investing activities at Med and higher severance payments at Com and SBS contributed to declines in net cash from operating and investing activities at these Groups compared to fiscal 2005.

Financing activities for Siemens in fiscal 2006 provided net cash of €1.802 billion compared to net cash used in financing activities of €1.403 billion in fiscal 2005. The primary factor in this change was €6.701 billion in proceeds from new debt in fiscal 2006, which we issued for general corporate purposes including financing of recently announced acquisitions and replacement of other borrowings. In fiscal 2006, we issued two tranches of U.S. dollar-denominated bonds totaling U.S.$1.0 billion (€0.8 billion). Further we issued four tranches of U.S. dollar-denominated bonds totaling U.S.$5.0 billion (€3.9 billion), as well as a hybrid bond in two tranches, one denominated in euros (€900 million) and one denominated in British pounds (£750 million, or €1.1 billion). Repayment of debt used €1.710 billion in cash in fiscal 2006, including a €1.6 billion payment for a bond, which was due on July 4, 2006. A year earlier, repayment of debt used €848 million. At the end of fiscal 2006, Siemens had no amount outstanding under its commercial paper program, which was the major effect for net cash outflows for short-term debt of €1.762 billion. A year earlier, issuance of commercial paper contributed to the cash inflows from short-term debt of €711 million. Dividends paid to shareholders rose year-over-year, to €1.201 billion from €1.112 billion in fiscal 2005.

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+

Following Siemens' announcement of the planned acquisition of the Diagnostics division of Bayer AG, on June 30, 2006, both credit rating agencies changed their rating outlook for Siemens from "stable" to "negative" (Moody's Investors Service) and from "stable" to "CreditWatch negative" (Standard & Poor's). Neither agency changed its long-term or its short-term credit rating.

Moody's Investors Service rates our long-term corporate credit Aa3 (negative 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.

In addition, Moody's Investors Service published an assessment of liquidity risk. The most recent liquidity risk assessment for Siemens as of August 25, 2006 classified the liquidity profile of the Company as "very healthy."

Standard & Poor's rates our long-term corporate credit AA – (CreditWatch negative). 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 medium-term. Rating outlooks fall into the following four categories: Positive, Negative, Stable and Developing. Outlooks have a time frame of typically two years. Ratings appear on CreditWatch when an event or deviation from an expected trend has occurred or is expected, and additional information is necessary to take a rating action. A rating review will normally be completed within approximately 90 days, unless the outcome of a specific event is pending.

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.

Capital resources

Capital resources at September 30, 2006 included €10.214 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, 2006, Corporate Treasury managed approximately 89% of Siemens' cash and cash equivalents. Corporate Treasury carefully manages investments of cash and cash equivalents subject to strict credit requirements and counterparty limits.

Our shareholders' equity at September 30, 2006 was €29.306 billion, an increase of €2.284 billion since September 30, 2005. We have authorization from our shareholders to repurchase up to 10% of our outstanding shares at any time until July 25, 2007. 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 to employees or former employees of the Company or any of its subsidiaries within the employee share purchase program or granted and transferred with a holding period of at least two years or (iv) used to service the conversion or option rights granted by the Company or any of its subsidiaries. In addition, the Supervisory Board is authorized to offer repurchased shares to the members of the Managing Board of Siemens AG for purchase as stock-based compensation under the same terms and conditions as those offered to employees of the Company. Additionally, the Supervisory Board may grant and transfer such shares to members of the Managing Board as stock-based compensation with a holding period of at least two years.

Our principal source of Company financing is cash flow from operating and investing activities. In fiscal 2006, net cash provided by operating activities from continuing operations totaled €5.174 billion. In fiscal 2006 and fiscal 2005, as part of our growth strategy, we incurred significant cash outflows due to various acquisitions. Despite these acquisitions, as well as higher capital expenditures, net cash provided by operating and investing activities from continuing operations was €739 million in fiscal 2006.

We have three credit facilities at our disposal, which are for general corporate purposes and have never been drawn in the past. Our credit facilities at September 30, 2006 consist of €7.559 billion in unused committed lines of credit. The credit facilities at our disposal include a U.S.$5.0 billion syndicated multi-currency revolving credit facility expiring March 2012 provided by a syndicate of international banks and a revolving credit facility for an aggregate amount of €450 million expiring in September 2012 provided by a domestic bank. In addition, in August 2006 we established a U.S.$4.0 billion syndicated multi-currency term loan and revolving credit facility expiring August 2013 provided by a syndicate of international banks. The facility comprises a U.S.$1.0 billion term loan and a U.S.$3.0 billion revolving tranche.

None of our credit facilities contain a material adverse change provision of the type often 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.$5.0 billion in the U.S. domestic market and an aggregate of €3.0 billion in the euro market. In the third quarter of fiscal 2006, the U.S.$ commercial paper program was increased from U.S.$3.0 billion to U.S.$5.0 billion. Under these commercial paper programs, we had no amount outstanding at September 30, 2006.

In addition, we have a medium-term note program of €5.0 billion. The amount outstanding under this program was €1.713 billion at September 30, 2006. In March 2006, we updated our medium-term note program. Also in March 2006, we issued under the medium-term-note program a bond of U.S.$1.0 billion in a tranche of U.S.$500 million due 2012 and a tranche of U.S.$500 million due 2016.

None of our commercial paper and medium-term note programs or our credit facilities contain 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 August 2006, Siemens Financieringsmaatschappij N.V., a wholly owned Dutch subsidiary of Siemens AG issued two series of notes of U.S.$750 million maturing 2009 and 2012, as well as two series of notes of U.S.$1.750 billion maturing 2016 and 2026. In addition, Siemens Financieringsmaatschappij N.V. issued a Hybrid Capital bond in a euro tranche of €900 million and a British pound tranche of £750 million. The reason for these issuances was to better match fund capital and currency requirements, to diversify our investor base and to strengthen the overall balance sheet. For further detail to these bonds see "Capital Requirements."

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.

Further information about our bonds and the other components of debt is given in "Notes to Consolidated Financial Statements."

Capital requirements

Capital requirements include scheduled debt service and regular capital spending and cash requirements. €2.175 billion of debt, including €1.149 billion of bonds, is scheduled to become due in fiscal 2007. For the Operating Groups, we plan a capital expenditures rate (capital expenditures expressed as a percentage of depreciation) for property, plant and equipment in fiscal 2007 that is below the rate of 144% in fiscal 2006. Especially due to strong investment activity at SFS the capital expenditures rate for Siemens was 152% in fiscal 2006. In addition, we expect significant cash outflows in connection with portfolio realignments for fiscal 2007, e.g. for the purchase price of approximately €4.2 billion relating to the diagnostics division of Bayer Aktiengesellschaft, as well as cash outflows of €500 million for a long-term loan to NSN. For further information, see "Business Overview and Economic Environment – Strategic Overview", as well as "Notes to Consolidated Financial Statements." Furthermore we expect substantial cash outflows for severance programs at Com and SBS in the coming year.

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. In fiscal 2006, €3 million of convertible notes were exercised and were settled primarily in cash. In the third quarter of fiscal 2006, Siemens irrevocably waived its option to pay a cash amount in lieu of the delivery of shares.

In August 2006, Siemens Financieringsmaatschappij N.V., issued U.S.$5.0 billion of notes, which are unconditionally and irrevocably guaranteed as to payment of principal and interest by Siemens AG. These notes were issued in four tranches of

- U.S.$ 750 million Floating Rate Notes due August 14, 2009,
- U.S.$ 750 million 5.5% Notes due February 16, 2012,
- U.S.$ 1.750 billion 5.75% Notes due October 17, 2016, and
- U.S.$ 1.750 billion 6.125% Notes due August 17, 2026.

For the floating rate note, the issuer may, on or after February 14, 2008, redeem all or some of the notes at the early redemption amount (call) according to the conditions of the bond.

For the fixed rate notes, the issuer may redeem, at any time, all or some of the notes at the early redemption amount (call) according to the conditions of the bond.

In September 2006, Siemens Financieringsmaatschappij N.V. issued a Hybrid Capital Bond, which is guaranteed on a subordinated basis by Siemens AG. The subordinated bond was issued in a euro tranche of €900 million and a British pound tranche of £750 million, both due September 14, 2066, with a call option for Siemens after 10 years or thereafter. The Bonds bear interest at a fixed rate until September 14, 2016, and thereafter, floating rate interest according to their conditions.

In fiscal 2006, Siemens redeemed the outstanding amount of €1.6 billion of its 5% euro-denominated bonds, which were due on July 4, 2006.

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, 2006:

		Payments due by period			
(€ in millions)	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Debt	15,574	2,175	1,808	4,852	6,739
Purchase obligations	12,652	11,161	1,202	239	50
Operating leases	2,589	647	926	521	495
Total contractual cash obligations	**30,815**	**13,983**	**3,936**	**5,612**	**7,284**

Debt – At September 30, 2006, Siemens had €15.574 billion of short- and long-term debt, of which €2.175 billion will become due within the next 12 months. Short-term debt includes current maturities of long-term debt, as well as loans from banks coming due within the next 12 months. At September 30, 2006, the weighted average maturity of our bonds and notes due after one year was 7.65 years. At September 30, 2005, total debt was €12.435 billion. Further information about the components of debt is given in "Notes to Consolidated Financial Statements."

Debt for Siemens at September 30, 2006 consisted of the following:

(€ in millions)	Short-Term	Long-Term	Total
Notes and bonds	1,149	12,285	13,434
Loans from banks	659	342	1,001
Other financial indebtedness	314	508	822
Obligations under capital leases	53	264	317
Total debt	**2,175**	**13,399**	**15,574**

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, 2006, €9.415 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, 2006, the Financing and Real Estate component additionally held €212 million in short-term and €432 million in long-term debt from external sources.

In fiscal 2006, we issued two tranches of U.S. dollar-denominated bonds totaling $1.0 billion as well as four tranches of U.S. dollar-denominated notes totaling $5.0 billion. Further, in fiscal 2006, we issued a hybrid bond in two tranches, one denominated in euros (€900 million) and one denominated in British pounds (£750 million). Further information about the notes and bonds is provided under "Capital Resources and Capital Requirements" as well as in the "Notes to Consolidated Financial Statements."

In fiscal 2006, Siemens redeemed the outstanding amount of €1.6 billion of the 5% euro-denominated bond, which was due on July 4, 2006.

The capital structure of the Financing and Real Estate component at September 30, 2006 and 2005 consisted of the following:

	September 30, 2006		September 30, 2005	
(€ in millions)	SFS	SRE	SFS	SRE
Assets	10,522	3,234	10,148	3,496
Allocated equity	1,131	920	983	920
Total debt	8,819	1,239	8,529	1,349
Therein intracompany financing	*8,487*	*928*	*8,041*	*930*
Therein debt from external sources	*333*	*311*	*488*	*419*
Debt to equity ratio	7.80	1.35	8.68	1.47

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, 2006, Siemens had €12.652 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, 2006, Siemens had a total of €2.589 billion in total future payment obligations under non-cancelable operating leases.

Siemens 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 €501million as of September 30, 2006 and to costs primarily associated with the removal of leasehold improvements at the end of the lease term amounting to €46 million as of September 30, 2006. 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, 2006, the undiscounted amount of maximum potential future payments for guarantees was €2.319 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 €302 million as of September 30, 2006. 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 €1.489 billion as of September 30, 2006. Furthermore, Siemens 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 €528 million as of September 30, 2006. 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 – Siemens 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 Siemens' 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 €26.2 billion on September 30, 2006, compared to €25.0 billion on September 30, 2005. The fair value of plan assets as of September 30, 2006 was €23.5 billion compared to €21.5 billion on September 30, 2005. The measurement dates for the valuation of certain Siemens pension funds, particularly our funds in the U.S. and U.K., do not coincide with the end of our fiscal year. While the return over the last twelve months amounted to 6.6% or €1.366 billion, the aggregate return on plan assets between the last measurement dates amounted to 6.2% or €1.291 billion. On September 30, 2006, the combined funding status of Siemens principal pension plans showed an underfunding of €2.7 billion compared to an underfunding of approximately €3.5 billion at the end of the prior fiscal year.

Siemens' funding policy for its pension funds is part of its overall commitment to 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.

Siemens 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 U.K. during the last several years. 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, 2006, total assets increased 6%, to €90.973 billion, from €86.117 billion as of September 30, 2005.

In June 2006, we announced an agreement to form a joint venture with Nokia, combining the carrier-related operations of Com with the networks operations of Nokia. The transaction is expected to close in the first half of fiscal 2007 and is subject to customary regulatory approvals (European Union approval having been received on November 13, 2006), the completion of standard closing conditions, and agreement on a number of detailed implementation steps. In exchange for transferring our carrier-related operations into the new joint-venture NSN, we will receive shares in NSN. Pending that transfer, the assets and liabilities of the carrier-related operations of Siemens are classified on the balance sheet as held for disposal and measured at the lower of their carrying amount or fair value less costs to sell.

Further, in the context of the overall reorganization of its Com segment, the Company plans to divest the enterprise networks business, which is part of Com, in fiscal 2007. The assets and liabilities of the enterprise networks business were classified on the balance sheet as held for disposal. For information on the carrying amounts of major classes of assets and liabilities held for disposal, see "Notes to Consolidated Financial Statements."

The following table shows current assets at end of fiscal 2006 and fiscal 2005. Given the reclassification of Com's carrier and enterprise businesses as held for disposal in fiscal 2006, in particular Accounts receivable, net, and Inventories, net for those businesses are now included in Assets held for disposal:

	September 30,	
(€ in millions)	2006	2005
Cash and cash equivalents	10,214	8,121
Marketable securities	596	1,789
Accounts receivable, net	15,149	17,122
Inventories, net	12,790	12,812
Deferred income taxes	1,468	1,484
Assets held for disposal	7,189	245
Other current assets	4,205	5,230
Total current assets	51,611	46,803

Cash and cash equivalents totaled €10.214 billion at September 30, 2006. The increase of €2.093 billion was driven by cash inflows associated with financing activities. Marketable securities were lower primarily due to sales of our remaining shares in Infineon, Juniper and Epcos in fiscal 2006. The decrease in Accounts receivable, net year-over-year is driven by reclassifying the carrier and enterprise businesses as held for disposal. Assets held for disposal included €1.981 billion related to assets, which were reclassified from non-current to current.

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

	September 30,	
(€ in millions)	2006	2005
Long-term investments	3,922	3,768
Goodwill	9,776	8,930
Other intangible assets, net	3,243	3,107
Property, plant and equipment, net	12,072	12,012
Deferred income taxes	4,983	6,233
Other assets	5,366	5,264
Total long-term assets	39,362	39,314

In fiscal 2006, Goodwill increased by €846 million, primarily due to the acquisition of DPC. Total long-term assets at the end of fiscal 2006 remained on the same level with the prior year but also include effects from reclassifying the carrier and enterprise businesses as held for disposal. For further information see "Notes to Consolidated Financial Statements."

The table below shows current and long-term liabilities at the respective balance sheet dates. Given the reclassification of Com's carrier and enterprise businesses as held for disposal in fiscal 2006, in particular Accounts payable, Accrued liabilities and Other current liabilities for those businesses are now included in Liabilities held for disposal:

	September 30,	
(€ in millions)	2006	2005
Short-term debt and current maturities of long-term debt	2,175	3,999
Accounts payable	8,444	10,171
Accrued liabilities	9,126	10,176
Deferred income taxes	516	1,938
Liabilities held for disposal	5,545	289
Other current liabilities	13,151	13,058
Total current liabilities	38,957	39,631
Long-term debt	13,399	8,436
Pension plans and similar commitments	4,101	4,917
Deferred income taxes	450	427
Other accruals and provisions	4,058	5,028
Total long-term liabilities	22,008	18,808

Short-term debt and current maturities of long-term debt totaled €2.175 billion at the end of fiscal 2006, a decrease of €1.824 billion from the prior year-end. This decrease mainly results from the redemption of the outstanding amount of €1.6 billion of the 5% euro-denominated bond, which was due on July 4, 2006, as well as from repayment under commercial paper programs in fiscal 2006, and was partly balanced by a reclassification of current maturities of long-term debt. As of September 30, 2006, no amount under commercial paper programs was outstanding compared to a total of €1.484 billion as of September 30, 2005. Liabilities held for disposal included €749 million related to liabilities, which were reclassified from non-current to current.

Compared to fiscal 2005, Long-term debt increased by €4.963 billion to €13.399 billion in fiscal 2006. In fiscal 2006, we issued two tranches of U.S. dollar-denominated bonds totaling $1.0 billion as well as four tranches of U.S. dollar-denominated notes totaling $5.0 billion. Further, in fiscal 2006, we issued a hybrid bond in two tranches, one denominated in euros (€900 million) and one denominated in British pounds (£750 million). Further information about the notes and bonds is also provided under "Capital Resources and Capital Requirements" as well as in the "Notes to Consolidated Financial Statements."

Shareholders' equity and total assets were as follows:

	September 30,	
(€ in millions)	2006	2005
Total shareholders' equity	29,306	27,022
Equity ratio	32%	31%
Total assets	90,973	86,117

Total shareholders' equity increased €2.284 billion to €29.306 billion at the end of fiscal 2006. The increase results from net income of €3.033 billion, less dividend payments of €1.201 billion. Further changes in Accumulated other comprehensive income of €443 million in fiscal 2006 increased Total shareholders' equity. The change in Accumulated other comprehensive income reflects the impact of a decrease in our minimum pension liability. While total assets increased in fiscal 2006, compared to fiscal 2005 by 6%, Total shareholders' equity increased by 8%, resulting in an improved equity ratio by a full percentage point, to 32%.

For additional information on the financial position, see "Notes to Consolidated Financial Statements."

Subsequent events

During the first quarter of fiscal 2007, Siemens decided to provide funds for job placement companies for employees affected by the bankruptcy of BenQ Mobile GmbH & Co. OHG and for Inservio GmbH with a corresponding impact on Siemens' income in fiscal 2007.

On November 15, 2006, Munich public prosecutors (the Prosecutors) conducted searches of Company premises and private homes in Munich, Erlangen and in Austria during which a large volume of documents and electronic data were confiscated. These actions were taken in connection with an investigation of certain current and former employees of the Company on suspicion of embezzlement, bribery and tax evasion. Several arrest warrants were issued for several current and former employees who are or were associated with Com. Among those arrested were a former CFO of Com as well as the heads of Com's internal audit and accounting and controlling departments. Another former employee was apprehended in Austria and extradited to Germany. In addition to the interrogations of those arrested, statements were taken from a number of witnesses including Company officials.

The Prosecutors announced that those arrested are suspected of collaborating to open slush fund accounts abroad, and of operating a system to embezzle funds from the Company. More specifically, the Prosecutors allege that from 2002 to the present, these individuals siphoned off money from Com via off-shore companies and their own accounts in Switzerland and Liechtenstein. The Prosecutors indicated that whether and the extent to which the diverted funds were used for bribes remains to be determined. The investigation is ongoing, and the Company is fully cooperating with the authorities.

The Prosecutors' current investigation grew out of an anonymous complaint and requests for judicial assistance from Switzerland and Italy.

Bank accounts in Geneva, Switzerland, held by a former officer of Com of Siemens Greece were seized in August 2005. The Company became aware of the seizure at the end of 2005 having been notified by both the officer and the financial institution in which the accounts were held. As part of its internal investigation, the Company filed a civil action in Greece against the officer on November 14, 2006.

In June 2006, the Company also became aware of the existence of an escrow account in Lugano, Switzerland. In July 2006, the trustee was requested to provide documentation of the account and to transfer the funds to the Company: The account was seized prior to receiving the funds.

Bank accounts in Liechtenstein were also seized in late 2004. Funds from these Liechtenstein accounts were transferred to Siemens in 2005 after being released by governmental authorities.

On March 30, 2006, the premises of Intercom Telecommunication Systems AG in Switzerland (Intercom), a subsidiary of Siemens, were searched by Swiss prosecutors. The Company subsequently learned that, via Intercom, so-called Business Consultant Agreements were processed directly or indirectly through intermediary companies. Intercom currently finds itself in liquidation. It has been established that Intercom made payments to the above mentioned bank accounts. Investigations are ongoing to determine the rightful owner of the accounts in Geneva and Lugano.

The Swiss investigation was preceded by Liechtenstein criminal investigations. The criminal investigation in Liechtenstein related to money laundering and corruption allegations against certain former Siemens employees and other persons. In January 2006, Siemens became aware of a request by Liechtenstein for judicial assistance from Switzerland. Siemens subsequently determined that the Swiss and Liechtenstein investigations pertain to related activities.

In Italy, an already pending criminal investigation there focusing on money laundering and corruption allegations against third parties in respect of activities in the 1990s pertains to similar activities in the Com Group. Based on a request for judicial assistance from Italy to Germany in 2005 premises and private homes in Munich were searched.

We are in communication with the U.S. Securities and Exchange Commission and the U.S. Department of Justice via a U.S. law firm regarding these matters.

Siemens has stated its commitment to have these matters completely cleared up as quickly as possible and has also started an additional internal investigation. The major issues uncovered to date in connection with Siemens' internal investigation are presented below:

- Within Com there exist a number of Business Consultant Agreements. We have identified a multitude of payments made in connection with these contracts over the course of approximately a seven-year period for which we have either not been able to establish a valid business purpose or clearly identify the recipient. These payments raise concerns under the legislation of the U.S., Germany and other countries.
- The payments identified were recorded as deductible business expenses in prior periods in determining income tax provisions. Our investigation determined that certain of these payments are nondeductible under German tax regulations, and accordingly, we have recorded additional income tax charges in our financial statements to reflect the correct tax treatment of these expenses. The Company has already reported this issue to the German tax authority.

The Company's internal investigation into possible violations of law is still ongoing.

The additional deferred and current income tax charges described above totaled €168 million over a period of approximately seven years. Of the total charge, €73 million was reflected in the Company's fiscal 2006 Consolidated Statements of Income and related to fiscal 2006, 2005 and 2004. The remaining €95 million of additional income tax expense related to years preceding fiscal 2004 and was reflected as a reduction of Shareholders' equity as of October 1, 2003. (See Note 2 for further information).

The Managing Board of Siemens does not tolerate any illegal business practices of its employees worldwide and has therefore initiated the following immediate actions:

- The Managing Board has engaged an external attorney to act as an independent "ombudsman" and to provide a protected communication channel for Siemens employees and third parties.
- In cases where suspicions of illegal behavior have been substantiated, the involved employees will immediately be suspended.
- The Company's audit and compliance departments and an internal task force have been instructed to continue their internal investigation activities and the examination of our compliance and internal control system for gaps and any possibilities of circumvention.

The Managing Board and the Audit Committee of Siemens will engage an independent compliance advisor in order to consult the Managing Board and the Audit Committee with regard to the future structure of the compliance organization, the execution of compliance reviews, the review of related guidelines and controls including potential improvement measures, and the respective communication and training. The independent compliance advisor will also provide periodic status reports to the Audit Committee.

Furthermore, the Audit Committee of Siemens will conduct a companywide investigation and engage an independent external law firm which will mandate the involvement of a forensic accounting firm.

Siemens currently can not exclude the possibility that criminal or civil sanctions may be brought against the Company itself or against certain of its employees in connection with possible violations of law. The Company's operating activities may also be negatively affected due to imposed penalties, compensatory damages or due to the exclusion from public procurement contracts. To date, no charges for any such penalties or damages have been accrued as management does not yet have enough information to reasonably estimate such amounts. Furthermore, changes affecting the Company's course of business or its compliance programs may turn out to be necessary.

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 construction contracts – Our Groups, particularly PG, TS, I&S, Com, PTD and SBT, conduct a significant portion of their business under construction contracts with customers. We generally account for 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 management of the operating Groups continually reviews all estimates involved in such construction contracts and adjusts 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 construction 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, 2006 and 2005, Siemens recorded a total valuation allowance for accounts receivable of €956 million and €1.199 billion, respectively. Siemens also selectively assists customers 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 – Goodwill is 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 impairment. As of September 30, 2006 and 2005, Siemens had total goodwill of €9.776 billion and €8.930 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 2007 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 €226 (€291) million. A one percentage point increase (decrease) in the assumption for expected return on plan assets would result in a decrease (increase) of €217 (€217) million. A one percentage point increase (decrease) in the rates of compensation increase and pension progression would result in a combined increase (decrease) of €375 (€312) 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 were 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, warranty costs and legal proceedings. 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.

Non-financial performance measures

In fiscal 2005, we initiated a program called Fit4More consisting of four main areas with the goal to achieve lasting profitability and growth (see figure below). The financial goals are defined in the area *Performance and Portfolio*, which aims at reaching the target margins of our Groups, building a portfolio that enables us to grow at least twice the global gross domestic product and completing the strategic reorientation of our business area Information and Communications and the Group L&A. The drivers of *Portfolio and Performance* are defined in the other three areas of our Fit4More program: *Operational Excellence, People Excellence* and *Corporate Responsibility*. These areas are predominantly determined by non-financial performance measures.

Fit4More

A comprehensive and logically structured program with clear goals and clear drivers

Drivers	Goals
Operational Excellence People Excellence Corporate Responsibility	**Performance and Portfolio by April 2007** • Reach target margins in all Groups • Build portfolio for 2X global GDP growth • Strategic reorientation of I&C and L&A

Within *Operational Excellence* we execute our Siemens Management System initiative, which focuses on innovation, customer focus and global competitiveness

With *People Excellence* we create a working culture that motivates our people to yield high performance results. Our Siemens Leadership Excellence (SLE) program serves the deepening of business know-how and the advancement of leadership capabilities of Siemens managers. Our Top Talent Pool enables us to identify our top talents and systematically foster their further development. Furthermore we systematically enhance the status of our technology experts by offering them attractive career options through our standardized Siemens Expert Career program.

Corporate Responsibility comprises our commitment to the society. This includes *Corporate Governance* as the basis of all our decision-making and monitoring processes, Business Practices to conduct our business in compliance with the laws and regulations of the countries where we are active and in accordance with our own binding guidelines, *Sustainability* as a basis for our future business success and *Corporate Citizenship* by the company's programs to support science, education, culture, the arts and our commitment to social projects, as well as our engagement in important national and international organizations.

For further information with regard to our Fit4More program see "Fit4More – The basis for a successful future" on pages 16 – 31 of the annual report.

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.

Siemens has implemented a coordinated set of risk management and control systems which support us in the early recognition of developments endangering the future existence of the company. The most important of these systems include our enterprise-wide processes for strategic planning and management reporting. The former is intended to support us to consider potential risks well in advance of major business decisions, while the latter is intended to enable 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 system. Thereby, deficits are detected and appropriate measures for their elimination become 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."

Moreover, according to U.S. provisions, which are more comprehensive compared to German law, Siemens is required to establish and maintain adequate internal control over financial reporting. Siemens implemented an internal control system. Based on management's assessment in fiscal 2006, the system proved to be not effective with respect to preventing misappropriation of funds and abuse of authority. Siemens will take action in fiscal 2007 to establish effectiveness of the internal control system.

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 are affected by market conditions. For example Medical Solutions (Med) is dependent on the healthcare markets, particularly in the U.S. Some of our Groups are affected considerably by the markets in Asia as well as Middle East, such as Power Generation (PG) and Power Transmission & Distribution (PTD). In addition, the financial condition of our customers may negatively impact our Groups such as, Siemens VDO Automotive (SV), which is a supplier to the automotive industry. Furthermore, the demand for products of certain of our Groups is linked to consumer demand, which may be adversely impacted by the continuing uncertain economic environment.

In fiscal year 2006, we continued our strategic reorientation and cost-cutting initiatives across our business Groups but particularly at Communications (Com) and Siemens Business Services (SBS). 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 abilities to adapt to changes in markets and to 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 Med and SV. Introducing new offerings and technologies requires a significant commitment to research and development, 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 at closing, as well as in the future. 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, PG, I&S and A&D have significant amounts of goodwill. In addition, portfolio activities may result in additional financing needs and adversely affect our financial leverage and our debt-to-equity ratio.

Our financial condition, results of operations and cash flows are influenced significantly by the performance of the operating Groups, as well as the Company's portfolio measures. A negative development may result in the deterioration of our credit rating. Downgrades by rating agencies may increase our cost of capital and could negatively affect our businesses.

Operational risks

A majority of our operating Groups, including SBS, I&S, SBT, 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 and contract termination. There can be no assurance that all of our fixed-priced contracts can be completed profitably.

Our value chain comprises all steps, from research and development, to production, marketing and sales up to services. 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. This risk is particularly evident in businesses with a very limited number of suppliers. 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 operate in approximately 190 countries and therefore are subject to different tax regulations. Changes in tax regulation could result in higher tax expenses and payments. Furthermore, changes in tax regulation could impact our tax liabilities as well as deferred tax assets.

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 PG and TS. We finance a large number of smaller customer orders, for example, the leasing of medical equipment, in part, through Siemens Financial Services (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 or results of operations.

Market risk

Increasing market fluctuations may result in significant cash-flow and profit volatility risk for Siemens. Our worldwide operating business as well as our investment and financing activities are affected by changes in foreign exchange rates, interest rates and equity prices. To optimize the allocation of the financial resources across the Groups, as well as to secure an optimal return for our shareholders, we identify, analyze and proactively manage the associated financial market risks. We seek to manage and control these risks primarily through our regular operating and financing activities, and when we deem it appropriate, we use derivative instruments.

Management of financial market risk is a key priority for Siemens' Managing Board. As a member of this Board, the Chief Financial Officer covers the specific responsibility for this part of the overall risk management system. At the highest level, the Managing Board retains ultimate accountability. For practical business purposes, the Managing Board delegates responsibilities to central functions and to the Groups. SFS holds a minor trading portfolio which is subject to tight limits. As of September 30, 2006 it has a value-at-risk close to zero.

Within the various methodologies to analyze and manage risk, we have implemented a system based on "sensitivity analysis." This tool enables the risk managers to identify the risk position of the entities. 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%;
- a parallel shift of 100 basis points of the interest rate yield curves in all currencies

The potential economic impact, due to these assumptions, is based on the occurrence of adverse market conditions and reflects 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.

At the beginning of fiscal year 2006, Siemens includes the leasing business in the risk analysis and calculation.

Any market sensitive instruments, including equity and interest bearing securities, that our pension plans hold are not included in the following quantitative and qualitative disclosure. For additional information, see "Notes to Consolidated Financial Statements."

Equity price risk

Our investment portfolio consists of direct and indirect investments in publicly traded companies held for purposes other than trading. These participations result from strategic partnerships, spin-offs, IPOs of strategic venture capital investments or compensation from M&A transactions.

We monitor the equity investments based on their current market value and they are affected by the fluctuations in the volatile stock markets worldwide. The market value of our portfolio as of September 30, 2006 was €216 million – a reduction of – €1.625 billion compared to September 30, 2005. In 2005, this position included an 18.2% interest in Infineon, a 12.5% interest in Epcos and a 4.1% interest in Juniper Networks representing a combined value of €1.655 billion of the total investments. We sold these investments in the course of the fiscal year 2006.

An adverse move in equity prices of 20% as of September 30, 2006 would reduce the value of these investments by €43 million, meaning that the equity price risk has decreased significantly year-over-year. As of September 30, 2005 the value would have been reduced by €368 million.

Foreign currency exchange rate risk

Transaction risk and currency management

Foreign exchange rate fluctuations may create unwanted and unpredictable earnings and cash flow volatility. Each Siemens unit conducting business with international counterparties that leads to future cash flows denominated in a currency, other than its functional currency, is exposed to the risk from changes in foreign exchange rates. The risk is mitigated by closing all types of business transactions (sales and procurement of products and services as well as investment and financing activities) mainly in the functional currency. In addition, the foreign currency exposure is partly balanced by purchasing of goods, commodities and services in the respective currencies as well as production activities and other contributions along the value chain in the local markets.

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.

We have established a foreign exchange risk management system that has an established track record for years. Each Siemens unit is responsible for recording, assessing, monitoring, reporting and hedging its foreign currency transaction exposure. The Group-wide binding guideline developed by the Corporate Finance department, provides the concept for the identification and determination of the single net currency position and commits the units to hedge it in a narrow band: at least 75% but no more than 100% of their net foreign currency exposure. In addition, the Corporate Finance department provides a framework of the organizational structure necessary for foreign currency exchange management, proposes hedging strategies and defines the hedging instruments available to the entities: forward contracts, currency put and call options and stop-loss orders. The execution of the hedging transactions in the global financial markets is done by SFS as exclusive service provider for all Siemens entities on behalf of Corporate Treasury. SFS' central coordination and its global market expertise assure the maximum benefit from any potential off-set of divergent cash-flows in the same currency, as well as optimized transaction costs.

We calculate foreign exchange rate sensitivity by aggregating the net foreign exchange rate exposure of the Operations, Financing and Real Estate Groups and Corporate Treasury. The values and risks disclosed here are the unhedged positions multiplied by an assumed 10% appreciation of the euro against all other currencies. At September 30, 2006, a parallel 10% negative shift of all foreign currencies would have resulted in a decline of €38 million in future cash flows compared to a decline of €35 million the year before. 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, 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. In particular, changes of U.S. dollar versus the euro could have a significant impact: Out of the €38 million cash flow reduction calculated in the sensitivity scenario above, a net decline of €26 million results from the U.S. dollar exposure.

Siemens defines foreign currency exposure generally as balance sheet items in addition to firm commitments which are denominated in foreign currencies, as well as foreign currency denominated cash in-flows and cash out-flows from anticipated transactions for the following three months. This foreign currency exposure is determined based on the respective functional currencies of the exposed Siemens' entity.

The table below shows the split by major currencies of the underlying net foreign exchange transaction exposure as of September 30, 2006 compared to 2005. In some currencies, Siemens has both substantial sales and costs, which have been off-set in the table:

	USD	GBP	Other
Net foreign exchange transaction exposure as a percentage of the total			
September 30, 2006	82%	3%	15%
September 30, 2005	78%	12%	10%

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 financial statements of these subsidiaries into euros so that we can include their financial results in our Consolidated Financial Statements. To consider 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 in 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 risk exposure is mainly related to debt obligations like bonds, loans, commercial paper programs and interest bearing deposits and investments. We measure interest rate risk by using either fair value sensitivity or cash flow sensitivity depending on whether the instrument has a fixed or variable interest rate. We generate total fair value sensitivity as well as the total cash flow sensitivity by aggregating the sensitivities of the various exposures denominated in different currencies. Depending on whether we have a long or short interest position, interest rate risk can arise on increasing or decreasing market moves in the relevant yield curve.

The fair value sensitivity calculation for fixed interest instruments shows the change in fair value, defined as 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 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 fair value interest rate risk results primarily from long-term fixed rate debt obligations and interest bearing investments. Assuming a 100-basis point decrease in interest rates, this risk was €24 million at September 30, 2006, decreasing from the comparable value of €34 million at September 30, 2005 assuming a 100-basis point decrease in interest rates. 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.

For variable rate instruments, the interest rate risk is monitored by using the cash flow sensitivity also assuming a 100-basis point shift of the yield curves. Such risk mainly results from hedges of fixed rate debt obligations that swap fixed rates of interest into variable rates of interest. This exposure leads to a cash flow interest rate risk of €32 million at September 30, 2006, compared to €2 million the year before, assuming a 100-basis point increase in interest rates.

To optimize the group's position with regard to interest income and interest expenses and to minimize the overall financial interest rate risk, Corporate Treasury performs corporate interest rate risk management together with SFS as operating service provider. Part of the interest rate risk management concept is a Corporate-wide interest overlay management to match interest periods of our hedges with intended maturities of assets and liabilities. Where it is not contrary to country-specific regulations, all Groups and affiliated companies generally obtain any required financing through Corporate Treasury in the form of loans or intercompany clearing accounts. The same concept is adopted for deposits of cash generated by the units.

We also mitigate interest rate risk by entering into interest rate derivative instruments. For additional information see "Notes to Consolidated Financial Statements."

Outlook

The business environment remains positive for Siemens. Estimates of world GDP growth rates are approximately 3% for 2007 and 3-4% for 2008. With strong presence in all of the fastest growing regions, and alignment with the megatrends that are shaping the future of those markets, we are confident that Siemens' revenues will continue to increase at twice the rate of worldwide GDP growth. Since Siemens is pioneering many of the innovations and technologies most highly valued by our customers, we are increasing profitability as we grow. To ensure long term profitable growth, we have re-oriented our business portfolio to focus on growth sectors where we can best build on Siemens' technological strengths, embedded customer base and global supply chain. Within the business areas of industrial and public infrastructure and automation, energy and environment, and healthcare our operating Groups are well positioned to expand market share and profitability.

- In the Automation and Control business, A&D is a leader in factory automation solutions, adding rapid growth in Asia-Pacific to sizable market share in the U.S. and Europe. We expect A&D to further penetrate the potential of the automation markets and to remain within its profit margin range of 11 – 13% in the year ahead. In the expanding market for industrial and public infrastructure solutions as well as in the steadily developing water technology sector, I&S has a target margin range of 4 – 6%. The market for security systems and "smart" buildings has strengthened in recent years. Assuming stable market conditions, particularly in commercial construction, SBT is positioned to reach its target profit margin range of 7 – 9% in the year ahead.
- In the Power business area, PG offers solutions for fossil power generation, wind power, coal gasification, industrial steam turbines and power plant emission control, and also holds stakes in joint ventures in particular in Europe and Asia. Assuming positive margin development, particularly in its large fossil business as well as in its renewable energy activities, we expect PG to return to its target range of 10 – 13% in fiscal 2007. However, while these markets are growing, profitability varies among regions and business segments and earnings from joint ventures can be volatile. Our power transmission and distribution business is growing rapidly by supporting emerging economies to build out their energy infrastructures and developed economies to modernize them. We expect PTD to develop towards the upper end of its target profit margin of 5 – 7% in the coming year.
- In the Transportation business, Siemens is a leader in advanced automotive electronics as well as urban and regional rail systems. While we expect the automotive market to continue slowing due to macroeconomic factors, particularly in the U.S., we believe that SV can extend its competitive advantages in this environment and remain within or above its profit margin range of 5 – 6%. The global trend toward greater urbanization favors increased investment in regional and metropolitan rail transport, and TS is a leading provider of both rolling stock and turnkey systems. Assuming it successfully continues its quality improvements and transition to higher-margin new business in the coming year, TS is poised to enter its target margin range of 5 – 7%.

- Med is a leader in advanced diagnostic imaging systems, molecular and in-vitro immunodiagnostics, and healthcare IT systems. Diagnostics of all types are increasingly central to the practice of medicine in developed economies, with their growing emphasis on early detection and prevention of disease states in steadily aging populations. Though Med faces strong competition and pricing pressure, we expect the Group to grow profitably on a consistent basis and to remain within its target margin range of 11 – 13% in fiscal 2007, despite acquisition related charges. We expect that integrating the diagnostics acquisitions will be a significant management focus at Med.
- Osram is a leader in general and automotive lighting as well as advanced lighting technologies, and will be increasing its penetration in Eastern Europe and Asia-Pacific to complement established markets in Western Europe and the U.S. Coupled with R&D programs for new products, especially in the field of optoelectronics, Osram is expected to remain within its target margin range of 10 – 11% in fiscal 2007.
- In our Information and Communications business area, we expect to execute the strategic reorientation of Com and SBS, resulting in the dissolution of Com, whereas activities of SBS will be bundled with other corporate IT and software solutions activities within a new Group called Siemens IT Solutions and Services (SIS). This Group will consist of Siemens software development units in Austria, Greece, India and Switzerland combined with our worldwide IT consulting and outsourcing organization. We expect successful integration of the Group's various capabilities and market acceptance of its solutions and strategy. We expect SBS/SIS to approach the profit margin range of 5 – 6% in fiscal 2007. The transfer of our carrier business from Com to the Nokia Siemens Networks (NSN) joint venture with Nokia is expected to result in a significant gain in fiscal 2007, along with positive equity earnings contributions. NSN will be part of a new segment called Strategic Equity Investments (SEI). SEI includes centrally managed at equity investments and will consist of BSH Bosch und Siemens Hausgeräte GmbH, Fujitsu Siemens Computers (Holding) BV and NSN. We also expect to divest Com's enterprise networks and services business during fiscal 2007.
- SFS continues to be focused on actively supporting the Groups in their business requirements. Future emphasis will be given towards taking advantage of Siemens' leading position in energy and environment, industrial and public infrastructure as well as healthcare. SFS is expected to meet its return on equity target of 18 – 22%.

Given the ground conditions described above, we anticipate that Siemens will increase sales in the years ahead approximately twice as fast as growth in global GDP, adjusting for divestments. We expect that cash flows in fiscal 2007 will reflect substantial portfolio changes, including a payment of approximately €4.2 billion to acquire Bayer's diagnostics division. We expect a smaller increase in net working capital compared to fiscal 2006, and a reversal in the recent upward trend of our capital expenditure ratio. Furthermore we expect substantial cash outflows for severance programs at Com and SBS in the coming year.

A number of factors could intervene or affect the timing of the anticipated progress and results mentioned above. These factors include but are not limited to rising commodity costs, rising energy costs, rising interest rates, delays or difficulties in integrating acquisitions, significant currency exchange fluctuations, geopolitical uncertainty, and negative impacts on our business resulting from the alleged compliance issues. Opportunities will result in particular from growth rates, which are above our expectations mentioned above as well as from our portfolio that enables us to take advantage of the strong demand for our products and solutions in the fast growing emerging markets, while we continue to expand our market position in our most important single market, the U.S., from already closed or announced acquisitions.

In fiscal 2007, Siemens begins reporting its financial results under International Financial Reporting Standards (IFRS), which differ in some material respects from U.S. GAAP, the reporting standard we used in fiscal 2006 and the fiscal years preceding it. In readiness for this transition, we have prepared our fiscal 2006 and fiscal 2005 results according to both U.S. GAAP and IFRS, and we will release IFRS financial information in December 2006 as supplemental information.

This Annual Report contains forward-looking statements and information – that is, statements related to future, not past, events. These statements may be identified by words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "will," "project" 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 our 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 (including margin developments in major business areas); the challenges of integrating major acquisitions and implementing joint ventures and other significant portfolio measures; changes in currency exchange rates and interest rates; introduction of competing products or technologies by other companies; lack of acceptance of new products or services by customers targeted by Siemens; changes in business strategy; the outcome of investigations and legal proceedings as well as various other factors. More detailed information about certain of these factors is contained in Siemens' filings with the SEC, which are available on the Siemens website, www.siemens.com and on the SEC's website, www.sec.gov. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. Siemens does not intend or assume any obligation to update or revise these forward-looking statements in light of developments which differ from those anticipated.

Consolidated Statements of Income

For the fiscal years ended September 30, 2006 and 2005 (in millions of €, per share amounts in €)

		Siemens	
	Note	2006	2005
Net sales		87,325	75,445
Cost of sales		(63,812)	(54,146)
Gross profit on sales		23,513	21,299
Research and development expenses	**2**	(5,024)	(4,511)
Marketing, selling and general administrative expenses		(15,470)	(13,684)
Other operating income (expense), net	**3, 4**	205	(9)
Income from investments in other companies, net	**5**	647	584
Income (expense) from financial assets and marketable securities, net	**6**	337	297
Interest expense of Operations, net	**7**	(39)	(32)
Other interest income (expense), net	**7**	202	241
Income from continuing operations before income taxes		4,371	4,185
Income taxes[1]	**8**	(1,078)	(979)
Minority interest		(206)	(148)
Income from continuing operations		3,087	3,058
Income (loss) from discontinued operations, net of income taxes		(54)	(810)
Net income		3,033	2,248
Basic earnings per share	**29**		
Income from continuing operations		3.47	3.43
Loss from discontinued operations		(0.07)	(0.91)
Net income		3.40	2.52
Diluted earnings per share	**29**		
Income from continuing operations		3.31	3.29
Loss from discontinued operations		(0.05)	(0.87)
Net income		3.26	2.42

[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	
	2006	2005	2006	2005	2006	2005
	(1,858)	(1,677)	86,843	74,969	2,340	2,153
	1,858	1,677	(63,703)	(54,027)	(1,967)	(1,796)
	–	–	23,140	20,942	373	357
	–	–	(5,024)	(4,511)	–	–
	(3)	(1)	(15,123)	(13,395)	(344)	(288)
	(78)	(87)	116	(136)	167	214
	–	–	538	492	109	92
	(50)	92	400	255	(13)	(50)
	–	–	(39)	(32)	–	–
	420	294	(355)	(191)	137	138
	289	298	3,653	3,424	429	463
	(71)	(70)	(901)	(801)	(106)	(108)
	–	–	(206)	(148)	–	–
	218	228	2,546	2,475	323	355
	–	–	(45)	(814)	(9)	4
	218	228	2,501	1,661	314	359

Consolidated Balance Sheet

As of September 30, 2006 and 2005 (in millions of €)

		Siemens	
	Note	9/30/06	9/30/05
Assets			
Current assets			
Cash and cash equivalents		10,214	8,121
Marketable securities	**9**	596	1,789
Accounts receivable, net	**10**	15,149	17,122
Intracompany receivables		–	–
Inventories, net	**11**	12,790	12,812
Deferred income taxes	**8**	1,468	1,484
Assets held for disposal		7,189	245
Other current assets	**12**	4,205	5,230
Total current assets		51,611	46,803
Long-term investments	**13**	3,922	3,768
Goodwill	**14**	9,776	8,930
Other intangible assets, net	**15**	3,243	3,107
Property, plant and equipment, net	**16**	12,072	12,012
Deferred income taxes	**8**	4,983	6,233
Other assets	**17**	5,366	5,264
Other intracompany receivables		–	–
Total assets		90,973	86,117

Liabilities and shareholders' equity			
Current liabilities			
Short-term debt and current maturities of long-term debt	**20**	2,175	3,999
Accounts payable		8,444	10,171
Intracompany liabilities		–	–
Accrued liabilities	**18**	9,126	10,176
Deferred income taxes	**8**	516	1,938
Liabilities held for disposal		5,545	289
Other current liabilities	**19**	13,151	13,058
Total current liabilities		38,957	39,631
Long-term debt	**20**	13,399	8,436
Pension plans and similar commitments	**21**	4,101	4,917
Deferred income taxes	**8**	450	427
Other accruals and provisions	**22**	4,058	5,028
Other intracompany liabilities		–	–
		60,965	58,439
Minority interests		702	656
Shareholders' equity	**23**		
Common stock, no par value Authorized: 1,116,087,241 and 1,113,295,461 shares, respectively Issued: 891,087,241 and 891,085,461 shares, respectively		2,673	2,673
Additional paid-in capital		5,175	5,167
Retained earnings		28,320	26,488
Accumulated other comprehensive income (loss)		(6,862)	(7,305)
Treasury stock, at cost 415 and 9,004 shares, respectively		–	(1)
Total shareholders' equity		29,306	27,022
Total liabilities and shareholders' equity		90,973	86,117

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

	Eliminations, reclassifications and Corporate Treasury		Operations		Financing and Real Estate	
	9/30/06	9/30/05	9/30/06	9/30/05	9/30/06	9/30/05
	9,072	6,603	1,109	1,471	33	47
	417	–	159	1,772	20	17
	–	(6)	10,886	12,758	4,263	4,370
	(15,736)	(15,489)	15,680	15,362	56	127
	(2)	(4)	12,735	12,744	57	72
	(45)	(178)	1,486	1,580	27	82
	(21)	–	7,205	245	5	–
	286	506	2,893	3,746	1,026	978
	(6,029)	(8,568)	52,153	49,678	5,487	5,693
	–	–	3,601	3,463	321	305
	–	–	9,644	8,799	132	131
	–	–	3,227	3,092	16	15
	–	–	8,310	8,217	3,762	3,795
	1,197	1,541	3,695	4,655	91	37
	246	106	1,634	1,836	3,486	3,322
	(1,283)	(1,632)	1,283	1,626	–	6
	(5,869)	(8,553)	83,547	81,366	13,295	13,304
	1,429	3,049	534	564	212	386
	27	(1)	8,142	9,965	275	207
	(16,542)	(15,998)	10,136	9,134	6,406	6,864
	148	115	8,816	9,905	162	156
	(363)	(475)	618	2,203	261	210
	(16)	–	5,561	289	–	–
	462	222	12,396	12,559	293	277
	(14,855)	(13,088)	46,203	44,619	7,609	8,100
	12,224	6,937	743	978	432	521
	–	–	4,099	4,917	2	–
	151	(26)	185	274	114	179
	65	91	3,650	4,519	343	418
	(3,454)	(2,467)	710	284	2,744	2,183
	(5,869)	(8,553)	55,590	55,591	11,244	11,401
	–	–	702	656	–	–
	–	–	27,255	25,119	2,051	1,903
	(5,869)	(8,553)	83,547	81,366	13,295	13,304

Consolidated Statements of Cash Flow

For the fiscal years ended September 30, 2006 and 2005 (in millions of €)

	Siemens	
	2006	2005
Cash flows from operating activities		
Net income	3,033	2,248
Adjustments to reconcile net income to cash provided		
Minority interest	213	158
Amortization, depreciation and impairments	3,012	3,426
Deferred taxes	(378)	(628)
Losses (gains) on sales and disposals of businesses and real estate, net	(77)	(226)
(Gains) on sales of investments, net	(188)	(49)
(Gains) on sales and impairments of marketable securities, net	(382)	(239)
(Income) loss from equity investees, net of dividends received	(160)	(277)
Change in current assets and liabilities		
(Increase) decrease in inventories, net	(2,313)	(717)
(Increase) decrease in accounts receivable, net	(881)	27
Increase (decrease) in outstanding balance of receivables sold	(153)	(7)
(Increase) decrease in other current assets	466	248
Increase (decrease) in accounts payable	259	89
Increase (decrease) in accrued liabilities	85	(144)
Increase (decrease) in other current liabilities	1,758	39
Supplemental contributions to pension trusts	–	(1,496)
Change in other assets and liabilities	687	669
Net cash provided by (used in) operating activities – continuing and discontinued operations	4,981	3,121
Net cash provided by (used in) operating activities – continuing operations	**5,174**	**4,217**
Cash flows from investing activities		
Additions to intangible assets and property, plant and equipment	(3,970)	(3,544)
Acquisitions, net of cash acquired	(2,055)	(2,450)
Purchases of investments	(389)	(652)
Purchases of marketable securities	(1,489)	(34)
(Increase) decrease in receivables from financing activities	(469)	(511)
Increase (decrease) in outstanding balance of receivables sold by SFS	–	–
Proceeds from sales of long-term investments, intangibles and property, plant and equipment	1,317	977
Proceeds from sales and dispositions of businesses	(260)	34
Proceeds from sales of marketable securities	2,701	356
Net cash provided by (used in) investing activities – continuing and discontinued operations	(4,614)	(5,824)
Net cash provided by (used in) investing activities – continuing operations	**(4,435)**	**(5,706)**
Cash flows from financing activities		
Purchase of common stock	(421)	(219)
Proceeds from re-issuance of treasury stock	313	173
Proceeds from issuance of debt	6,701	–
Repayment of debt	(1,710)	(848)
Change in short-term debt	(1,762)	711
Dividends paid	(1,201)	(1,112)
Dividends paid to minority shareholders	(118)	(108)
Intracompany financing	–	–
Net cash provided by (used in) financing activities	1,802	(1,403)
Effect of exchange rates on cash and cash equivalents	(76)	37
Net increase (decrease) in cash and cash equivalents	2,093	(4,069)
Cash and cash equivalents at beginning of period	8,121	12,190
Cash and cash equivalents at end of period	10,214	8,121
Supplemental disclosure of cash paid for:		
Interest	596	441
Income taxes	1,191	1,093

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

	Eliminations, reclassifications and Corporate Treasury		Operations		Financing and Real Estate	
	2006	2005	2006	2005	2006	2005
	218	228	2,501	1,661	314	359
	–	–	213	158	–	–
	–	–	2,570	3,001	442	425
	(23)	(5)	(315)	(614)	(40)	(9)
	–	–	18	(98)	(95)	(128)
	–	–	(175)	(49)	(13)	–
	–	–	(382)	(239)	–	–
	–	–	(133)	(263)	(27)	(14)
	(2)	–	(2,321)	(709)	10	(8)
	120	148	(1,049)	(143)	48	22
	(80)	(28)	(73)	21	–	–
	214	113	244	140	8	(5)
	15	(1)	180	103	64	(13)
	55	(39)	8	(39)	22	(66)
	340	(332)	1,439	321	(21)	50
	–	–	–	(1,496)	–	–
	(76)	(47)	820	709	(57)	7
	781	37	3,545	2,464	655	620
	781	**37**	**3,738**	**3,565**	**655**	**615**
	–	–	(3,202)	(2,871)	(768)	(673)
	–	–	(2,052)	(2,369)	(3)	(81)
	–	–	(369)	(631)	(20)	(21)
	(1,409)	(12)	(72)	(8)	(8)	(14)
	(150)	(81)	–	–	(319)	(430)
	80	28	–	–	(80)	(28)
	–	–	952	641	365	336
	–	–	(260)	12	–	22
	986	20	1,709	321	6	15
	(493)	(45)	(3,294)	(4,905)	(827)	(874)
	(493)	**(45)**	**(3,115)**	**(4,787)**	**(827)**	**(874)**
	–	–	(421)	(219)	–	–
	–	–	313	173	–	–
	6,701	–	–	–	–	–
	(1,600)	(596)	(49)	(231)	(61)	(21)
	(1,244)	1,065	(419)	(270)	(99)	(84)
	–	–	(1,201)	(1,112)	–	–
	–	–	(118)	(108)	–	–
	(1,654)	(5,112)	1,335	4,738	319	374
	2,203	(4,643)	(560)	2,971	159	269
	(22)	3	(53)	33	(1)	1
	2,469	(4,648)	(362)	563	(14)	16
	6,603	11,251	1,471	908	47	31
	9,072	6,603	1,109	1,471	33	47

Consolidated Statements of Changes in Shareholders' Equity

For the fiscal years ended September 30, 2006 and 2005 (in millions of €)

	Common stock	Additional paid-in capital	Retained earnings
Balance at October 1, 2004	2,673	5,121	25,352
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**	**26,488**
Net income	–	–	3,033
Change in currency translation adjustment	–	–	–
Change in unrealized gains and losses	–	–	–
Total comprehensive income	–	–	3,033
Dividends paid	–	–	(1,201)
Issuance of common stock and stock-based compensation	–	44	–
Purchase of common stock	–	–	–
Re-issuance of treasury stock	–	(36)	–
Balance at September 30, 2006	**2,673**	**5,175**	**28,320**

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
(1,076)	160	55	(5,525)	(6,386)	–	26,760
–	–	–	–	–	–	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)**	**27,022**
–	–	–	–	–	–	3,033
(330)	–	–	–	(330)	–	(330)
–	(218)	58	933	773	–	773
(330)	(218)	58	933	443	–	3,476
–	–	–	–	–	–	(1,201)
–	–	–	–	–	–	44
–	–	–	–	–	(421)	(421)
–	–	–	–	–	422	386
(923)	**(71)**	**(31)**	**(5,837)**	**(6,862)**	**–**	**29,306**

Segment Information (continuing operations)

As of and for the fiscal years ended September 30, 2006 and 2005 (in millions of €)

	New orders (unaudited)		External sales		Intersegment sales		Total sales	
	2006	2005	2006	2005	2006	2005	2006	2005
Operations Groups								
Communications (Com)[5]	13,571	12,869	12,752	11,901	328	300	13,080	12,201
Siemens Business Services (SBS)	5,014	6,531	3,667	3,964	1,490	1,409	5,157	5,373
Automation and Drives (A&D)[6]	14,108	10,674	11,285	9,018	1,563	1,348	12,848	10,366
Industrial Solutions and Services (I&S)[6]	9,025	7,189	7,752	5,255	1,067	1,052	8,819	6,307
Siemens Building Technologies (SBT)	5,235	4,518	4,670	4,301	126	114	4,796	4,415
Power Generation (PG)	12,532	10,964	10,068	8,042	18	19	10,086	8,061
Power Transmission and Distribution (PTD)	8,028	5,283	6,025	3,930	484	320	6,509	4,250
Transportation Systems (TS)	6,173	4,599	4,434	4,146	68	44	4,502	4,190
Siemens VDO Automotive (SV)	10,014	9,787	10,003	9,591	14	19	10,017	9,610
Medical Solutions (Med)	9,334	8,641	8,163	7,577	64	49	8,227	7,626
Osram	4,563	4,300	4,487	4,222	76	78	4,563	4,300
Other Operations[5][6][7]	4,964	4,325	3,129	2,692	1,699	1,528	4,828	4,220
Total Operations Groups	**102,561**	**89,680**	**86,435**	**74,639**	**6,997**	**6,280**	**93,432**	**80,919**
Reconciliation to financial statements								
Corporate items, pensions and eliminations	(6,837)	(6,421)	87	77	(6,676)	(6,027)	(6,589)	(5,950)
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)	**95,724**	**83,259**	**86,522**	**74,716**	**321**	**253**	**86,843**	**74,969**
Financing and Real Estate Groups								
Siemens Financial Services (SFS)	645	542	548	464	97	78	645	542
Siemens Real Estate (SRE)	1,705	1,621	255	265	1,450	1,356	1,705	1,621
Eliminations	(10)	(10)	–	–	(10)	(10)	(10)	(10)
Total Financing and Real Estate	**2,340**	**2,153**	**803**	**729**	**1,537**	**1,424**	**2,340**	**2,153**
Eliminations, reclassifications and Corporate Treasury	**(1,805)**	**(1,621)**	**–**	**–**	**(1,858)**	**(1,677)**	**(1,858)**	**(1,677)**
Siemens	**96,259**	**83,791**	**87,325**	**75,445**	**–**	**–**	**87,325**	**75,445**

(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) Com's division Siemens Home and Office Communication Devices was reclassified to *Other Operations* in fiscal 2006. Prior year information was reclassified for comparability purposes.
(6) The divisions of the dissolved L&A Group were allocated as follows for all periods presented: Electronic Assembly Systems were reclassified to A&D, Postal Automation and Airport Logistics were reclassified to I&S and Distribution and Industry Logistics as well as Material Handling Products were reclassified to *Other Operations*.
(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]	
	2006	2005	9/30/06	9/30/05	2006	2005	2006	2005	2006	2005
	283	421	1,357	1,799	355	621	388	479	280	386
	(549)	(690)	458	296	(681)	(258)	284	340	290	516
	1,572	1,253	4,249	3,691	1,041	404	651	1,199	279	255
	289	167	1,640	1,775	177	474	252	70	132	107
	234	181	1,834	1,453	(113)	122	232	149	103	104
	782	951	2,942	2,625	336	239	603	556	215	196
	390	212	2,142	1,869	142	19	189	161	118	84
	80	45	649	584	13	(551)	150	185	56	57
	669	630	4,190	3,823	439	341	487	623	415	427
	1,061	976	5,336	3,685	(392)	396	1,653	1,025	242	229
	481	465	2,056	2,065	414	464	353	307	257	261
	(36)	76	1,943	1,692	(133)	268	205	172	134	241
	5,256	**4,687**	**28,796**	**25,357**	**1,598**	**2,539**	**5,447**	**5,266**	**2,521**	**2,863**
	(1,248)	(1,072)	(3,983)	(3,690)	(975)[8]	(3,761)[8]	171	470	44	29
	(355)	(191)	–	–	–	–	–	–	–	–
	–	–	58,734	59,699	–	–	–	–	–	–
	3,653	**3,424**	**83,547**	**81,366**	**623**	**(1,222)**	**5,618**	**5,736**	**2,565**	**2,892**

	Income before income taxes		Total assets							
	307	319	10,522	10,148	(219)	(344)	521	563	250	221
	122	144	3,234	3,496	187	202	270	212	192	203
	–	–	(461)	(340)	(140)[8]	(117)[8]	–	–	–	–
	429	**463**	**13,295**	**13,304**	**(172)**	**(259)**	**791**	**775**	**442**	**424**
	289	**298**	**(5,869)**	**(8,553)**	**288[8]**	**(8)[8]**	**–**	**–**	**–**	**–**
	4,371	**4,185**	**90,973**	**86,117**	**739**	**(1,489)**	**6,409**	**6,511**	**3,007**	**3,316**

Notes

1 Basis of presentation

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

Siemens has prepared and reported its Consolidated Financial Statements in euros (€). Siemens is a German based multinational corporation with a balanced business portfolio of activities predominantly in the field of electronics and electrical engineering (for further information see Note 30).

In order to comply with Section 57 and 58 of the EGHGB (Introductory Law to German Commercial Code) in conjunction with §292a of the German Commercial Code (HGB, in the version effective until December 9, 2004), the Consolidated Financial Statements were supplemented with Management's Discussion and Analysis on a consolidated basis and additional explanations. Therefore, the Consolidated Financial Statements, which have to be filed with the Commercial Registry and published in the German Federal Gazette (Bundesanzeiger), comply with the Fourth and Seventh Directives of the European Community. For the interpretation of these directives, the Company relied on Article 2 of the German Amendment Accounting Standard No. 2 issued by the German Accounting Standards Committee.

The Consolidated Financial Statements and Management's Discussion and Analysis as of September 30, 2006, prepared in accordance with Section 57 and 58 of the EGHGB in conjunction with §292a of the HGB (in the version effective until December 9, 2004), are being filed with the Commercial Registries of the Berlin-Charlottenburg and Munich District Courts under the numbers HRB 12300 and HRB 6684, respectively.

Financial statement presentation

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

- **Siemens** – Represents the Consolidated Financial Statements of the Company.
- **Operations** – Defined as Siemens' eleven operating Groups and certain operating activities not associated with these Groups, as well as 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

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

In connection with the investigation launched by German state prosecutors on November 15, 2006 (see Note 33), Siemens initiated an internal investigation into certain transactions and payments, which led to adjustments to the Company's October 1, 2003 *Shareholders' equity* balance to correct for income tax related misstatements in years prior to fiscal 2004 and recognized charges in its fiscal 2006 *Consolidated Statements of Income* to correct for income tax related misstatements in the fiscal years 2005 and 2004, respectively. The charges recognized for fiscal 2005 and 2004 had the effect of reducing both *Income from continuing operations* and *Net income* by €42 in the 2006 *Consolidated Statements of Income* (thereof €17 refers to fiscal 2005). The total adjustments relating to years prior to fiscal 2004 had the effect of decreasing *Shareholders' equity* as of October 1, 2003 by €95. The misstatements for fiscal 2005 and 2004 were not material to those years and the charges recognized in 2006 to correct the misstatements of those years were not material to the *Consolidated Financial Statements* for fiscal 2006. In addition, the adjustments to *Shareholders' equity* as of October 1, 2003, to correct the cumulative misstatements as of that date, were also not material to beginning *Shareholders' equity* as of October 1, 2003. In connection with the adjustments related to years prior to fiscal 2004, the Company's deferred tax assets decreased by €88 and the tax accruals increased by €7 as of October 1, 2003. The adjustments recognized for fiscal 2005 and 2004 resulted in an additional decrease of the Company's deferred tax assets of €32 and an increase in tax accruals of €10 as of September 30, 2006. For further information see Notes 8 and 33.

The Company has also adjusted certain expenses previously recorded in *Research and development expenses* in 2005 to *Cost of sales*. Such adjustment was necessary to properly classify costs related to the adaptation of existing technologies to meet specific commercial customer requirements in *Cost of sales*. This adjustment has no effect on *Income from continuing operations before income taxes* or *Net income*. For fiscal 2005, €644 was reclassified from *Research and development expenses* to *Cost of sales* in connection with this adjustment. *Research and development expenses* therefore decreased from €5,155 to €4,511 for the year ended September 30, 2005. At the same time, *Cost of sales* increased from €53,502 to €54,146 for the year ended September 30, 2005.

For the year ended September 30, 2006, the corresponding costs related to the adaptation of existing technologies to meet specific commercial customer needs amounted to €661.

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

Basis of consolidation – The Consolidated Financial Statements include the accounts of Siemens AG and subsidiaries which are directly or indirectly controlled. Control is generally conveyed by ownership of the majority of voting rights. Additionally, the Company consolidates variable interest entities (VIE's) for which it is deemed to be the primary beneficiary. VIE's are entities for which either the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support, or the equity investors lack an essential characteristic of a controlling financial interest, or the investors' economic interests are disproportionate to the attached voting rights and substantially all of the entity's activities involve or are conducted for an investor with disproportionately few voting rights. 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 Registers of the Berlin-Charlottenburg and Munich District Courts.

Business Combinations – All business combinations are accounted for under the purchase method. The cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. The Company's share of the identifiable assets and contingent assets acquired, as well as its share of the liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill.

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 income 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	2006	2005	2006	2005
U.S. Dollar	USD	1.266	1.204	1.230	1.273
British pound	GBP	0.678	0.682	0.685	0.688

Revenue recognition – Revenue is recognized for product sales when a persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, 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 reasonably assured. If product sales are subject to customer acceptance, revenues are not recognized until customer acceptance occurs. Revenues from 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 sales-type and direct financing 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 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. Generally, the total arrangement consideration is allocated to the separate units of accounting based on their relative fair values. In cases where there is objective and reliable fair value evidence of the undelivered elements but not for one or more of the delivered elements, the residual method is used, i.e. the amount allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of the undelivered elements. Objective and reliable fair values are 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. 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 income from continuing operations and net income, respectively, 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, stock options and stock awards.

Cash and cash equivalents – The Company considers all highly liquid investments with less than three months maturity from the date of acquisition 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. Intangible assets acquired in business combinations primarily consist of customer relationships and technology. Weighted average useful lives in specific acquisitions ranged from nine to twenty-two years for customer relationships and from seven to twelve years for technology. 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. Regarding the impairment of intangible assets with finite useful lives, see *Impairment of long-lived assets* below. 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 cost less accumulated depreciation and impairment losses. If the costs of certain components of an item of property, plant and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately. Depreciation expense is recognized using the straight-line method. Costs of construction of 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. The Company's long-lived assets to be disposed of are recorded at the lower of carrying amount or fair value less costs to sell and depreciation is ceased.

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 is classified as held for sale or has been disposed of, 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 after the disposal transaction.

Derivative instruments – Derivative instruments, such as foreign currency exchange contracts and interest rate swap contracts, are measured at fair value. Changes in the fair value of derivative financial instruments are recognized periodically either in net income or, in the case of a cash flow hedge, in *AOCI*, net of applicable deferred income taxes. Certain derivative instruments embedded in host contracts are also accounted for separately as derivatives.

Fair value hedges – The carrying amount of the hedged item is adjusted by the gain or loss attributable to the hedged risk. Where an unrecognized firm commitment is designated as the hedged item, the subsequent cumulative change in its fair value is recognized as a separate financial asset or liability with corresponding gain or loss recognized in net income.

For hedged items carried at amortized cost, the adjustment is amortized such that it is fully amortized by maturity of the hedged item. For hedged firm commitments the initial carrying amount of the assets or liabilities that result from meeting the firm commitments are adjusted to include the cumulative changes in the fair value that were previously recognized as separate financial assets or liabilities.

Cash flow hedges – The effective portion of changes in the fair value of derivatives designated as cash flow hedges are recognized in *AOCI*, net of applicable deferred income taxes, and any ineffective portion is recognized immediately in net income. Amounts accumulated in equity are reclassified into net income in the same periods in which the hedged item affects net income.

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.

Income 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 – 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.

Accounting changes – Standards implemented – As of October 1, 2005, the Company adopted Statement of Financial Accounting Standards (SFAS) 123 (revised 2004) *Share-Based Payment* (SFAS 123R), which replaces SFAS 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. SFAS 123R requires companies to recognize stock-based compensation expense, with certain limited exceptions, based on fair value. Siemens uses a Black-Scholes option pricing model to determine the fair value of its stock-based compensation plans. In transitioning to SFAS 123R, the Company applied the modified prospective method. Commencing with the adoption of SFAS 123R, liability classified awards are remeasured to fair value at each reporting date until the award is settled. Equity awards granted, modified, repurchased or cancelled beginning October 1, 2005 and unvested equity awards granted prior to October 1, 2005, are measured at their grant-date fair value. Related compensation expense is recognized over the vesting period for awards expected to ultimately vest. Equity awards vested prior to the effective date continue to be accounted for under recognition and measurement provisions of APB Opinion No. 25 and related interpretations.

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The adoption of SFAS 123R, including the remeasurement to fair value of liability classified awards, did not have a material effect on the Company's Consolidated Financial Statements, due primarily to the adoption of the fair value measurement provisions of SFAS 123 on October 1, 2003 for which the prospective method was applied. The following table illustrates the effect on net income and earnings per share if the fair value based method of SFAS 123R had been applied to all awards:

	Year ended September 30,	
	2006	2005
Net income		
As reported	3,033	2,248
Plus: Stock-based compensation expense included in reported net income, net of income taxes	56	60
Less: Stock-based compensation expense determined under fair value based accounting method, net of income taxes	(51)	(59)
Pro forma	**3,038**	**2,249**
Basic earnings per share		
As reported	3.40	2.52
Pro forma	3.41	2.52
Diluted earnings per share		
As reported	3.26	2.42
Pro forma	3.26	2.42

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

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 adopted this Standard beginning October 1, 2005. The adoption of SFAS 154 did not have a material impact on the Company's Consolidated Financial Statements.

Accounting changes – Recent accounting pronouncements to be implemented – 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. Siemens will adopt EITF 05-5 in the first quarter of fiscal 2007. The adoption of EITF 05-5 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In June 2006, the FASB issued FASB Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FAS 109, Accounting for* Income Taxes, to create a single model to address accounting for uncertainty in tax positions taken or expected to be taken in a tax return. Under FIN 48, the tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained, based solely on its technical merits. The Company plans to adopt FIN 48 beginning October 1, 2007. The cumulative effect of adopting FIN 48 will be recorded in retained earnings. The Company is currently evaluating the potential impact, if any, that the adoption of FIN 48 will have on the Company's Consolidated Financial Statements.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. The Company plans to early adopt this Statement beginning October 1, 2006.

In September 2006, the FASB issued SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amends SFAS 87, *Employers' Accounting for Pensions*, SFAS 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, SFAS 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* and SFAS 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statements No. 87, 88, and 106*. SFAS 158 requires an employer to recognize the funded status of a defined benefit plan, measured as the difference between plan assets and the projected benefit obligation, in its Consolidated Balance Sheet. Actuarial gains or losses and prior service cost or benefits that have not yet been recognized through earnings as net periodic benefit cost will be recognized as a component of other comprehensive income, net of tax, until they are amortized as a component of net periodic benefit cost. The application of SFAS 158 will be effective for the Company as of September 30, 2007. As of September 30, 2006, for the principal pension benefit plans and other postretirement plans, the net amount of actuarial gains and losses and prior service cost and benefits not recognized in equity, before related taxes, totaled €916. See Note 21 for further information.

3 Acquisitions, dispositions and discontinued operations

a) Acquisitions

During the years ended September 30, 2006 and 2005, 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.

In fiscal 2006, Siemens signed an agreement to acquire the diagnostics division of Bayer Aktiengesellschaft, Germany for an expected purchase price of approximately €4.2 billion. The acquisition will enable Medical Solutions (Med) to expand its position in the growing molecular diagnostics market. The transaction, which has already received European Union and U.S. regulatory approval, is expected to close in the first half of fiscal 2007.

aa) Acquisitions in fiscal 2006

In the fourth quarter of fiscal 2006, Siemens completed the acquisition of the immunodiagnostics provider Diagnostic Products Corporation, USA (DPC). The acquisition, which is integrated into Med, will enable Siemens to expand its existing healthcare solutions portfolio. Preliminary acquisition costs amount to €1,414 (including €94 cash acquired). DPC, now wholly owned by Siemens, was consolidated as of August 2006. The Company has not yet finalized the purchase price allocation. Based on the preliminary purchase price allocation, approximately €260 was allocated to intangible assets subject to amortization and approximately €750 to goodwill.

In fiscal 2006, the Company acquired a number of other entities, which are also not significant individually, including the coal gasification business of the Swiss Sustec-Group, Wheelabrator Air Pollution Control, Inc., USA, a supplier of air pollution control and reduction products and solutions for the coal-fired power and industrial markets, both at Power Generation (PG), Electrium Limited, UK, a vendor of electrical installation systems at Automation and Drives (A&D) and Bewator, Sweden, a supplier of products and systems for access control solutions at Siemens Building Technologies (SBT). The combined preliminary purchase price of these acquisitions amounts to €393.

ab) Acquisitions in fiscal 2005

In May 2005, the Company acquired CTI Molecular Imaging, Inc. (CTI), USA. The primary reason for the acquisition was 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 was integrated into Med and consolidated as of May 2005, when it became a wholly owned subsidiary. The acquisition costs amount to €809 (including €60 in cash acquired). Based on the final purchase price allocation, €113 was allocated to intangible assets subject to amortization and €558 to goodwill. Of the €113 intangible assets, €60 was allocated to technology and €44 to customer relationships. Technology and customer relationships are amortized on a straight-line basis over weighted-average useful lives of 10 years and 9 years, respectively.

In fiscal 2005, the Company acquired, in several steps, the Austrian engineering group VA Technologie AG (VA Tech) for acquisition costs of €1,049 (including €535 cash acquired). The VA Tech business was consolidated as of July 15, 2005, when it became a wholly owned subsidiary of Siemens. VA Tech's metallurgy, power transmission and distribution, and infrastructure activities were mainly integrated into I&S and PTD to support their global market targets. Smaller portions were integrated into other business activities. In order to comply with a European antitrust ruling, the Company sold the majority of the VA Tech power generation business, including the hydropower activities, to Andritz AG of Austria, in May 2006. No gain or loss was recorded in connection with the sale of this business. The difference between the consideration received upon the sale and the book value of the business resulted in an increase in goodwill. Based on the final purchase price allocation for the VA Tech acquisition, approximately €130 was allocated to intangible assets subject to amortization and €1,120 to goodwill. Of the €130 intangible assets, €55 was allocated to order backlog and €26 to technology. Order backlog and technology are amortized on a straight-line basis over weighted-average useful lives of four and seven years, respectively.

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

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. The acquisition costs amount to €702. Based on the final purchase price allocation, €409 was allocated to intangible assets subject to amortization and €433 was recorded as goodwill. Of the €409 intangible assets, €264 was allocated to customer relationships and €101 to technology. Customer relationships and technology are amortized over weighted-average amortization periods of 12 years and 10 years, respectively.

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 purchase price of the two acquisitions amounts to €476.

The Company made certain other acquisitions during the years ended September 30, 2006 and 2005, which did not have a significant effect on the Consolidated Financial Statements.

b) Dispositions (including assets and liabilities held for disposal)

ba) Dispositions in fiscal 2006 (including assets and liabilities held for disposal)

At the beginning of April 2006, SBS closed the sale of its Product Related Services (PRS) business to Fujitsu Siemens Computers (Holding) BV.

In June 2006, Siemens and Nokia Corporation (Nokia), Finland announced an agreement to contribute the carrier-related operations of Siemens, which are part of Com, and the Networks Business Group of Nokia into a new company, to be called Nokia Siemens Networks (NSN), in exchange for shares in NSN. Siemens and Nokia will each own an economic share of approximately 50% of NSN. Siemens expects to account for its investment in NSN using the equity method. The assets and liabilities of the carrier-related operations of Siemens are classified on the balance sheet as held for disposal and measured at the lower of their carrying amount or fair value less costs to sell. The transaction is expected to close in the first half of fiscal 2007 and is subject to customary regulatory approvals (European Union approval having been received on November 13, 2006), the completion of standard closing conditions, and agreement on a number of detailed implementation steps. Siemens expects to realize a gain on this transaction.

The carrying amounts of the major classes of assets and liabilities held for disposal as of September 30, 2006, for carrier-related operations were as follows:

	September 30, 2006
Accounts receivable, net	2,391
Inventories, net	1,803
Goodwill	216
Property, plant and equipment, net	411
Other assets	849
Assets held for disposal	5,670
Accounts payable	1,788
Accrued liabilities	896
Pension plans and similar commitments	198
Other accruals and provisions	233
Payroll and social security taxes	318
Other liabilities	796
Liabilities held for disposal	4,229

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In the context of the overall reorganization of its Com segment, the Company plans to dispose of the enterprise networks business, which is part of Com, in fiscal 2007. The assets and liabilities of the enterprise networks business were classified on the balance sheet as held for disposal and measured at the lower of their carrying amount or fair value less costs to sell.

The carrying amounts of the major classes of assets and liabilities held for disposal as of September 30, 2006, for enterprise-related operations were as follows:

	September 30, 2006
Accounts receivable, net	315
Inventories, net	332
Goodwill	152
Property, plant and equipment, net	230
Other assets	490
Assets held for disposal	1,519
Accounts payable	290
Accrued liabilities	196
Pension plans and similar commitments	185
Other accruals and provisions	130
Payroll and social security taxes	132
Other liabilities	383
Liabilities held for disposal	1,316

In the fourth quarter of fiscal 2005, Siemens announced the carve out of the Distribution and Industry Logistics (DI) and Material Handling Products (MHP) divisions, formerly of the Logistics and Assembly Systems Group (L&A), into separate entities (Dematic business). The Dematic business has been reported in Other Operations for all periods presented. In June 2006, Siemens signed an agreement to divest a significant portion of its Dematic business to Triton Managers II Limited based in Jersey. Closing of the transaction occurred on August 31, 2006. The disposal loss on the transaction amounted to €53 and is reported in *Other operating income (expense), net*.

bb) Dispositions in fiscal 2005

In fiscal 2005, Siemens sold its Mobile Devices (MD) business. For further information see the comments on Discontinued Operations.

c) Discontinued Operations

In fiscal 2005, Siemens signed an agreement to sell its MD business, which was part of Com, to BenQ Corporation (BenQ) based in Taiwan (the Agreement). The Agreement also provided 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), amounted to €546 and was composed of €413 losses directly attributable to BenQ and €133 additional exit related charges. As part of the Agreement, Siemens purchased €50 in Global Depositary Receipts (GDR's) on common shares in BenQ in December 2005, which at that time represented a 2.4 percent investment in BenQ (see Note 9). All of the MD activities for which the transaction was not completed as of September 30, 2005, including the MD operations of Siemens Shanghai Mobile Communications Ltd. in the Peoples Republic of China, were sold in fiscal 2006. No additional direct gain or loss on the transaction was realized in fiscal 2006. The loss from discontinued operations in fiscal 2006 resulted from charges pursuant to the terms of the disposal transaction, including substantial effects stemming from the insolvency of BenQ Mobile GmbH & Co. OHG, Germany.

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

As of September 30, 2005, assets and liabilities related to transactions not yet closed as of the balance sheet date (Deferred Countries and SSMC) were classified as held for disposal 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 disposal 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 disposal	245
Accounts payable	228
Other liabilities	61
Liabilities held for disposal	289

As of September 30, 2006, the respective amounts of assets and liabilities held for disposal were zero.

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

In fiscal 2006 and 2005, the Disposal Group's net sales were €475 and €3,374, respectively. Loss before income taxes after minority interests reported in discontinued operations amounted to €(92) and €(1,308), respectively for fiscal 2006 and 2005.

4 Other operating income (expense), net

	Year ended September 30, 2006	2005
Impairment of goodwill	–	(262)
Gains on sales of real estate, net	136	177
Gains on sales and disposals of businesses, net	(59)	49
Other, net	128	27
	205	**(9)**

Impairment of goodwill of €262, in fiscal 2005, relates to Siemens Business Services' (SBS) reporting unit Operation-Related Services.

Gains (losses) on sales and disposals of businesses, net in fiscal 2006, includes a pre-tax loss of €53 from the Company's sale of its Dematic business (see Note 3).

Other, net in fiscal 2006, includes a gain of €70 related to the settlement of an arbitration proceeding.

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

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

	Year ended September 30, 2006	2005
Share in earnings (losses) from equity investees, net	449	499
Write-downs on investments	(85)	(85)
Income from investments	78	95
Gains on sales of investments	198	58
Loss on sales of investments	(10)	(9)
Other	17	26
	647	**584**

Gains on sales of investments, in fiscal 2006, includes a pre-tax gain of €84 related to the sale of the Company's interest in SMS Demag AG.

6 Income from financial assets and marketable securities, net

	Year ended September 30, 2006	2005
Gains on sales of available-for-sale securities, net	402	243
Other financial gains (losses), net	(65)	54
	337	**297**

In fiscal 2006, Gains on sales of available-for-sale securities, net, includes gains of €356, €15 and €33, respectively, on the sales of the Company's remaining interests in Juniper Networks, Inc. (Juniper), Epcos AG and Infineon Technologies AG (Infineon), respectively. In fiscal 2005, Gains on sales of available-for-sale securities, net, includes a gain on the sale of shares in Juniper Networks, Inc. (Juniper) of €208. For further information, see Note 9.

In fiscal 2006 and 2005, Other financial gains (losses), net includes impairments of certain marketable securities totaling €20 and €4, respectively, where the decline in value was determined to be other than temporary.

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

7 Interest income, net

	Year ended September 30, 2006	2005
Other interest income, net	202	241
Interest income (expense) of Operations, net	(39)	(32)
Total interest income, net	**163**	**209**
Thereof: Interest and similar income	768	720
Thereof: Interest and similar expense	(605)	(511)

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 corporate debt and related hedging activities, as well as interest income on corporate assets.

8 Income taxes

Income (loss) from continuing operations before income taxes is attributable to the following geographic regions:

	Year ended September 30, 2006	2005
Germany	(78)	521
Foreign	4,449	3,664
	4,371	**4,185**

Income tax expense (benefit) consists of the following:

	Year ended September 30, 2006	2005
Current:		
German corporation and trade taxes	328	178
Foreign income taxes	1,090	931
	1,418	**1,109**
Deferred:		
Germany	(579)	(11)
Foreign	239	(119)
	(340)	**(130)**
Income tax expense, net	**1,078**	**979**

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For the fiscal years ended September 30, 2006 and 2005, 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 years ended September 30, 2006 and 2005 consist 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, net in fiscal 2006 includes €(73) related to income tax charges recognized in connection with the internal investigation launched in November 2006 (see Notes 2 and 33).

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, 2006 and 2005) as follows:

	Year ended September 30,	
	2006	2005
Expected income tax expense	1,705	1,632
Increase (decrease) in income taxes resulting from:		
Non-deductible losses and expenses	181	116
Goodwill and acquired in-process research and development*	–	(139)
Tax-free income	(94)	(77)
Tax-free gains and non-deductible losses from sales of business interests	(237)	(34)
Taxes for prior years	(51)	–
Movement in valuation allowance	70	(8)
Foreign tax rate differential	(406)	(448)
Tax effect of equity method investments	(133)	(121)
Other	43	58
Actual income tax expense	**1,078**	**979**

* 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.

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

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

	September 30, 2006	2005
Current assets:		
Inventories	565	733
Receivables	597	226
Accrued liabilities	811	959
Liabilities	776	468
Tax loss and credit carryforward	470	52
Other	445	212
Total current deferred tax assets, before valuation allowances	3,664	2,650
Valuation allowances	(48)	(6)
Current deferred tax assets	3,616	2,644
Current liabilities:		
Inventories	1,752	1,766
Receivables	299	436
Accrued liabilities	213	192
Liabilities	268	51
Other	132	653
Current deferred tax liabilities	2,664	3,098
Current deferred tax (liability) assets, net	952	(454)
Non-current assets:		
Long-term investments	814	629
Intangibles	120	232
Property, plant and equipment	375	285
Retirement plans	3,694	4,565
Accrued liabilities	757	564
Liabilities	274	357
Tax loss and credit carryforward	1,971	2,273
Other	608	415
Total non-current deferred tax assets, before valuation allowances	8,613	9,320
Valuation allowances	(471)	(619)
Non-current deferred tax assets	8,142	8,701
Non-current liabilities:		
Intangibles	506	528
Property, plant and equipment	849	771
Accrued liabilities	462	292
Liabilities	55	46
Other	1,737	1,258
Non-current deferred tax liabilities	3,609	2,895
Non-current deferred tax assets, net	4,533	5,806
Total deferred tax assets, net	**5,485**	**5,352**

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As of September 30, 2006, the Company had €6,455 of gross tax loss carryforwards. Of the total, €5,694 tax loss carryforwards have unlimited carryforward periods and €761 expire over the periods to 2023. An amount of €202 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 2006, income taxes on cumulative earnings of €8,307 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.

The Company's income tax returns are routinely examined by domestic and foreign tax authorities. We believe that the Company's accruals for tax liabilities are adequate for all open years, based on the assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

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,	
	2006	2005
Provision for income taxes	1,078	979
Discontinued operations	(38)	(498)
Shareholders' equity for other comprehensive income	405	(763)
	1,445	**(282)**

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

9 Marketable securities

As of September 30, 2006 and 2005, 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, 2006			
			Unrealized	
	Cost	Fair Value	Gain	Loss
Equity securities	64	81	17	–
Debt securities	498	492	–	6
Fund securities	23	23	–	–
	585	**596**	**17**	**6**

	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**

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, 2006 and 2005 were €2,701 and €356, respectively. Gross realized gains on sales of available-for-sale securities for the years ended September 30, 2006 and 2005 were €409 and €243, respectively. Gross realized losses on sales of available-for-sale securities for the years ended September 30, 2006 and 2005 were € 7 and € – , respectively.

In April 2006, the Company completed the sale of its remaining interest in Infineon, representing 136.3 million shares, for net proceeds of €1,127. The transaction resulted in a gain of €33 (see Note 6). In connection with the sale, €50 was reclassified from *Accumulated other comprehensive income (loss), net of income tax* to earnings. As a result of the transaction, the Company no longer owns any shares of Infineon. As of September 30, 2005, the Company had an 18.2% ownership interest in Infineon.

In March 2006, the Company sold its remaining interest in Epcos AG, representing 8.2 million shares, for net proceeds of €90. The transaction resulted in a pre-tax gain of €15 (see Note 6).

In November 2005, the Company sold its remaining interest in Juniper, representing 22.8 million shares, for net proceeds of €465. The transaction resulted in a pre-tax gain of €356 (see Note 6).

In fiscal 2006 the Company made total investments of €1,409 in debt securities. The net proceeds from the sale of debt securities in fiscal 2006 totaled €986.

(in millions of €, except where otherwise stated and per share amounts) 177

As part of the MD transaction, Siemens purchased €50 in Global Depositary Receipts (GDR's) on common shares in BenQ in December 2005, which at that time represented a 2.4 percent investment in BenQ. The GDR's were impaired by €20 as at September 30, 2006. The related impairment charge is included in Income from financial assets and marketable securities, net.

Fiscal 2005 includes the sale of 13 million shares of Juniper for net proceeds of €263 resulting in a pre-tax gain of €208 (see Note 6).

10 Accounts receivable, net

	September 30, 2006	2005
Trade receivables from the sale of goods and services, net	13,620	15,465
Receivables from sales-type and direct finance leases, net	1,482	1,488
Receivables from associated and related companies, net	47	169
	15,149	**17,122**

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 on the Company's current and long-term receivables (see also Notes 12 and 17) changed as follows:

	Year ended September 30, 2006	2005
Valuation allowance as of beginning of fiscal year	1,199	1,127
Increase (decrease) in valuation allowances recorded in the income statement in the current period	167	201
Write-offs charged against the allowance	(263)	(185)
Recoveries of amounts previously written-off	40	34
Foreign exchange translation adjustment	(22)	22
Reclassification to *Assets held for disposal*	(165)	–
Valuation allowance as of fiscal year-end	**956**	**1,199**

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

	September 30, 2006
2007	1,679
2008	1,288
2009	860
2010	540
2011	310
Thereafter	284
Minimum future lease payments	4,961
Less: Unearned income	(605)
Less: Allowance for doubtful accounts	(116)
Plus: Unguaranteed residual values	211
Net investment in lease receivables	4,451
Less: Long-term portion	(2,969)
Receivables from sales-type and direct finance leases, current	**1,482**

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

Investments in sales-type and direct finance leases relate primarily to medical engineering and data processing 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.

See Note 3 for further information on *Accounts receivable*, net reclassified to *Assets held for disposal*.

11 Inventories, net

	September 30, 2006	2005
Raw materials and supplies	2,609	2,452
Work in process	2,975	2,724
Costs and earnings in excess of billings on uncompleted contracts	7,085	7,242
Finished goods and products held for resale	2,544	2,696
Advances to suppliers	667	558
	15,880	15,672
Advance payments received	(3,090)	(2,860)
	12,790	**12,812**

See Note 3 for further information on *Inventories*, net reclassified to *Assets held for disposal*.

12 Other current assets

	September 30, 2006	2005
Tax receivable	1,180	1,247
Loans receivable	472	535
Other receivables from associated and related companies	239	258
Other	2,314	3,190
	4,205	**5,230**

Other includes prepaid expenses and derivative financial instruments with positive fair values.

13 Long-term investments

	September 30, 2006	2005
Investments in associated companies	3,097	2,976
Miscellaneous investments	825	792
	3,922	**3,768**

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 millions of €, except where otherwise stated and per share amounts) 179

14 Goodwill

	10/1/05	Translation adjustment and other	Acquisitions and Purchase Accounting Adjustments	Dispositions and reclassi-ficatons to Assets held for disposal	Impair-ments	9/30/06
Operations						
Communications (Com)	385	(13)	(4)	(368)	–	–
Siemens Business Services (SBS)	128	–	1	–	–	129
Automation and Drives (A&D)	936	(11)	76	–	–	1,001
Industrial Solutions and Services (I&S)	931	(23)	195	–	–	1,103
Siemens Building Technologies (SBT)	444	(9)	126	–	–	561
Power Generation (PG)	1,224	(21)	212	–	–	1,415
Power Transmission and Distribution (PTD)	629	(4)	31	–	–	656
Transportation Systems (TS)	172	–	–	–	–	172
Siemens VDO Automotive (SV)	1,529	(1)	4	–	–	1,532
Medical Solutions (Med)	2,100	(94)	790	–	–	2,796
Osram	86	(3)	3	–	–	86
Other Operations	235	–	(40)	–	–	195
Financing and Real Estate						
Siemens Financial Services (SFS)	131	1	(2)	–	–	130
Siemens Real Estate (SRE)	–	–	–	–	–	–
Siemens	**8,930**	**(178)**	**1,392**	**(368)**	**–**	**9,776**

	10/1/04	Translation adjustment and other	Acquisitions and Purchase Accounting Adjustments	Dispo-sitions	Impair-ments	9/30/05
Operations						
Communications (Com)	315	14	73	–	17	385
Siemens Business Services (SBS)	269	4	117	–	262	128
Automation and Drives (A&D)	388	8	540	–	–	936
Industrial Solutions and Services (I&S)	381	6	544	–	–	931
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	52	–	183	–	–	235
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**

In fiscal 2006, the net increase in goodwill was €846. The increase of €1,392 related to acquisitions and purchase accounting adjustments was offset by €(178) primarily for U.S.$ currency translation adjustments and €(368) of goodwill formerly at Com that was reclassified as part of *Assets held for disposal*. Med's acquisition of DPC increased goodwill by €751. For further information on acquisitions, dispositions (including assets held for disposal) and discontinued operations see Note 3. No goodwill was impaired or written off in fiscal 2006.

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

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

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 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.

15 Other intangible assets, net

	10/1/05	Translation adjustment	Additions	Retirements*	9/30/06	Accumulated amortization	Net book value as of 9/30/06	Accumulated amortization 10/1/05	Net book value as of 10/1/05	Amortization during fiscal year 2006
Software	2,253	(46)	565	866	1,906	1,009	897	1,312	941	329
Patents, licenses and similar rights	3,675	(62)	649	230	4,032	1,686	2,346	1,509	2,166	356
Other intangible assets	**5,928**	**(108)**	**1,214**	**1,096**	**5,938**	**2,695**	**3,243**	**2,821**	**3,107**	**685**

* Includes *Other intangible assets*, net reclassified to *Assets held for disposal*.

Amortization expense for the year ended September 30, 2005 was €701.

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

Fiscal year	
2007	513
2008	476
2009	383
2010	299
2011	284

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

16 Property, plant and equipment, net

	10/1/05	Translation adjustment	Additions	Reclassifications	Retirements*	9/30/06	Accumulated depreciation	Net book value as of 9/30/06	Accumulated depreciation 10/1/05	Net book value as of 10/1/05	Depreciation and impairment during fiscal year 2006
Land and buildings	9,873	(102)	580	200	751	9,800	4,807	4,993	4,878	4,995	308
Technical machinery and equipment	9,758	(119)	740	342	941	9,780	6,709	3,071	6,757	3,001	694
Furniture and office equipment	9,895	(122)	1,152	58	2,577	8,406	6,467	1,939	7,635	2,260	1,043
Equipment leased to others	1,656	(45)	672	11	680	1,614	644	970	786	870	196
Advances to suppliers and construction in progress	891	(15)	963	(611)	128	1,100	1	1,099	5	886	1
Property, plant and equipment	32,073	(403)	4,107	–	5,077	30,700	18,628	12,072	20,061	12,012	2,242

* Includes *Property, plant and equipment, net* reclassified to *Assets held for disposal* (see Note 3 for further information).

In fiscal 2005, as a result of a corporate-level strategic plan concerning the DI and 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 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, 2006	2005
Long-term portion of receivables from sales and finance leases (see Note 10)	2,969	2,899
Prepaid pension assets	534	166
Long-term loans receivable	452	736
Other	1,411	1,463
	5,366	**5,264**

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

18 Accrued liabilities

Thereof current portion:

	September 30,	
	2006	2005
Employee related costs	2,570	2,876
Product warranties	1,890	2,027
Income and other taxes	1,559	1,599
Accrued losses on uncompleted contracts	898	1,185
Other	2,209	2,489
	9,126	**10,176**

Employee related costs primarily include accruals for vacation pay, bonuses, accrued overtime and service anniversary awards, as well as provisions for severance payments.

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

	Year ended September 30,	
	2006	2005
Accrual as of beginning of fiscal year (thereof current €2,027 and €2,096)	2,823	2,824
Amount charged to expense in current period (additions)	1,239	1,137
Reduction due to payments in cash or in kind (usage)	(916)	(1,007)
Foreign exchange translation adjustment	(26)	30
Changes related to existing warranties and other changes*	(489)	(161)
Accrual as of fiscal year-end (thereof current €1,890 and €2,027)	**2,631**	**2,823**

* In fiscal 2006 and 2005, *Changes related to existing warranties and other changes* includes €333 and €45, respectively, reclassified to *Liabilities held for disposal* (see Note 3 for further information).

19 Other current liabilities

	September 30,	
	2006	2005
Billings in excess of costs and estimated earnings on uncompleted contracts and related advances	6,174	4,752
Payroll and social security taxes	1,904	2,422
Bonus obligations	1,070	1,202
Sales and other taxes	1,191	953
Deferred income	430	724
Liabilities to associated and related companies	328	392
Accrued interest	157	136
Other liabilities	1,897	2,477
	13,151	**13,058**

Other liabilities includes derivative financial instruments with negative fair values.

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

20 Debt

	September 30, 2006	2005
Short-term		
Notes and bonds	1,149	1,625
Loans from banks	659	673
Other financial indebtedness	314	1,612
Obligations under capital leases	53	89
Short-term debt and current maturities of long-term debt	2,175	3,999
Long-term		
Notes and bonds (maturing 2007–2066)	12,285	6,826
Loans from banks (maturing 2007–2016)	342	613
Other financial indebtedness (maturing 2007–2018)	508	733
Obligations under capital leases	264	264
Long-term debt	13,399	8,436
	15,574	**12,435**

As of September 30, 2006, weighted-average interest rates for loans from banks, other financial indebtedness and obligations under capital leases were 5.0% (2005: 4.5%), 4.4% (2005: 4.1%) and 6.0% (2005: 6.1%), respectively. In some countries, the Company has pledged securities and executed promissory notes to secure borrowings in conformity with local practice.

Commercial paper
The Company has agreements with financial institutions under which it may issue up to €3.0 billion of commercial paper and U.S.$ 5.0 billion (approximately €3.9 billion) of commercial paper. As of September 30, 2006 and 2005, outstanding commercial paper totaled €– and €1,484 (interest rates from 3.00% to 3.87%), respectively.

Credit facilities
The credit facilities at September 30, 2006 consisted of approximately € 7.6 billion in unused committed lines of credit. These include a U.S.$5.0 billion syndicated multi-currency revolving credit facility expiring March 2012 provided by a syndicate of international banks and a revolving credit facility for an aggregate amount of €450 expiring in September 2012 provided by a domestic bank. In addition, in August 2006 the Company established a U.S.$4.0 billion syndicated multi-currency term loan and revolving credit facility expiring August 2013 provided by a syndicate of international banks. The facility comprises a U.S.$1.0 billion term loan and a U.S.$3.0 billion revolving tranche. Borrowings under these credit facilities bear interest of 0.15% 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, 2006 and 2005, the full amounts of these lines of credit remained unused. Commitment fees for the years ended September 30, 2006 and 2005 totaled approximately €2 and €3, respectively. The facilities are for general business purposes.

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

Notes and bonds

The Company has agreements with financial institutions under which it may issue up to €5.0 billion in medium-term notes. In March 2006, the Company updated its €5.0 billion medium-term note program and issued U.S.$ 1.0 billion under this program comprising U.S.$ 500 million floating rate notes due March 2012, bearing interest of 0.15% above LIBOR and U.S.$ 500 million 5.625% notes due March 2016. As of September 30, 2006 and 2005, approximately €1.7 billion and €1 billion, respectively, were outstanding under this medium-term note program.

In August 2006, the Company issued U.S.$5.0 billion notes, which are unconditional and irrevocably guaranteed as to payment of principal and interest by Siemens. These notes were issued in four tranches of

- U.S.$750 million Floating Rate Notes (U.S.$ LIBOR + 0.05%) due August 14, 2009,
- U.S.$750 million 5.5% Notes due February 16, 2012,
- U.S.$1.750 billion 5.75% Notes due October 17, 2016 and
- U.S.$1.750 billion 6.125% Notes due August 17, 2026.

For the floating rate notes the Company may, on or after February 14, 2008, redeem all or some of the Notes at the early redemption amount, according to the conditions of the bond. For the fixed rate notes, the Company may redeem at any time all or some of the notes at the early redemption amount (call) according to the conditions of the bond.

In September 2006, the Company issued a subordinated Hybrid Capital Bond, which is on a subordinated basis guaranteed by Siemens. The subordinated bond was issued in a EUR tranche of €900 and a British pound tranche of £ 750 million, both with a legal final maturity on September 14, 2066 and with a call option for Siemens after 10 years or thereafter. The bonds bear a fixed interest rate (5.25% for the EUR tranche and 6.125% for the British pound tranche) until September 14, 2016, thereafter, floating rate interest according to the conditions of the bond.

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

	September 30, 2006			September 30, 2005		
	Currency (notional amount)		€*	Currency (notional amount)		€*
5.0% 2001/2006 EUR bonds	–	–	–	EUR	1,595	1,625
2.5% 2001/2007 Swiss franc bonds	CHF	250	158	CHF	250	158
5.5% 1997/2007 EUR bonds	EUR	991	991	EUR	991	991
6% 1998/2008 U.S.$ notes	USD	970	799	USD	970	865
U.S.$ LIBOR+0.05% 2006/2009 U.S.$ notes	USD	750	592	–	–	–
1.375% 2003/2010 EUR convertible notes	EUR	2,497	2,497	EUR	2,500	2,500
11% 2003/2010 EUR senior notes	EUR	56	61	EUR	74	86
5.75% 2001/2011 EUR bonds	EUR	2,000	2,107	EUR	2,000	2,226
5.5% 2006/2012 U.S.$ notes	USD	750	601	–	–	–
U.S.$ LIBOR+0.15% 2006/2012 U.S.$ notes	USD	500	394	–	–	–
5.75% 2006/2016 U.S.$ notes	USD	1,750	1,413	–	–	–
5.625% 2006/2016 U.S.$ notes	USD	500	399	–	–	–
6.125% 2006/2026 U.S.$ notes	USD	1,750	1,428	–	–	–
5.25% 2006/2066 EUR bonds	EUR	900	898	–	–	–
6.125% 2006/2066 GBP bonds	GBP	750	1,096	–	–	–
			13,434			**8,451**

* Includes adjustments for fair value hedge accounting.

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In fiscal 2006, Siemens redeemed the outstanding amount of €1.6 billion of the 5% €-bond, which was due on July 4, 2006.

The Company maintains approximately €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. In fiscal 2006 approximately €3 of convertible notes were exercised and were settled primarily in cash. In the third quarter of fiscal 2006, the Company irrevocably waived its option to pay a cash amount in lieu of the delivery of shares upon exercise of the conversion right. 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 in fiscal 2005 (see Note 3), Siemens assumed a €250, 11% senior note due 2010, of which the Company repurchased approximately €194. The Company has an option to repurchase the remaining €56 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.

As of September 30, 2006, 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	
2007	2,122
2008	1,088
2009	643
2010	2,191
2011	2,582
Thereafter	6,631
	15,257

Other financial indebtedness

Other financial indebtedness includes €512 and €520, as of September 30, 2006 and 2005, 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, including 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.

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

Obligations under capital leases

As of September 30, 2006, the minimum lease payments under capital leases for the next five years and thereafter are as follows:

Fiscal year	
2007	73
2008	68
2009	40
2010	37
2011	69
Thereafter	121
Minimum lease payment obligation	408
Less: unamortized interest expense	(91)
Obligations under capital leases	317
Less: current portion	(53)
	264

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, the Company provides other postretirement benefits, which primarily consist of 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 benefit 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.

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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 as of September 30, 2006 and 2005:

	2006	2005
Accumulated other comprehensive income	(9,413)	(10,879)
thereof principal pension benefit plans	*(9,122)*	*(10,573)*
Less income tax effect	3,576	4,109
thereof principal pension benefit plans	*3,372*	*3,824*
Accumulated other comprehensive income, net of income taxes	(5,837)	(6,770)
thereof principal pension benefit plans	*(5,750)*	*(6,749)*
Principal pension benefit plans	*2,039*	*2,749*
Principal other postretirement benefit plans	*1,223*	*1,317*
Other	*1,222*	*852*
Reclassification to Liabilities held for disposal	*(383)*	*(1)*
Accruals for pension plans and similar commitments	4,101	4,917

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 2006 aggregated to €1,149 compared to €1,009 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 €797 compared to €2,082 in the previous fiscal year. The separately reported supplemental cash contributions to pension trusts in fiscal 2006 and 2005 of €– and €1,496, respectively, were included in these amounts.

Principal pension benefits
The principal pension benefit plans cover approximately 535,000 participants, including 252,000 active employees, 91,000 former employees with vested benefits and 192,000 retirees and surviving dependents. 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. The majority of Siemens' active employees in Germany participate in a recently introduced pension scheme, the BSAV (Beitragsorientierte Siemens Altersversorgung). The BSAV is a fully funded defined benefit pension plan whose benefits are predominantly based on contributions made by the company and returns earned on such contributions, subject to a minimum return guaranteed by the Company. The BSAV is funded via the BSAV Trust. In connection with the implementation of the BSAV, benefits provided under defined benefit pension plans funded via the Siemens German Pension Trust were modified to substantially eliminate the effects of compensation increases.

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

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

- Pension obligations and funded status,
- 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, 2006			September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Fair value of plan assets	23,528	15,023	8,505	21,479	14,349	7,130
Projected benefit obligation (PBO)	26,245	16,372	9,873	24,977	15,932	9,045
Funded status[1]	(2,717)	(1,349)	(1,368)	(3,498)	(1,583)	(1,915)
Germany	*(1,349)*			*(1,583)*		
U.S.	*(435)*			*(858)*		
U.K.	*(624)*			*(779)*		
Other	*(309)*			*(278)*		
Unrecognized net losses[2]	10,575	8,653	1,922	11,835	9,198	2,637
Unrecognized prior service cost (benefit)	(133)	(251)	118	(285)	(270)	(15)
Net amount recognized	**7,725**	**7,053**	**672**	**8,052**	**7,345**	**707**
Amounts recognized in the Consolidated Balance Sheets consist of:						
Prepaid pension assets	534	–	534	166	–	166
Accrued pension liability	(2,039)	(1,289)	(750)	(2,749)	(1,504)	(1,245)
Intangible assets	108	–	108	62	–	62
Accumulated other comprehensive loss	9,122	8,342	780	10,573	8,849	1,724
Net amount recognized	**7,725**	**7,053**	**672**	**8,052**	**7,345**	**707**

(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 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.

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

A detailed reconciliation of the changes in the PBO for fiscal 2006 and 2005 as well as additional information by country is provided in the following table:

	September 30, 2006			September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Change in projected benefit obligations:						
Projected benefit obligation at beginning of year	24,977	15,932	9,045	20,794	13,851	6,943
Foreign currency exchange rate changes	(201)	–	(201)	185	–	185
Service cost	713	388	325	579	307	272
Interest cost	1,108	679	429	1,121	726	395
Settlements and curtailment	(1)	–	(1)	(5)	–	(5)
Plan participants' contributions	49	–	49	46	–	46
Amendments and other	1,526	443	1,083	(85)	–	(85)
Actuarial (gains) losses, net	(587)	(196)	(391)	2,897	1,736	1,161
Acquisitions	89	59	30	624	138	486
Divestments	(303)	(145)	(158)	(147)	(75)	(72)
Benefits paid	(1,125)	(788)	(337)	(1,032)	(751)	(281)
Projected benefit obligation at end of year	**26,245**	**16,372**	**9,873**	**24,977**	**15,932**	**9,045**
Germany	*16,372*			*15,932*		
U.S.	*3,424*			*3,921*		
U.K.	*3,354*			*3,098*		
Other	*3,095*			*2,026*		

The total projected benefit obligation at the end of the fiscal year includes approximately €10,537 for active employees, €3,009 for former employees with vested benefits and €12,699 for retirees and surviving dependents.

In fiscal 2006, the PBO decreased due to an increase in discount rate for the domestic and foreign pension plans. In fiscal 2005, the PBO 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 2006 and 2005 and some additional information concerning pension plans:

	September 30, 2006			September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Change in plan assets:						
Fair value of plan assets at beginning of year	21,479	14,349	7,130	17,708	11,965	5,743
Foreign currency exchange rate changes	(168)	–	(168)	135	–	135
Actual return on plan assets	1,291	741	550	2,289	1,596	693
Acquisitions and other	1,494	440	1,054	325	–	325
Divestments and other	(222)	(39)	(183)	(26)	–	(26)
Employer contributions (supplemental)	–	–	–	1,496	1,380	116
Employer contributions (regular)	730	320	410	535	159	376
Plan participants' contributions	49	–	49	49	–	49
Benefits paid	(1,125)	(788)	(337)	(1,032)	(751)	(281)
Fair value of plan assets at end of year	**23,528**	**15,023**	**8,505**	**21,479**	**14,349**	**7,130**
Germany	*15,023*			*14,349*		
U.S.	*2,989*			*3,063*		
U.K.	*2,730*			*2,319*		
Other	*2,786*			*1,748*		

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In fiscal 2006, the Company merged a defined contribution plan with a defined benefit plan at a subsidiary in Switzerland. As a result of the merger, the benefits of the defined contribution plan were harmonized with those of the defined benefit plan. Accordingly, the PBO and plan assets of the newly merged plan increased. Such amounts are included in the items “Amendments and other” and “Acquisitions and other” in the preceding two tables.

Pension benefits: Recognition of an Additional Minimum Liability (AML)
The total ABO of the principal pension benefit plans amounted to €25,316 and €24,045, as of September 30, 2006 and 2005, respectively.

For fiscal 2006 and 2005, 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, 2006			September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Projected benefit obligation	22,966	15,935	7,031	24,569	15,932	8,637
Germany	*15,935*			*15,932*		
U.S.	*950*			*3,881*		
U.K.	*3,354*			*3,098*		
Other	*2,727*			*1,658*		
Accumulated benefit obligation	22,286	15,870	6,416	23,686	15,853	7,833
Germany	*15,870*			*15,853*		
U.S.	*834*			*3,476*		
U.K.	*2,958*			*2,749*		
Other	*2,624*			*1,608*		
Fair value of plan assets	20,295	14,581	5,714	20,935	14,349	6,586
Germany	*14,581*			*14,349*		
U.S.	*605*			*2,973*		
U.K.	*2,708*			*2,253*		
Other	*2,401*			*1,360*		
Underfunding of accumulated benefit obligation	**(1,991)**	**(1,289)**	**(702)**	**(2,751)**	**(1,504)**	**(1,247)**
Germany	*(1,289)*			*(1,504)*		
U.S.	*(229)*			*(503)*		
U.K.	*(250)*			*(496)*		
Other	*(223)*			*(248)*		

The underfunded ABO of €1,991 (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. and Switzerland of €9. Including a pension liability of €57 for principal pension benefit plans whose ABO was not underfunded at their measurement date and resulting from recognized liabilities exceeding the Minimum Liability for plans with an underfunding of the ABO, the total pension liability for the principal pension benefit plans as of September 30, 2006 totaled €2,039.

Excluding the AML adjustment, a net prepaid pension asset of €7,239 exists for the Company’s principal pension benefit plans, 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 prior years. This amount together with the underfunded ABO of €1,991, resulted in an AML adjustment of €9,230. Of this amount, €9,122 (€5,750 net of tax) was recorded in AOCI as a separate component of shareholders’ equity and €108 was recorded as an intangible asset.

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

Pension benefits: Components of NPPC
The components of the NPPC for the fiscal years ended September 30, 2006 and 2005 were as follows:

	Year ended September 30, 2006			Year ended September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Service cost	713	388	325	579	307	272
Interest cost	1,108	679	429	1,121	726	395
Expected return on plan assets	(1,388)	(923)	(465)	(1,291)	(905)	(386)
Amortization of:						
Unrecognized prior service cost (benefits)	(11)	(19)	8	(9)	(19)	10
Unrecognized net losses	686	531	155	561	475	86
Loss due to settlements and curtailments	2	–	2	3	–	3
Net periodic pension cost	**1,110**	**656**	**454**	**964**	**584**	**380**
Germany	*656*			*584*		
U.S.	*253*			*190*		
U.K.	*166*			*149*		
Other	*35*			*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 €14,164 and €13,730 as of September 30, 2006 and 2005, respectively, €74 below and €449 below, 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. 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 and 2005. Net actuarial losses decreased during fiscal 2006 predominantly due to an increase of the discount rate assumption used to measure the PBO, partially offset by actuarial losses resulting from pension assets where actual returns fall short of expected returns. The net effect did not impact NPPC for fiscal 2006 but will decrease amortization of unrecognized net losses in future periods.

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.

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

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, 2006			Year ended September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Discount rate	4.79%	4.50%	5.25%	4.5%	4.35%	4.9%
Germany	*4.50%*			*4.35%*		
U.S.	*6.49%*			*5.25%*		
U.K.	*5.18%*			*4.9%*		
Rate of compensation increase	2.71%	2.25%	3.43%	2.6%	2.25%	3.2%
Germany	*2.25%*			*2.25%*		
U.S.	*3.95%*			*3.25%*		
U.K.	*3.74%*			*3.7%*		
Rate of pension progression	1.22%	1.00%	1.78%	1.2%	1.0%	2.0%
Germany	*1.00%*			*1.0%*		
U.K.	*2.82%*			*2.7%*		

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 2007 are already determined. The total expected return for fiscal 2007 will be based on expected rates of return multiplied by the market-related value of plan assets at the fiscal 2006 measurement date (see table below). 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, 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, 2007, 2006 and 2005 are shown in the following table:

	Year ending September 30, 2007			Year ended September 30, 2006			Year ended September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign
Discount rate	4.79%	4.50%	5.25%	4.5%	4.35%	4.9%	5.5%	5.25%	5.9%
Germany	*4.50%*			*4.35%*			*5.25%*		
U.S.	*6.49%*			*5.25%*			*6.5%*		
U.K.	*5.18%*			*4.9%*			*5.7%*		
Expected return on plan assets	6.49%	6.51%	6.47%	6.7%	6.7%	6.7%	6.7%	6.75%	6.6%
Germany	*6.51%*			*6.7%*			*6.75%*		
U.S.	*6.97%*			*6.95%*			*6.95%*		
U.K.	*6.67%*			*6.75%*			*6.85%*		
Rate of compensation increase	2.71%	2.25%	3.43%	2.6%	2.25%	3.2%	2.6%	2.25%	3.3%
Germany	*2.25%*			*2.25%*			*2.25%*		
U.S.	*3.95%*			*3.25%*			*3.25%*		
U.K.	*3.74%*			*3.7%*			*4.0%*		
Rate of pension progression	1.22%	1.00%	1.78%	1.2%	1.0%	2.0%	1.3%	1.0%	2.3%
Germany	*1.00%*			*1.0%*			*1.0%*		
U.K.	*2.82%*			*2.7%*			*2.8%*		

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

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. The Company decreased the assumption for the expected return on plan assets for fiscal 2007 for the majority of its principal pension plans due to changes in asset allocation and revised future estimates of long-term investment returns. Other actuarial assumptions not shown in the tables above, such as employee turnover, mortality, disability, etc., remained primarily unchanged in 2006.

Pension benefits: Sensitivity analysis

A one-percentage-point change of the established assumptions mentioned above, used for the calculation of the NPPC for fiscal 2007, and a change of the market-related value of plan assets of €500, as of September 30, 2006, would result in the following increase/(decrease) of the fiscal 2007 NPPC:

	Effect on NPPC 2007 due to a one-percentage-point/€500 increase	Effect on NPPC 2007 due to a one-percentage-point/€500 decrease
Discount rate	(226)	291
Expected return on plan assets	(217)	217
Rate of compensation increase	65	(56)
Rate of pension progression	310	(256)
Market-related value of plan assets	(70)	71

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, 2006			Year ended September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Change in the minimum liability adjustment within accumulated other comprehensive income	(1,451)	(507)	(944)	1,813	896	917

The reduction of shareholders' equity caused by the underfunded ABO decreased by €1,451. This decrease has no effect on income and was, among other effects, caused by the decrease in the ABO as a result of the increase 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, 2006			Year ended September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Actual return on plan assets	1,291	741	550	2,289	1,596	693

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The measurement dates for the valuation of certain Siemens pension funds, particularly the 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 6.60% or €1,366, the aggregate return on plan assets between their respective measurement dates amounted to 6.23% or €1,291. For the domestic pension plans, €741 or 5.41% was realized, as compared to an expected return on plan assets of 6.7% or an amount of €923 that was included in the NPPC. For the foreign pension plans, €550 or 7.85% was realized, as compared to an expected return on plan assets of 6.7% or an amount of €465 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 2006 and 2005 as well as the target asset allocation for fiscal year 2007, are as follows:

Asset class	Target asset allocation September 30, 2007	Asset allocation as of the measurement date September 30, 2006 Total	Domestic	Foreign	September 30, 2005 Total	Domestic	Foreign
Equity	20 – 50%	33%	26%	44%	31%	25%	43%
Fixed income	40 – 70%	48%	51%	43%	56%	63%	40%
Real estate	5 – 15%	8%	7%	10%	8%	7%	9%
Cash	5 – 15%	11%	16%	3%	5%	5%	8%
		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 2006 and 2005, as well as those planned in fiscal 2007, are as follows:

	(Unaudited) Year ending September 30, 2007 (expected) Total	Domestic	Foreign	Year ended September 30, 2006 Total	Domestic	Foreign	Year ended September 30, 2005 Total	Domestic	Foreign
Regular funding	751	317	434	730	320	410	535	159	376
Supplemental cash Contributions	–	–	–	–	–	–	1,496	1,380	116
Total	**751**	**317**	**434**	**730**	**320**	**410**	**2,031**	**1,539**	**492**

In fiscal 2006, no supplemental cash contributions were made. 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 millions of €, except where otherwise stated and per share amounts)

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, 2006 and 2005, 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			
2005	1,032	751	281
2006	1,125	788	337
Expected pension payments			
2007	1,265	829	436
2008	1,309	860	449
2009	1,353	885	468
2010	1,403	907	496
2011	1,416	942	474
2012 – 2016	7,885	5,104	2,781

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.

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

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, 2006			September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Fair value of plan assets	3	–	3	3	–	3
Accumulated postretirement benefit obligation	822	429	393	919	394	525
Funded status	(819)	(429)	(390)	(916)	(394)	(522)
Unrecognized net gain	(402)	(295)	(107)	(357)	(318)	(39)
Unrecognized prior service benefits	(2)	–	(2)	(44)	–	(44)
Net amount recognized	**(1,223)**	**(724)**	**(499)**	**(1,317)**	**(712)**	**(605)**

The following table shows a detailed reconciliation of the changes in the benefit obligation for other postretirement benefits for the years ended September 30, 2006 and 2005:

	September 30, 2006			September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Change in benefit obligations:						
Accumulated postretirement benefit obligation at beginning of year	919	394	525	939	443	496
Foreign currency exchange rate changes	(23)	–	(23)	13	–	13
Service cost	27	15	12	26	14	12
Interest cost	43	18	25	52	23	29
Settlements and curtailments	–	–	–	(4)	–	(4)
Plan participants' contributions	–	–	–	2	–	2
Plan amendments and other	41	41	–	(41)	–	(41)
Actuarial (gains) losses, net	(65)	4	(69)	(6)	(59)	53
Divestments	(53)	(14)	(39)	(7)	(7)	–
Benefits paid	(67)	(29)	(38)	(55)	(20)	(35)
Accumulated postretirement benefit obligation at end of year	**822**	**429**	**393**	**919**	**394**	**525**

Other postretirement benefits: Plan assets
The following table shows the change in plan assets for fiscal 2006 and 2005:

	September 30, 2006			September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Change in plan assets						
Fair value of plan assets at beginning of year	3	–	3	5	–	5
Employer contributions	38	–	38	31	–	31
Plan participants' contributions	–	–	–	2	–	2
Benefits paid	(38)	–	(38)	(35)	–	(35)
Fair value of plan assets at year end	**3**	**–**	**3**	**3**	**–**	**3**

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

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, 2006 and 2005 are as follows:

	Year ended September 30, 2006			Year ended September 30, 2005		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Service cost	27	15	12	26	14	12
Interest cost	43	18	25	52	23	29
Amortization of:						
Unrecognized prior service benefits	(9)	–	(9)	(10)	–	(10)
Unrecognized net (gains)/losses	(22)	(19)	(3)	(19)	(15)	(4)
Net gain due to settlements and curtailments	–	–	–	(4)	–	(4)
Net periodic benefit cost	**39**	**14**	**25**	**45**	**22**	**23**

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 post-retirement healthcare and life insurance benefits, primarily in the U.S., are as follows:

	Year ended September 30,	
	2006	2005
Discount rate	6.5%	5.25%
Medical trend rates (initial/ultimate/year):		
Medicare ineligible pre-65	10%/5%/2011	9%/5%/2010
Medicare eligible post-65	10%/5%/2011	9%/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, 2006:

	September 30, 2006 one-percentage-point	
	increase	decrease
Effect on accumulated postretirement benefit obligation	45	(39)
Effect on total of service and interest cost components	4	(3)

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

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, 2006 and 2005, 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			
2005	55	20	35
2006	67	29	38
Expected payments for other postretirement benefits			
2007	52	28	24
2008	63	40	23
2009	66	42	24
2010	55	32	23
2011	58	35	23
2012 – 2016	367	253	114

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,	
	2006	2005
Product warranties	741	796
Asset retirement obligations	509	499
Deferred income	326	324
Other long-term accruals	2,482	3,409
	4,058	**5,028**

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 €501, and €499, respectively, as of September 30, 2006 and 2005 (thereof non-current portion of €478, and €461, respectively) and to costs primarily associated with the removal of leasehold improvements at the end of the lease term amounting to €46, and €43, respectively as of September 30, 2006 and 2005 (thereof non-current portion of €31 and €38, 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 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. With respect to the Hanau facility, the process of setting up intermediate storage for radioactive waste has neared completion; on September 21, 2006 the Company received official notification from the competent authorities that the Hanau facility has been released from the scope of application of the German Atomic Energy Act and that its further use is unrestricted. 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. As of September 30, 2006 and 2005, the accrual totals €501 and €499, respectively, and is recorded net of a present value discount of €1,457, and €1,472, respectively. The total expected payments for each of the next five fiscal years and the total thereafter are €25, €21, €20, €14, €7, and €1,871 (includes €1,811 for the estimated costs associated with final storage in 2033).

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

The Company recognizes the accretion of the liability for the Hanau facility using the effective interest method. During each of the years ended September 30, 2006 and 2005, the Company recognized €26 in accretion expense.

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

	Year ended September 30, 2006	Year ended September 30, 2005
Aggregate carrying amount as of the beginning of fiscal year (thereof current portion of €43 and €74)	542	552
Liabilities incurred in the current period	9	12
Liabilities settled in the current period	(34)	(62)
Accretion expense	31	28
Revision in estimated cash flows	(1)	12
Aggregate carrying amount as of fiscal year-end (thereof current portion of €38 and €43)	**547**	**542**

23 Shareholders' equity

Common stock and Additional paid-in capital

As of September 30, 2006, the Company's common stock totaled €2,673 divided into 891,087 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, 2005, the Company's common stock totaled €2,673 representing 891,085 thousand shares.

The following table provides a summary of outstanding capital and the changes in authorized and conditional capital for fiscal years 2006 and 2005:

	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, 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
Conversion 1.375% 2003/2010 EUR convertible notes	6	2	–	–	(6)	(2)
New approved capital	–	–	75,000	25,000	–	–
Expired capital	–	–	(66,630)	(22,210)	–	–
As of September 30, 2006	**2,673,262**	**891,087**	**675,000**	**225,000**	**925,481**	**308,494**

Capital increases

In fiscal 2006, common stock increased by approximately €6 thousand through the issuance of approximately 2 thousand shares from the conditional capital for the conversion of €0.1 of the Company's convertible notes. See Note 20 for additional information. No such increase occurred in fiscal 2005.

In fiscal 2005, common stock increased by €29 thousand through the issuance of 9 thousand shares from the conditional capital as settlement to former shareholders of Siemens Nixdorf Informationssysteme AG (SNI AG). No such increase occurred in fiscal 2006, since the Company repurchased its own common stock to accommodate such settlement.

Authorized, unissued capital

On September 30, 2006 and 2005, the Company's authorized but unissued capital totaled €675 and €667 or 225,000 thousand and 222,210 thousand common shares, respectively.

On January 26, 2006 the Company's shareholders authorized the Managing Board to increase, with the approval of the Supervisory Board, capital stock by up to €75 through the issuance of up to 25 million shares of no par value registered in the names of the holders against contributions in cash (Authorized Capital 2006). The authorization may be implemented in installments. Pre-emptive rights of existing shareholders are excluded. The new shares shall be issued under the condition that they are offered exclusively to employees of Siemens AG and its subsidiaries, provided these subsidiaries are not listed companies themselves and do not have their own employee stock schemes. 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 terms and conditions of the share issue. Authorized Capital 2006 replaced the outstanding Authorized Capital 2001/II of €67 (representing approximately 22 million shares) and will expire on January 25, 2011.

On January 22, 2004, the Company's shareholders authorized the Managing Board to increase, with the approval of the Supervisory Board, capital stock by up to €600 through the issuance of up to 200 million new no par value shares registered in the names of the holders 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. Authorized Capital 2004 replaced Authorized Capital 2001/I of €400 (representing approximately 133 million shares) and Authorized Capital 2003 of €250 (representing 83 million shares) and will expire on January 21, 2009.

Authorized Capital 1998 of €90 and Authorized Capital 1999 of €210 were replaced by resolution of the Annual Shareholders' Meeting on January 23, 2003. The Company's shareholders authorized the Managing Board to increase, with the approval of the Supervisory Board, the common stock by up to €250 through the issuance of up to approximately 83 million shares for which the shareholders' pre-emptive rights were excluded since these shares were to 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 to increase, with the approval of the Supervisory Board, capital stock by up to €75 (representing 25 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 stock schemes (Authorized Capital 2001/II). Pre-emptive rights of existing shareholders were excluded. The Managing Board was 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. As mentioned above, the outstanding Authorized Capital 2001/II of €67 (representing approximately 22 million shares) was replaced by resolution of the Annual Shareholders' Meeting on January 26, 2006.

On February 22, 2001, the Company's shareholders authorized the Managing Board to increase, with the approval of the Supervisory Board, common stock by up to €400 through the issuance of up to approximately 133 million 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, representing 63,797 thousand shares of Siemens AG, in each of the years ended September 30, 2006 and 2005, respectively.

Conditional capital provided to service the issuance of bonds with conversion rights or warrants amounts to €734 and €734, representing 244,507 thousand and 244,509 thousand shares of Siemens AG as of September 30, 2006 and 2005, respectively.

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, as of September 30, 2006, total Conditional Capital 2004 allows the issuance of up to €734 representing 244,507 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, 2006 and 2005, provides to service the 1999 Siemens Stock Option Plan and the 2001 Siemens Stock Option Plan (Conditional Capital 1999).

As of September 30, 2006 and 2005, conditional capital of €0.6, representing 188 thousand shares of Siemens AG, 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 was 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 was to expire on December 31, 2007. The shareholders also approved conditional share capital of €267 for the issuance of up to 89 million 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 as well as the aforementioned authorization were terminated by resolution of the Annual Shareholders' Meeting on January 22, 2004.

Treasury stock

At the January 2006 Annual Shareholders' Meeting, the Company's shareholders authorized the Company to repurchase up to 10% of the €2,673 common stock until July 25, 2007. 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 to employees or former employees of the Company or any of its subsidiaries within the employee share purchase program or granted and transferred with a holding period of at least two years; or (iv) used to service the conversion or option rights granted by the Company or any of its subsidiaries. In addition, the Supervisory Board shall be authorized to offer repurchased shares to the members of the Managing Board of Siemens AG for purchase as stock-based compensation under the same terms and conditions as those offered to employees of the Company. Additionally, the Supervisory Board may grant and transfer such shares to members of the Managing Board as stock-based compensation with a holding period of at least two years.

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

In fiscal 2006, the Company repurchased a total of 5,925 thousand shares at an average price of €71.11 per share primarily for the purpose of selling them to employees and stock-based compensation plan participants and as settlement to former SNI stockholders. In fiscal 2006, a total of 5,934 thousand shares of treasury stock were sold. Thereof, 4,166 thousand shares were issued to stock-based compensation plan participants to accommodate the exercise of stock options. In addition, in fiscal 2006, 1,760 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, 2006, 415 shares of stock remained in treasury with a carrying amount of €29 thousand (notional value €1 thousand).

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. As of September 30, 2005, 9,004 shares of stock remained in treasury with a carrying amount of €575 thousand (notional value €27 thousand).

Accumulated other comprehensive income (loss)

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

	Year ended September 30, 2006			Year ended September 30, 2005		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Changes in unrealized gains (losses) on securities:						
Unrealized holding gains (losses) for the period	13	21	34	271	(108)	163
Reclassification adjustments for (gains) losses included in net income	(396)	144	(252)	(265)	89	(176)
Net unrealized gains (losses) on available-for-sale securities	(383)	165	(218)	6	(19)	(13)
Changes in unrealized gains (losses) on derivative financial instruments:						
Unrealized gains (losses) on derivative financial instruments	67	(27)	40	(165)	64	(101)
Reclassification adjustments for (gains) losses included in net income	28	(10)	18	(71)	28	(43)
Net unrealized gains (losses) on derivative financial instruments	95	(37)	58	(236)	92	(144)
Minimum pension liability	1,466	(533)	933	(1,935)	690	(1,245)
Foreign-currency translation adjustment	(330)	–	(330)	483	–	483
	848	**(405)**	**443**	**(1,682)**	**763**	**(919)**

(in millions of €, except where otherwise stated and per share amounts) 205

Miscellaneous

Under the German Stock Corporation Act (*Aktiengesetz*), 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, 2006, Siemens AG management distributed an ordinary dividend of €1,201 (€1.35 per share) of the fiscal 2005 earnings of Siemens AG to its shareholders. During the year ended September 30, 2005, Siemens AG management distributed €1,112 (€1.25 per share) of the fiscal 2004 earnings of Siemens AG as an ordinary 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,	
	2006	2005
Guarantees		
Credit guarantees	302	362
Guarantees of third-party performance	1,489	1,456
Other guarantees	528	602
	2,319	**2,420**

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 settle 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 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, 2006 and 2005, the Company has accrued €25 and €36, 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.

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

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, 2006 and 2005, the total accruals for *Other guarantees* amounted to €103 and €106, respectively.

As of September 30, 2006, future payment obligations under non-cancellable operating leases are as follows:

2007	647
2008	505
2009	421
2010	294
2011	227
Thereafter	495

Total operating rental expense for the years ended September 30, 2006 and 2005 was €875 and €836, respectively.

As of September 30, 2006 and 2005, the Company has commitments to make capital contributions of €173 and €148, 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 contests actions and proceedings when considered 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, 2006 and 2005, net gains of €3 and €37, 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 €29 of net deferred gains in *AOCI* will be reclassified into earnings during the year ended September 30, 2007 when the hedged forecasted foreign-currency denominated sales and purchases occur.

As of September 30, 2006, the maximum length of time over which the Company is hedging its future cash flows associated with foreign-currency forecasted transactions is 117 months.

Fair value hedges – As of September 30, 2006 and 2005, 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, 2006 and 2005, the hedging transactions resulted in the recognition of an *Other current asset* of €6 and €16, respectively and *Other current liability* of €7 and €7, 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.

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, 2006 and 2005, 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 as interest expense.

The Company had interest rate swap contracts to pay variable rates of interest (average rate of 5.0% and 2.4% as of September 30, 2006 and 2005, respectively) and received fixed rates of interest (average rate of 5.7% and 5.3% as of September 30, 2006 and 2005, respectively). The notional amount of indebtedness hedged as of September 30, 2006 and 2005 was €5,752 and €3,595, respectively. This resulted in 44% and 45% of the Company's underlying notes and bonds being subject to variable interest rates as of September 30, 2006 and 2005, 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, 2006 and 2005 was €207 and €259, respectively.

Cash flow hedges of revolving term deposits

During the years ended September 30, 2006 and 2005, 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. Net cash receipts and payments relating to such interest rate swap agreements are recorded as interest income.

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.

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

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, 2006 and 2005, the net fair value of derivative financial instruments amounted to €163 and €172, respectively, which was recorded on the Consolidated Balance Sheets in Other current assets amounting to €644 and €812, respectively, and *Other current liabilities* in the amount of €481 and €640, 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, largely 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,	
	2006	2005
Fair value	4,237	3,935
Carrying amount	3,922	3,768

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, 2006 and 2005, the carrying amounts of such receivables, net of allowances, approximate 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, 2006 and 2005, the fair value and carrying amount of debt is as follows:

	September 30,	
	2006	2005
Fair value	16,266	12,994
Carrying amount	15,574	12,435

27 Stock-based compensation

As of October 1, 2005, the Company adopted Statement of Financial Accounting Standards (SFAS) 123 (revised 2004) *Share-Based Payment* (SFAS 123R), which replaces SFAS 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. SFAS 123R requires companies to recognize stock-based compensation expense, with certain limited exceptions, based on fair value. The adoption of SFAS 123R, including the remeasurement to fair value of liability classified awards, did not have a material effect on the Company's Consolidated Financial Statements, due primarily to the adoption of the fair value measurement provisions of SFAS 123 on October 1, 2003 for which the prospective method was applied.

Total stock-based compensation cost recognized in net income amounted to €56 and €60 for the years ended September 30, 2006 and 2005, respectively. The total income tax benefit recognized in the income statement for stock-based compensation was €35 and €38 in fiscal 2006 and 2005, respectively.

I. Equity settled awards

Cash received from stock option exercises and from the Company's employee share purchase plan for the years ended September 30, 2006 and 2005 amounts to €313 and €173, respectively.

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 replaced and no further options under this plan have 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 is 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. The amount of shares authorized to be issued to accommodate stock option exercises is 63,797 thousand as of September 30, 2006. The Company is also authorized to repurchase up to 10% of the €2,673 common stock until July 25, 2007.

The issuance of stock options to members of the Managing Board on or after October 1, 2003, has been 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 options 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 123R, *Share-Based Payment* based on an appropriate fair value option pricing model.

The Supervisory Board as well as the Managing Board decided not to grant any stock options in fiscal year 2007. Since the authority to distribute options under the 2001 Siemens Stock Option Plan expires on December 13, 2006, no further options will be granted under this plan.

In November 2005, the Supervisory Board and Managing Board granted options to 597 key executives for 3,023,830 shares with an exercise price of €74.59 of which options for 315,495 shares were granted to the Managing Board. 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.

	Year ended September 30,					
	2006				2005	
	Options	Weighted average exercise price	Weighted average Remaining Contractual Term (years)	Aggregate Intrinsic value in millions of €	Options	Weighted average exercise price
Outstanding, beginning of period	28,611,556	€71.93			28,054,326	€70.86
Granted	3,023,830	€74.59			2,945,035	€72.54
Options exercised	(4,215,508)	€55.71			(1,696,362)	€54.31
Options forfeited	(690,730)	€76.57			(691,443)	€74.41
Outstanding, end of period	**26,729,148**	**€74.67**	**1.8**	**65**	**28,611,556**	**€71.93**
Exercisable, end of period	20,978,443	€74.96	1.3	65	17,486,809	€71.21

The total intrinsic value of options exercised during the years ended September 30, 2006 and 2005 amounts to €68 and €14, respectively. The total grant-date fair value of options vested during the years ended September 30, 2006 and 2005 was €76 and €84, respectively. As of September 30, 2006, unrecognized compensation cost related to fair value measured stock options amounted to €6, which is expected to be recognized over a weighted average period of 1 year.

The following table summarizes information on stock options outstanding and exercisable at September 30, 2006:

	Options outstanding				Options exercisable			
Exercise prices	Number of Options outstanding	Weighted average remaining life (years)	Weighted average exercise price per share	Aggregate Intrinsic Value as of September 30, 2006	Number of Options exercisable	Weighted average remaining life (years)	Weighted average exercise price per share	Aggregate Intrinsic Value as of September 30, 2006
€53.70	4,317,952	1.2	€53.70	65	4,317,952	1.2	€53.70	65
€57.73	20,625	0.1	€57.73		20,625	0.1	€57.73	
€72.54	2,778,300	3.2	€72.54		–	3.2	€72.54	
€73.25	7,796,442	2.2	€73.25		7,796,442	2.2	€73.25	
€74.59	2,972,405	4.2	€74.59		–	4.2	€74.59	
€86.23	2,743,721	1.2	€86.23		2,743,721	1.2	€86.23	
€87.19	6,099,703	0.2	€87.19		6,099,703	0.2	€87.19	

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

Fair value information
The Company's determination of the fair value of grants is based on a Black-Scholes option pricing model, which 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. Assumptions made in estimating the fair value of grants made during the years ended September 30, 2006 and 2005 are as follows:

	Assumptions at grant date	
	2006	2005
Risk-free interest rate	2.99%	2.72%
Expected dividend yield	2.41%	2.07%
Expected volatility	18.30%	20.38%
Expected option life	3.5 yrs.	3 yrs.
Estimated weighted average fair value per option	€4.06	€4.54
Fair value of total options granted during fiscal year	€11	€12

In fiscal 2006, the expected volatility is based on historical volatility of Siemens shares, implied volatility for traded Siemens options with similar terms and features, and certain other factors. The expected term is derived by applying the simplified method and is determined as the average of the vesting term and the contractual term. The risk-free interest rate is based on applicable governmental bonds. Changes in subjective assumptions can materially affect the fair value of the option.

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, 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 members of the top management of domestic and foreign subsidiaries and eligible employees.

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In fiscal 2006, the Company granted 1,076,860 stock awards to 5,198 employees and members of the Managing Board, of which 25,221 awards were granted to the Managing Board. In fiscal 2005, the Company granted 1,152,508 stock awards to 5,343 employees and members of the Managing Board, of which 24,177 awards were granted to the Managing Board. Details on stock award activity and weighted average grant-date fair value are summarized in the table below:

	Year ended September 30,			
	2006		2005	
	Awards	Weighted average Grant-Date Fair value	Awards	Weighted average Grant-Date Fair value
Nonvested, beginning of period	1,136,048	€ 55.63	–	–
Granted	1,076,860	€ 57.28	1,152,508	€ 55.63
Vested	–	–	–	–
Forfeited	(58,037)	€ 56.17	(16,460)	€ 55.63
Nonvested, end of period	**2,154,871**	**€ 56.44**	**1,136,048**	**€ 55.63**
Exercisable, end of period	–	–	–	–

Stock awards are accounted under the fair value recognition provisions of SFAS 123R. 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 €57.28 and €55.63, respectively, per stock award granted in fiscal 2006 and 2005. Total fair value of stock awards granted in fiscal 2006 and 2005 amounted to €62 and €64, respectively.

As of September 30, 2006, unrecognized compensation costs related to stock awards amounted to €76, which is expected to be recognized over a weighted average vesting period of 2.7 years.

Employee share purchase program

Under a compensatory employee share purchase program, employees may purchase a limited number of shares in the Company at preferential prices once a year. Up to a stipulated date in the first quarter of each fiscal year, employees may order the shares, which are usually issued in the second quarter of the fiscal year. The employee share purchase program is measured at fair value. During the years ended September 30, 2006 and 2005 the Company incurred compensation expense (before income taxes) of €38 and €31, respectively, related to the sale of repurchased shares to employees, based on a preferential employee share price of €46.12 and €43.24, respectively, and a grant-date fair value of €21.19 and €16.86, respectively, per share. For information on corresponding Siemens share repurchases, see Note 23.

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

II. Liability settled awards

Stock appreciation rights (SAR's)

Where local regulations restrict the grant of stock options in certain jurisdictions, the Company grants SAR's to employees under the same conditions as the 2001 Siemens Stock Option Plan except that SAR's are exercisable in cash only. Details on SAR's activity and weighted average exercise prices are summarized in the table below:

	Year ended September 30,			
	2006		2005	
	SAR's	Weighted average exercise price	SAR's	Weighted average exercise price
Outstanding, beginning of period	267,720	€ 73.05	198,850	€ 73.25
Granted	97,270	€ 74.59	76,670	€ 72.54
SAR's exercised	(2,300)	€ 73.25	–	–
SAR's forfeited	(12,790)	€ 73.20	(7,800)	€ 73.25
Outstanding, end of period	**349,900***	**€ 73.47**	**267,720**	**€ 73.05**
Exercisable, end of period	181,950	€ 73.25	–	–

* Thereof 72,420 SAR's with a €72.54 exercise price and a weighted average remaining life of 3.2 years, 181,950 SAR's with a €73.25 exercise price and a weighted average remaining life of 2.2 years and 95,530 SARs with a €74.59 exercise price and a weighted average remaining life of 4.2 years.

Since October 1, 2005, SAR's are remeasured to fair value at each reporting date until the award is settled. The fair value of SAR's is based on a Black-Scholes option pricing model.

In fiscal 2006, the expected volatility is based on historical volatility of Siemens shares, implied volatility for traded Siemens options with similar terms and features, and certain other factors. The expected term is derived by applying the simplified method and is determined as the average of the vesting term and the contractual term. The risk-free interest rate is based on applicable governmental bonds. Changes in subjective assumptions can materially affect the fair value of the SAR's.

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. In fiscal 2006, 33,153 phantom stock rights were granted and 805 phantom stock rights forfeited, resulting in a balance of 60,585 phantom stock rights as of September 30, 2006. None of the phantom stock rights were vested as of September 30, 2006.

Since October 1, 2005, phantom stock rights are remeasured to fair value at each reporting date until the award is settled.

28 Personnel costs

	Year ended September 30, 2006	2005
Wages and salaries	23,656	21,680
Statutory social welfare contributions and expenses for optional support payments	3,942	3,576
Expenses relating to pension plans and employee benefits	1,798	1,390
	29,396	**26,646**

The average number of employees in fiscal year 2006 and 2005 was 472,500 and 439,400, 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:

(in thousands)	Year ended September 30, 2006	2005
Manufacturing and services	275.3	243.1
Sales and marketing	110.0	110.3
Research and development	47.2	45.7
Administration and general services	40.0	40.3
	472.5	**439.4**

29 Earnings per share

(shares in thousands)	Year ended September 30, 2006	2005
Income from continuing operations	3,087	3,058
Plus: interest on dilutive convertible debt securities	21	21
Income from continuing operations plus effect of assumed conversion	3,108	3,079
Weighted average shares outstanding – basic	890,850	890,732
Effect of dilutive convertible debt securities and stock-based compensation	46,770	45,798
Weighted average shares outstanding – diluted	937,620	936,530
Basic earnings per share (from continuing operations)	3.47	3.43
Diluted earnings per share (from continuing operations)	3.31	3.29

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 2006, the Company has thirteen 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 eleven 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. Based on a decision of the Managing Board in the fourth quarter of fiscal 2005, L&A was dissolved effective October 1, 2005. The Airport Logistics division and Postal Automation division were transferred to I&S and the Electronics Assembly Systems division was transferred to A&D. The Distribution and Industry Logistics as well as the Material Handling Products divisions of the former L&A had already been carved-out into a separate legal entity as of September 30, 2005 (see Note 3). In addition, following an intensive analysis by the Managing Board associated with the strategic reorientation of Com's operations, the division Siemens Home and Office Communication Devices was reclassified from Com to *Other Operations* in the third quarter of fiscal 2006. Prior-year information was reclassified for comparability purposes.

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.

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

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*.

Furthermore, income taxes are excluded from Group profit since tax expense is subject to legal structures which typically do not correspond to the structure of the **Operations** Groups.

The Managing Board also determined net capital employed as additional information to assess the capital intensity of the **Operations** Groups. Its definition corresponds with the Group profit measure. Net capital employed is based on total assets excluding intracompany financing receivables and intracompany investments and tax related assets, as the corresponding positions are excluded from Group profit (asset-based adjustments). The remaining assets are reduced by non-interest bearing liabilities other than tax related liabilities (e.g. accounts payable) and certain accruals (liability-based adjustments) to derive net capital employed. The reconciliation of total assets to net capital employed is presented below.

Other Operations primarily refers to operating activities not associated with a Group and certain centrally-held equity investments (such as BSH Bosch und Siemens Hausgeräte GmbH), as well as to assets recently acquired as part of acquisitions for which the allocation to the Groups are not yet finalized but excluding the investment in Infineon, which was included in Corporate items prior to its sale (see Note 9 for further information). The Dematic business was also included in Other Operations before a significant portion of it was sold (see Note 3 for further information).

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. *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,	
	2006	2005
Corporate items	(616)	(537)
Pensions	(598)	(519)
Eliminations	(34)	(16)
	(1,248)	**(1,072)**

In fiscal 2006, *Corporate items* include pre-tax gains of €33 and €15, respectively, from the sale of the Company's remaining interest in Infineon and Epcos (see Note 9).

In fiscal 2006, *Pensions* increased mainly due to a reduction in the discount rate assumption at September 30, 2005, which was partly offset by a higher expected return on plan assets. 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. For more information related to the Company's pension plans, see Note 21.

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

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,	
	2006	2005
Total assets of **Operations**	83,547	81,366
Asset-based adjustments:		
Intracompany financing receivables and investments	(16,963)	(16,987)
Tax related assets	(5,639)	(6,691)
Liability-based adjustments:		
Pension plans and similar commitments	(4,099)	(4,917)
Accruals	(6,191)	(7,055)
Liabilities to third parties	(25,649)	(24,093)
Assets and Liabilities held for disposal	(193)	44
Total adjustments (line item Other assets related reconciling items within the Segment Information table)	(58,734)	(59,699)
Net capital employed of Corporate items, pensions and eliminations	3,983	3,690
Net capital employed of Operations Groups	28,796	25,357

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,	
	2006	2005	2006	2005	2006	2005
Total **Operations** – continuing	623	(1,222)	5,618	5,736	2,565	2,892
Total **Operations** – discontinued	(372)	(1,219)	5	135	5	109
Total Operations	251	(2,441)	5,623	5,871	2,570	3,001
Total Financing and Real Estate – continuing	(172)	(259)	791	775	442	424
Total Financing and Real Estate – discontinued	–	5	–	–	–	1
Total Financing and Real Estate	(172)	(254)	791	775	442	425
Eliminations, reclassifications and Corporate Treasury	288	(8)	–	–	–	–
Siemens Consolidated Statements of Cash Flow	367	(2,703)	6,414	6,646	3,012	3,426

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, 2006 and 2005, *Income before income taxes* at SFS includes interest revenue of €557 and €491, respectively, and interest expense of €331 and €257, respectively. In addition, *Income before income taxes* includes earnings from equity investees for the years ended September 30, 2006 and 2005 of €57 and €46, respectively.

For the years ended September 30, 2006 and 2005, *Income before income taxes* at SRE includes interest revenue of €49 and €51, respectively, and interest expense of €138 and €147, 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) – Com develops, manufactures and sells a full-range portfolio of complex network infrastructure for enterprises and carriers and 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 the manufacturing industry, the public sector, financial services, utilities, telecommunications and media. SBS designs, builds and operates both discrete and large-scale information and communications-systems and solutions and also 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, solutions and services 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, airport logistics, postal automation, marine solutions, oil and gas, paper, cement and opencast mining sectors.

Siemens Building Technologies (SBT) – SBT provides products, systems and services for monitoring and regulating the temperature and ventilation, fire safety, security and energy efficiency of commercial and industrial property, as well as special applications for airports, tunnels, harbors or stadiums.

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 develops, manufactures and sells electronic and mechatronic systems, modules and components for passenger cars and commercial vehicles. Its product range includes solutions for advanced propulsion and motor management, car body and chassis electronics, safety and driver assistance systems as well as driver information, communication and multimedia systems.

Medical Solutions (Med) – Med develops, manufactures and markets in vivo and in vitro 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.

(in millions of €, except where otherwise stated and per share amounts) 223

31 Geographic information

The following table presents data by geographic region as of and for the years ended September 30, 2006 and 2005:

	Sales by location of customer		Sales by location of companies	
	2006	2005	2006	2005
Germany	16,245	15,685	27,656	24,798
Europe (other than Germany)	27,105	24,429	26,755	23,684
U.S.	17,388	14,686	17,233	14,806
Americas other than U.S.	5,525	4,414	4,523	3,651
Asia-Pacific	12,871	10,057	8,645	6,612
Africa, Middle East, C.I.S	8,191	6,174	2,513	1,894
Siemens	**87,325**	**75,445**	**87,325**	**75,445**

	Long-lived assets	
	2006	2005
Germany	4,557	4,272
Europe (other than Germany)	3,536	3,530
U.S.	2,378	2,551
Americas other than U.S.	511	592
Asia-Pacific	1,011	965
Africa, Middle East, C.I.S.	79	102
Siemens	**12,072**	**12,012**

32 Principal accountant fees and services

Fees related to professional services rendered by the Company's principal accountant, KPMG, for the fiscal years 2006 and 2005 were as follows:

	Year ended September 30,	
Type of Fees	2006	2005
Audit Fees	55.0	56.6
Audit-Related Fees	17.1	13.5
Tax Fees	5.1	4.3
All Other Fees	10.3	0.4
Total	**87.5**	**74.8**

In the above table, *Audit Fees* are the aggregate KPMG fees for professional services in connection with the audit of the Company's annual consolidated financial statements and their attestation and report concerning internal control over financial reporting, opening balance sheet audits, 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, support in the introduction and review of new or revised accounting guidelines and requirements, SAS 70 reports, IT system audits that are not part of the annual audit, training regarding accounting-related topics 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, tax compliance, expatriate employee tax services and transfer pricing studies. *All Other Fees* are fees for assistance with a program to assess the management information processes, assistance with carve-out activities and forensic services.

33 Subsequent events

During the first quarter of fiscal 2007, Siemens decided to provide funds for job placement companies for employees affected by the bankruptcy of BenQ Mobile GmbH & Co. OHG and for Inservio GmbH with a corresponding impact on the Company's income in fiscal 2007.

On November 15, 2006, Munich public prosecutors (the Prosecutors) conducted searches of Company premises and private homes in Munich, Erlangen and in Austria during which a large volume of documents and electronic data were confiscated. These actions were taken in connection with an investigation of certain current and former employees of the Company on suspicion of embezzlement, bribery and tax evasion. Several arrest warrants were issued for several current and former employees who are or were associated with Com. Among those arrested were a former CFO of Com as well as the heads of Com's internal audit and accounting and controlling departments. Another former employee was apprehended in Austria and extradited to Germany. In addition to the interrogations of those arrested, statements were taken from a number of witnesses including Company officials.

The Prosecutors announced that those arrested are suspected of collaborating to open slush fund accounts abroad, and of operating a system to embezzle funds from the Company. More specifically, the Prosecutors allege that from 2002 to the present, these individuals siphoned off money from Com via off-shore companies and their own accounts in Switzerland and Liechtenstein. The Prosecutors indicated that whether and the extent to which the diverted funds were used for bribes remains to be determined. The investigation is ongoing, and the Company is fully cooperating with the authorities.

The Prosecutors' current investigation grew out of an anonymous complaint and requests for judicial assistance from Switzerland and Italy.

Bank accounts in Geneva, Switzerland, held by a former officer of Com of Siemens Greece were seized in August 2005. The Company became aware of the seizure at the end of 2005 having been notified by both the officer and the financial institution in which the accounts were held. As part of its internal investigation, the Company filed a civil action in Greece against the officer on November 14, 2006.

In June 2006, the Company also became aware of the existence of an escrow account in Lugano, Switzerland. In July 2006, the trustee was requested to provide documentation of the account and to transfer the funds to the Company. The account was seized prior to receiving the funds.

Bank accounts in Liechtenstein were also seized in late 2004. Funds from these Liechtenstein accounts were transferred to Siemens in 2005 after being released by governmental authorities.

On March 30, 2006, the premises of Intercom Telecommunication Systems AG in Switzerland (Intercom), a subsidiary of Siemens, were searched by Swiss prosecutors. The Company subsequently learned that, via Intercom, so-called Business Consultant Agreements were processed directly or indirectly through intermediary companies. Intercom currently finds itself in liquidation. It has been established that Intercom made payments to the above mentioned bank accounts. Investigations are ongoing to determine the rightful owner of the accounts in Geneva and Lugano.

The Swiss investigation was preceded by Liechtenstein criminal investigations. The criminal investigation in Liechtenstein related to money laundering and corruption allegations against certain former Siemens employees and other persons. In January 2006, Siemens became aware of a request by Liechtenstein for judicial assistance from Switzerland. Siemens subsequently determined that the Swiss and Liechtenstein investigations pertain to related activities.

In Italy, an already pending criminal investigation there focusing on money laundering and corruption allegations against third parties in respect of activities in the 1990s pertains to similar activities in the Com Group. Based on a request for judicial assistance from Italy to Germany in 2005 premises and private homes in Munich were searched.

We are in communication with the U.S. Securities and Exchange Commission and the U.S. Department of Justice via a U.S. law firm regarding these matters.

Siemens has stated its commitment to have these matters completely cleared up as quickly as possible and has also started an additional internal investigation. The major issues uncovered to date in connection with Siemens' internal investigation are presented below:

- Within Com there exist a number of Business Consultant Agreements. We have identified a multitude of payments made in connection with these contracts over the course of approximately a seven-year period for which we have either not been able to establish a valid business purpose or clearly identify the recipient. These payments raise concerns under the legislation of the U.S., Germany and other countries.
- The payments identified were recorded as deductible business expenses in prior periods in determining income tax provisions. Our investigation determined that certain of these payments are nondeductible under German tax regulations, and accordingly, we have recorded additional income tax charges in our financial statements to reflect the correct tax treatment of these expenses. The Company has already reported this issue to the German tax authority.

The Company's internal investigation into possible violations of law is still ongoing.

The additional deferred and current income tax charges described above totaled €168 over a period of approximately seven years. Of the total charge, €73 was reflected in the Company's fiscal 2006 Consolidated Statements of Income and related to fiscal 2006, 2005 and 2004. The remaining €95 of additional income tax expense related to years preceding fiscal 2004 and was reflected as a reduction of Shareholders' equity as of October 1, 2003. (See Note 2 for further information).

The Managing Board of Siemens does not tolerate any illegal business practices of its employees worldwide and has therefore initiated the following immediate actions:

- The Managing Board has engaged an external attorney to act as an independent "ombudsman" and to provide a protected communication channel for Siemens employees and third parties.
- In cases where suspicions of illegal behavior have been substantiated, the involved employees will immediately be suspended.

- The Company's audit and compliance departments and an internal task force have been instructed to continue their internal investigation activities and the examination of our compliance and internal control system for gaps and any possibilities of circumvention.

The Managing Board and the Audit Committee of Siemens will engage an independent compliance advisor in order to consult the Managing Board and the Audit Committee with regard to the future structure of the compliance organization, the execution of compliance reviews, the review of related guidelines and controls including potential improvement measures, and the respective communication and training. The independent compliance advisor will also provide periodic status reports to the Audit Committee.

Furthermore, the Audit Committee of Siemens will conduct a companywide investigation and engage an independent external law firm which will mandate the involvement of a forensic accounting firm.

Siemens currently can not exclude the possibility that criminal or civil sanctions may be brought against the Company itself or against certain of its employees in connection with possible violations of law. The Company's operating activities may also be negatively affected due to imposed penalties, compensatory damages or due to the exclusion from public procurement contracts. To date, no charges for any such penalties or damages have been accrued as management does not yet have enough information to reasonably estimate such amounts. Furthermore, changes affecting the Company's course of business or its compliance programs may turn out to be necessary.

34 Supplementary disclosures in accordance with Section 57 and 58 of the EGHGB in conjunction with Par. 292a of the HGB (in the version effective until December 9, 2004)

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 Section 57 and 58 of the EGHGB in conjunction with Par. 292a HGB, the Company is exempt from preparing German GAAP 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.

Presentation of Balance Sheet and Statement of Income

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 the current year only provided it meets the definition of extraordinary items.

Revenue recognition

Under U.S. GAAP, the Company applies the percentage-of-completion method of accounting for 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 are 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 U.S. 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 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 123R, *Share-Based Payment* (SFAS 123R), which replaces SFAS 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. SFAS 123R requires companies to recognize stock-based compensation expense, with certain limited exceptions, based on fair value. Siemens uses a Black-Scholes option pricing model to determine the fair value of its stock-based compensation plans. In transitioning to SFAS 123R, the Company applied the modified prospective method. Commencing with the adoption of SFAS 123R, liability classified awards are remeasured to fair value at each reporting date until the award is settled. Equity awards granted, modified, repurchased or cancelled beginning October 1, 2005 and unvested equity awards granted prior to October 1, 2005, are measured at their grant-date fair value. Related compensation expense is recognized over the vesting period for awards expected to ultimately vest. Equity awards vested prior to October 1, 2005 continue to be accounted for under recognition and measurement provisions of APB Opinion No. 25 and related interpretations. 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.

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

Other financial commitments

The following table presents future cash outflows related to purchase obligations as of September 30, 2006:

		Payments due by period			
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Purchase obligations	**12,652**	**11,161**	**1,202**	**239**	**50**

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,	
	2006	2005
Marketing and selling expenses	11,314	10,390
General administrative expenses	4,156	3,294
	15,470	**13,684**

Roll-forward of long-term investments

	10/1/05	Translation adjustment	Additions	Reclassifications	Dispositions	9/30/06	Accumulated Write-off	Accumulated Equity adjustments	Net book value as of 9/30/06	Net book value as of 10/1/05	Write offs during fiscal year
Investments in subsidiaries	586	(4)	121	–	143	560	229	–	331	342	37
Investments in associated companies	2,088	(6)	107	–	181	2,008	140	1,229	3,097	2,976	7
Miscellaneous other investments	898	(4)	155	–	249	800	306	–	494	450	31
Long-term investments	3,572	(14)	383	–	573	3,368	675	1,229	3,922	3,768	75

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 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.

The Compensation Report is presented within the Corporate Governance Report, included in this Annual Report for fiscal year 2006, beginning on page 86.

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 gemäß Art. 57 und 58 EGHGB in Verbindung mit § 292a HGB der Siemens AG zum 30. September 2006“. Sole authoritative and universally valid version is the German language document.

Supervisory Board

Heinrich v. Pierer, Prof. Dr. jur., Dr.-Ing. E. h.
Chairman
Date of birth: January 26, 1941
Member since: January 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: July 19, 1949
Member since: March 24, 1988

Josef Ackermann, Dr. oec.
Second Deputy Chairman
Chairman of the Board of Managing Directors, Deutsche Bank AG
Date of birth: February 7, 1948
Member since: January 23, 2003

External positions

German supervisory board positions:
Bayer AG, Leverkusen

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

Gerhard Bieletzki*
Chairman of the Works Council of Siemens AG, Dortmund
Date of birth: May 16, 1947
Member since: January 23, 2003

John David Coombe
Chartered Accountant (FCA)
Date of birth: March 17, 1945
Member since: January 23, 2003

External positions

Comparable positions outside Germany:
GUS plc, UK
Hogg Robinson Group plc, UK
HSBC Holdings plc, UK

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

Gerhard Cromme, Dr. jur.
Chairman of the Supervisory Board, ThyssenKrupp AG
Date of birth: February 25, 1943
Member since: January 23, 2003

External positions

German supervisory board positions:
Allianz AG (Allianz SE as of October 13, 2006), Munich
Axel Springer AG, Berlin
Deutsche Lufthansa AG, Cologne
E.ON AG, Düsseldorf
ThyssenKrupp AG, Düsseldorf (Chairman)

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: August 21, 1945
Member since: March 11, 1993

Heinz Hawreliuk*
Trade Union Secretary, IG Metall
Date of birth: March 20, 1947
Member since: April 1, 1985

External positions

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

Berthold Huber*
Deputy Chairman, IG Metall
Date of birth: February 15, 1950
Member since: July 1, 2004

External positions

German supervisory board positions:
Audi AG, Ingolstadt

Walter Kröll, Prof. Dr. rer. nat.
Consultant
Date of birth: May 30, 1938
Member since: January 23, 2003

External positions

German supervisory board positions:
MTU Aero Engines GmbH, Munich
Wincor Nixdorf AG, Paderborn

Wolfgang Müller*
Trade Union Secretary, IG Metall
Date of birth: January 14, 1948
Member since: January 23, 2003

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

Thomas Rackow*
(as of the close of the Annual Shareholders' Meeting on January 26, 2006)
Industrial manager
Date of birth: February 6, 1952
Member since: January 26, 2006

Albrecht Schmidt, Dr. jur.
Retired bank director
Date of birth: March 13, 1938
Member since: March 11, 1993

External positions

German supervisory board positions:
Münchener Rückversicherungs-Gesellschaft AG, Munich
Thyssen'sche Handelsgesellschaft m.b.H., Mülheim

Henning Schulte-Noelle, Dr. jur.
Chairman of the Supervisory Board, Allianz AG (Allianz SE as of October 13, 2006), Munich
Date of birth: August 26, 1942
Member since: February 13, 1997

External positions

German supervisory board positions:
Allianz AG (Allianz SE as of October 13, 2006), Munich (Chairman)
E.ON AG, Düsseldorf
ThyssenKrupp AG, Düsseldorf

Peter von Siemens
Industrial manager
Date of birth: August 10, 1937
Member since: March 11, 1993

Jerry I. Speyer
President, Tishman Speyer
Date of birth: June 23, 1940
Member since: July 14, 2003

Lord Iain Vallance of Tummel
Chairman, Nations Healthcare Ltd.
Date of birth: May 20, 1943
Member since: January 23, 2003

Klaus Wigand*
(until the close of the Annual Shareholders' Meeting on January 26, 2006)
Industrial manager
Date of birth: November 19, 1945
Member since: February 19, 1998
Member until: January 26, 2006

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, whose names are marked with an asterisk, were elected by an assembly of employee delegates on December 5, 2002. The Supervisory Board is elected for five years.

As of September 30, 2006

Supervisory Board committees

The Supervisory Board of Siemens AG has established four standing committees. Information on their activities in fiscal 2006 is provided on page 77 of this Annual Report.

Committees	Meetings in fiscal 2006	Duties and responsibilities	Members as of September 30, 2006
Chairman's Committee	3 meetings 11 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, Prof. Dr. jur., Dr.-Ing. E. h., (Chairman)** **Ralf Heckmann** **Josef Ackermann, Dr. oec.**
Audit Committee	6 meetings 0 decisions 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, Prof. Dr. jur., Dr.-Ing. E. h.** **Ralf Heckmann** **Heinz Hawreliuk** **Henning Schulte-Noelle,* Dr. jur.**
Mediation Committee, § 31 (3) and (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, Prof. 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 6 decisions by notational voting using written circulations	The Ownership Rights Committee is responsible for decisions relating to the exercise of ownership rights resulting from interests in other companies.	**Heinrich v. Pierer, Prof. 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

Klaus Kleinfeld, Dr. rer. pol.
President and Chief Executive Officer,
Siemens AG
Date of birth: November 6, 1957
First appointed: December 1, 2002
Term expires: September 30, 2007

External positions

German supervisory board positions:
Bayer AG, Leverkusen
Comparable positions outside Germany:
Alcoa Inc., USA
Citigroup Inc., USA

Johannes Feldmayer, Prof.
Date of birth: October 16, 1956
First appointed: May 1, 2003
Term expires: September 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/S, Norway
(as of October 1, 2006)
Siemens A.Ş., Turkey
Siemens France Holding SAS, France
Siemens Holdings plc, UK
Siemens Nederland N.V., Netherlands
(as of October 1, 2006)
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)

Thomas Ganswindt, Dr. h. c.
(until September 30, 2006)
Date of birth: November 18, 1960
First appointed: December 1, 2002
Original term until: September 30, 2007

Company positions
(until September 30, 2006)

Comparable positions outside Germany:
Siemens Ltd., China
Siemens Ltd., Thailand
(Chairman)
Siemens Osakeyhtiö, Finland
(Deputy Chairman)
Siemens S.A., Belgium
(Chairman)

Joe Kaeser
(as of May 1, 2006)
Date of birth: June 23, 1957
First appointed: May 1, 2006
Term expires: March 31, 2011

External positions

German supervisory board positions:
Bayerische Börse AG, Munich

Company positions

Comparable positions outside Germany:
Siemens Corp., USA
Siemens Ltd., China
(as of October 1, 2006)
Siemens Ltd., India
(as of October 1, 2006)

Edward G. Krubasik, Prof. Dr. rer. nat.
(until September 30, 2006)
Date of birth: January 19, 1944
First appointed: January 1, 1997
Term expires: September 30, 2006

External positions

German supervisory board positions:
Dresdner Bank AG, Frankfurt/Main

Company positions

Comparable positions outside Germany:
Siemens A/S, Norway
(until December 12, 2006)
Siemens France Holding SAS, France
(until September 30, 2006)

Rudi Lamprecht
Date of birth: October 12, 1948
First appointed: April 26, 2000
Term expires: March 31, 2009

Company positions

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

Comparable positions outside Germany:
Fujitsu Siemens Computers (Holding) B.V., Netherlands
OOO Siemens, Russia
(Chairman)
Siemens Ltd., South Africa
(Chairman)

Eduardo Montes
(as of May 1, 2006)
Date of birth: October 2, 1951
First appointed: May 1, 2006
Term expires: March 31, 2011

Heinz-Joachim Neubürger
(until April 30, 2006)
Date of birth: January 11, 1953
First appointed: November 5, 1997
Original term until: September 30, 2007

External positions (as of April 30, 2006)

German supervisory board positions:
Allianz Versicherungs-AG, Munich
Bayerische Börse AG, Munich
(Deputy Chairman)
(until May 15, 2006)

Comparable positions outside Germany:
Merrill Lynch & Co., Inc., USA
(until May 1, 2006)

Company positions (until April 30, 2006)

Comparable positions outside Germany:
Siemens Corp., USA
Siemens Ltd., China

Jürgen Radomski, Dr. rer. pol. h. c., Dr. techn. h. c.
Date of birth: October 26, 1941
First appointed: June 29, 1994
Term expires: December 31, 2007

External positions

German supervisory board positions:
ALBA AG, Berlin
Deutsche Krankenversicherung AG, Cologne
Dräger Medical AG, Lübeck

Company positions

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

Comparable positions outside Germany:
Siemens AG Österreich, Austria
(Chairman)
Siemens A.Ş., Turkey
Siemens Nederland N.V., Netherlands
(until September 30, 2006)
Siemens Schweiz AG, Switzerland
(Chairman)

Erich R. Reinhardt, Prof. Dr.-Ing., Dr.-Ing. E. h.
Date of birth: October 3, 1946
First appointed: December 1, 2001
Term expires: March 31, 2011

External positions

German supervisory board positions:
Bio^{M} AG, Munich
Dräger Medical AG, Lübeck

Hermann Requardt, Prof. Dr. phil. nat.
(as of May 1, 2006)
Date of birth: February 11, 1955
First appointed: May 1, 2006
Term expires: March 31, 2011

Company positions

Comparable positions outside Germany:
Siemens Ltd., China
(as of October 1, 2006)

Uriel J. Sharef, Dr. rer. pol.
Date of birth: August 19, 1944
First appointed: July 26, 2000
Term expires: March 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
(Chairman)

Claus Weyrich, Prof. Dr. phil., Dr.-Ing. E. h.
(until September 30, 2006)
Date of birth: January 6, 1944
First appointed: October 1, 1996
Term expires: September 30, 2006

External positions

German supervisory board positions:
HERAEUS Holding GmbH, Hanau

Company positions
(until September 30, 2006)

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: July 9, 1944
First appointed: August 1, 1999
Term expires: March 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, 2006

The Siemens Corporate Structure is shown on the foldout inside the back cover.

Managing Board committees

Committees	Meetings in fiscal 2006	Duties and responsibilities	Members as of September 30, 2006
Corporate Executive Committee	46 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, Prof.** **Thomas Ganswindt, Dr. h. c. (until September 30, 2006)** **Joe Kaeser** **Edward G. Krubasik, Prof. Dr. rer. nat. (until September 30, 2006)** **Rudi Lamprecht** **Jürgen Radomski, Dr. rer. pol. h. c., Dr. techn. h. c.** **Uriel J. Sharef, Dr. rer. pol.** **Klaus Wucherer, Prof. Dr.-Ing., Dr.-Ing. h. c.** **Hermann Requardt, Prof. Dr. phil. nat. (as of October 1, 2006)**
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.** **Joe Kaeser** **Jürgen Radomski, Dr. rer. pol. h. c., Dr. techn. h. c.**
Equity Committee*	0 2 decisions by notational voting using written circulations	The Equity Committee is responsible for implementing various capital measures.	**Klaus Kleinfeld, Dr. rer. pol.** **Joe Kaeser** **Jürgen Radomski, Dr. rer. pol. h. c., Dr. techn. h. c.**

* By resolution dated July 25, 2006, the Committee Responsible for the Issuance of Employee Stock and the Equity Committee have been merged into a single Equity and Employee Stock Committee with all the duties and responsibilities previously assigned to those committees.

Further information on corporate governance at Siemens is available at www.siemens.com/corporate_governance.

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, with the intention 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.

Our risk management system complies with the requirements of the German Corporation Act (AktG). Our risk management system is designed to enable the Managing Board to recognize potential risks early on and initiate timely countermeasures.

In accordance with the resolution made at the Annual Shareholders' Meeting, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft has audited the consolidated financial statements prepared in accordance with U.S. GAAP and management's discussion and analysis, and issued an unqualified opinion.

Together with the independent auditors, the Supervisory Board has thoroughly examined the consolidated financial statements, management's discussion and analysis, and the independent auditors' report. The result of this examination is included in the Report of the Supervisory Board which begins on page 73 of this Annual Report.

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

Joe Kaeser
Executive Vice President and
Chief Financial Officer
of Siemens AG

Independent Auditors' Report

We have audited the consolidated financial statements, prepared by Siemens Aktiengesellschaft, Berlin and Munich, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from October 1, 2005 to September 30, 2006. The preparation of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US-GAAP) and the group management report in accordance with German commercial law are the responsibility of the Managing Board of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (Handelsgesetzbuch "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Managing Board, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the Accounting Principles Generally Accepted in the United States of America and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and 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, 2005 to September 30, 2006 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements in accordance with German law together with the group management report.

Munich, Germany
December 6, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Nonnenmacher	v. Heynitz
Wirtschaftsprüfer	Wirtschaftsprüfer

(Independent Auditors)

Five-year summary

Sales and earnings (in millions of euros)	2006	2005	2004	2003	2002[1]
Net sales	87,325	75,445	70,237	69,775	84,016
Gross profit on sales	23,513	21,299	20,128	19,836	23,206
Income from continuing operations	3,087	3,058	3,450	2,355	
Net income	3,033	2,248	3,405	2,445	2,597

Assets, liabilities and shareholders' equity (in millions of euros)	2006	2005	2004	2003	2002[1]
Current assets	51,611	46,803	45,946	43,489	44,062
Current liabilities	38,957	39,631	33,379	32,028	34,712
Debt	15,574	12,435	11,219	13,178	12,346
Long-term debt	13,399	8,436	9,785	11,433	10,243
Net debt[2]	(4,764)	(2,525)	2,357	(379)	(751)
Pension plans and similar commitments	4,101	4,917	4,392	5,843	5,326
Shareholders' equity	29,306	27,022	26,760	23,620	23,465
as a percentage of total assets	32	31	34	30	30
Total assets	90,973	86,117	79,430	77,517	77,890

Cash flows (in millions of euros)	2006	2005	2004	2003	2002[1]
Net cash provided by operating activities	5,174	4,217	4,704	5,419	5,564
Amortization, depreciation and impairments	3,007	3,316	3,248	3,230	4,126
Net cash used in investing activities	(4,435)	(5,706)	(1,689)	(3,848)	(810)
Capital spending[3]	(6,409)	(6,511)	(4,481)	(4,544)	(8,013)
Net cash provided by (used in) financing activities	1,802	(1,403)	(3,108)	(487)	(859)
Net increase (decrease) in cash and cash equivalents	2,093	(4,069)	41	953	3,394

Employees – continuing operations	2006	2005	2004	2003	2002[1]
Employees[4] (September 30, in thousands)	475	461	424	411	426
Employee costs (in millions of euros)	29,396	26,646	25,096	25,434	27,195

[1] Amounts for 2002 are not adjusted for discontinued operations (see Note 3 for further information on discontinued operations). Accordingly, amounts for 2002 are not directly comparable with the Company's fiscal data for 2006, 2005, 2004 and 2003.
[2] Net debt includes four positions of the Consolidated Balance Sheets: Cash and cash equivalents, Marketable securities, Short-term debt and current maturities of long-term debt and Long-term debt.
[3] Intangible assets, property, plant and equipment, acquisitions, and investments.
[4] Without temporary student workers and trainees.
[5] EVA for fiscal 2006, 2005 and 2004 has been calculated according to the assumptions used in fiscal 2006.
[6] Amounts for 2003 are not adjusted for discontinued operations.
[7] To be proposed at the Annual Shareholders' Meeting.
[8] XETRA closing prices, Frankfurt.
[9] Based on shares outstanding.
See also "Notes to Consolidated Financial Statements", Note 2, for certain adjustments performed for previously published information.

Key capital market data (in euros, unless otherwise indicated)	2006	2005	2004	2003	2002[1]
EVA (in millions of euros)	1,324	1,311	1,720[5]	449[6]	617
Earnings per share from continuing operations	3.47	3.43	3.87	2.65	2.92
Diluted earnings per share from continuing operations	3.31	3.29	3.71	2.61	2.92
Dividend per share	1.45[7]	1.35	1.25	1.10	1.00
Siemens stock price[8]					
High	79.77	66.18	68.30	58.32	78.52
Low	60.08	56.20	52.02	32.05	34.00
Year-end (September 30)	68.80	64.10	59.21	51.14	34.00
Siemens stock performance over prior year (in percentage points)					
Compared to DAX index	– 9.80	– 19.10	– 1.59	+ 36.34	+ 18.25
Compared to Dow Jones STOXX index	– 8.46	– 17.85	+ 0.17	+ 44.81	+ 7.87
Number of shares (in millions)	891	891	891	891	890
Market capitalization at period-end (in millions of euros)[9]	61,307	57,118	52,761	45,559	30,271
Credit rating of long-term debt					
Standard & Poor's	AA–	AA–	AA–	AA–	AA–
Moody's	Aa3	Aa3	Aa3	Aa3	Aa3

Quarterly data (in millions of euros)	2006	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net sales	87,325	23,923	21,173	21,510	20,719
Net income	3,033	541	792	887	813

Quarterly data (in millions of euros)	2005	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net sales	75,445	22,106	18,583	17,726	17,030
Net income	2,248	77	389	781	1,001

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

Years ended September 30	2006	2005
Net sales	30.9	30.2
Cost of sales	(23.1)	(21.7)
Gross profit on sales	7.8	8.5
Other functional costs	(9.2)	(8.8)
Other income and expense, net	1.5	1.9
Income before income taxes	0.1	1.6
Income taxes	1.3	(0.1)
Net income	1.4	1.5
Profit available for distribution	1.3	1.2

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

As of September 30	2006	2005
Property, plant equipment	2.3	1.5
Investments	35.6	41.1
Non-current	37.9	42.6
Inventories	0.1	–
Receivables and prepaid expense	18.3	15.0
Marketable securities, liquid assets	8.2	6.0
Total assets	64.5	63.6
Shareholders' equity	16.4	16.1
Accrued liabilities and special reserves	15.5	18.1
Debt	0.3	0.2
Other liabilities	32.3	29.2
Total shareholders' equity and liabilities	64.5	63.6

1 Introduction

According to the Regulation of the European Parliament and Council on the application of International Financial Reporting Standards (IFRS), publicly traded European Union (EU) 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 EU. The latter particularly applies to companies listed on the New York Stock Exchange (such as Siemens), which prepare their Consolidated Financial Statements under United States Generally Accepted Accounting Principles (U.S. GAAP). In Germany, the *Bilanzrechtsreformgesetz* (BilReG), issued in October 2004, implemented the option to defer mandatory IFRS application.

Accordingly, Siemens' financial reporting for fiscal year 2006 remains based on U.S. GAAP, including the Consolidated Financial Statements prepared under U.S. GAAP to meet the legal requirements of the German Commercial Code (HGB) and the reporting requirements of the U.S. Securities and Exchange Commission (SEC) on Form 20-F. In addition, Siemens has prepared its first IFRS Consolidated Financial Statements as of and for the two years ended September 30, 2006, which represents the first IFRS reporting date in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. Accordingly, Siemens' opening IFRS balance sheet is as of October 1, 2004.

As supplemental information, the following unaudited reconciliation of equity and net income from U.S. GAAP to IFRS provides a brief overview regarding the key impact of Siemens' conversion from U.S. GAAP to IFRS. We expect to publish on our website the full set of Siemens' first IFRS Consolidated Financial Statements as of and for the two years ended September 30, 2006 on or about December 18, 2006. These financial statements serve as a basis for Siemens' primary IFRS reporting beginning with the first quarter of fiscal 2007.

The IFRS Consolidated Financial Statements referred to above have been prepared in accordance with IFRS and its interpretations issued by the International Accounting Standards Board (IASB), as adopted by the EU. The unaudited reconciliation of equity and net income from U.S. GAAP to IFRS provided below represents an extract from these full IFRS Consolidated Financial Statements and therefore is based on the same principles. Siemens has applied all standards and interpretations that were effective as of September 30, 2006. In addition, the Company early adopted certain other standards, amendments to standards and interpretations.

(in millions of €)

2 Reconciliation of equity and net income from U.S. GAAP to IFRS

The following reconciliation describes the effect of major differences between U.S. GAAP and IFRS on the equity as of September 30, 2006 and 2005 and the equity in the opening balance sheet as of October 1, 2004, respectively, as well as on net income for fiscal years 2006 and 2005, respectively.

	Explanatory note	(unaudited) Year ended September 30, 2006	2005	(unaudited) Opening balance sheet as of October 1, 2004
Equity under U.S. GAAP		**29,306**	**27,022**	**26,760**
Change in presentation of minority interest	a	702	656	529
Equity under U.S. GAAP, including minority interest		**30,008**	**27,678**	**27,289**
Capitalization of development costs	b	251	230	217
Investments accounted for using the equity method	c	(141)	(164)	(182)
Sale and leaseback transactions	d	207	186	208
Financial instruments	e	252	(266)	(235)
Pensions and other post-employment benefits	f	(1,667)	(849)	(1,932)
Termination benefits	g	(532)	(305)	(347)
Provisions	h	(385)	(234)	(62)
Other		(191)	(69)	(36)
Deferred taxes	i	(1,527)	(2,026)	(1,664)
Total adjustments		**(3,733)**	**(3,497)**	**(4,033)**
Equity under IFRS		**26,275**	**24,181**	**23,256**

	Explanatory note	(unaudited) Year ended September 30, 2006	2005
Net income under U.S. GAAP		**3,033**	**2,248**
Change in presentation of minority interest	a	213	158
Net income under U.S. GAAP, including minority interest		**3,246**	**2,406**
Capitalization of development costs	b	17	13
Investments accounted for using the equity method	c	32	15
Sale and leaseback transactions	d	21	(22)
Financial instruments	e	(294)	64
Pensions and other post-employment benefits	f	613	552
Termination benefits	g	(231)	42
Provisions	h	(148)	(173)
Other		(110)	(60)
Deferred taxes	i	189	(177)
Total adjustments		**89**	**254**
Net income under IFRS		**3,335**	**2,660**

a. Change in presentation of minority interest
Under IFRS, minority interest is reported as a separate item within equity. U.S. GAAP requires minority interest to be presented separately from equity. Consistent with the balance sheet presentation, under IFRS the minorities' share of net income is presented as an allocation of net income, whereas, under U.S. GAAP, the minorities' share is considered in determining net income.

b. Capitalization of development costs
Under IFRS, development costs are capitalized, if specified criteria are met, while they are expensed under U.S. GAAP, except for internally generated software. The additional capitalization of product development costs (less related amortization) under IFRS increased equity by €251, €230 and €217 as of September 30, 2006 and 2005, and October 1, 2004, respectively. The resulting increase in net income in 2006 and 2005 was €17 and €13, respectively.

c. Investments accounted for using the equity method
IFRS requires that the application of the equity method be based on financial information provided by the associated companies and joint ventures that is in compliance with IFRS. Due to resulting IFRS adjustments relating to investments accounted for using the equity method, equity decreased by €141, €164 and €182 as of September 30, 2006 and 2005, and October 1, 2004, respectively. Net income under IFRS increased by €32 and €15 in 2006 and 2005, respectively, as compared to U.S. GAAP.

d. Sale and leaseback transactions
U.S. GAAP and IFRS differ with respect to the accounting for a gain arising from a sale and leaseback transaction. If the leaseback is an operating lease, any gain on sale is deferred over the life of the lease under U.S. GAAP. Under IFRS, the gain is immediately recognized in net income if the sale was established at fair value. Adjustments made in this respect increased equity under IFRS by €207, €186 and €208 as of September 30, 2006 and 2005, and October 1, 2004, respectively. The effect on net income was an increase of €21 in fiscal 2006 and a decrease of €22 in fiscal 2005.

e. Financial instruments
Under U.S. GAAP, the conversion feature in debt instruments convertible into shares of the issuer are generally not separated (bifurcated) from the debt instrument and accounted for separately at fair value. Under IFRS, a compound financial instrument with terms and conditions that grant the issuer the right to settle the option in cash upon conversion is divided into separate liability components at inception. The conversion right component is considered a derivative instrument and measured at fair value through profit or loss. The residual liability component representing the debt obligation is measured at fair value at inception and is subsequently measured at amortized cost using the effective interest method. In the third quarter of fiscal 2006, Siemens decided to waive the cash settlement option of the convertible bond and reclassified the conversion right component, which is deemed to be an equity component, to *Additional paid-in capital*. As of September 30, 2006, equity increased by €230 mainly due to this reclassification of the conversion right component. As of September 30, 2005, and October 1, 2004, the bifurcated conversion right component reduced equity by €375 and €350, respectively, due to the consideration of the conversion right as a derivative instrument and its re-measurement to fair value as well as the accretion of the debt component. Net income decreased by €198 and €25 in fiscal 2006 and 2005, respectively, due to the fair value re-measurement of the conversion right and additional interest expense.

Moreover, the “short-cut-method” that may be applied under U.S. GAAP to hedge interest rate risk, if certain conditions are met, is not allowed under IFRS. As the requirements for the application of hedge accounting under IFRS are more restrictive, hedge accounting related to interest rate risk for certain fixed-rate debt obligations was discontinued. IFRS 1 requires that the corresponding basis adjustments recognized under U.S. GAAP as of September 30, 2004 be carried forward to the IFRS opening balance and deferred over the remaining life of the related instrument. The termination of hedge accounting resulted in a decrease in equity as of September 30, 2006 of €7 and an increase in equity as of September 30, 2005 of €89. The effect on net income was a decrease of €96 in fiscal 2006 and an increase of €89 in fiscal 2005.

Under U.S. GAAP, equity instruments for which there is no readily determinable market value are recorded at cost. Under IFRS, all equity instruments, including non-exchange traded equity investments are measured at fair value, if reliably measurable, with unrealized gains and losses included in *Other components of equity*, net of applicable deferred income taxes. Investments for which a fair value is not reliably measurable are recorded at cost. The adjustments increased equity as of September 30, 2006 and 2005, and October 1, 2004, by €29, €20 and €115, respectively. The adjustment of €115 relates primarily to fair value adjustments on shares in Juniper Networks, Inc. (Juniper), which under U.S. GAAP were measured at cost because they were subject to sales restrictions until September 30, 2004.

f. Pensions and other post-employment benefits

Under IFRS, actuarial gains and losses resulting from changes in actuarial assumptions used to measure pension plan obligations are recognized directly in equity in the period in which they occur based on the new alternative introduced by IAS 19 (amended), which Siemens decided to use in connection with the early adoption of this amended standard. As of October 1, 2004 (the date of transition to IFRS), all actuarial gains and losses and vested past service cost previously unrecognized under U.S. GAAP were recorded in retained earnings. Under U.S. GAAP, unrecognized actuarial gains and losses exceeding the “corridor” continue to be amortized over the average remaining service period of active plan participants. Likewise, unrecognized vested past service cost continues to be amortized over the average remaining service period of active plan participants. As the effect of actuarial gains and losses do not impact the income statement under IFRS, increased net income resulted under IFRS of €602 and €549 in 2006 and 2005, respectively, as compared to U.S. GAAP for which amortization of net unrecognized actuarial losses existed.

U.S. GAAP defines an accumulated benefit obligation (ABO) that, in contrast to the projected benefit obligation, does not include assumptions about future compensation increases. If the ABO exceeds the fair value of plan assets, a liability at least equal to such difference – referred to as the minimum liability – is recorded on the balance sheet. The difference between the amount recorded on the balance sheet and the minimum liability – referred to as the additional minimum liability (AML) – is recognized either as an intangible pension asset, to the extent that past service cost exists, or within Accumulated Other Comprehensive Income (AOCI) (similar to *Other components of equity* under IFRS). As the AML recorded by the Company under U.S. GAAP represents a significant portion of the total unrecognized actuarial losses existing at each balance sheet date presented, the reduction in equity compared to U.S. GAAP resulting from pensions was significantly less than the amount of such unrecognized actuarial losses.

The overall impact associated with these changes was an increase in the unfunded liabilities for pension plans and similar commitments and a decrease in equity of €1,588, €749 and €1,877 as of September 30, 2006 and 2005, and as of October 1, 2004, respectively.

Besides pensions, differences in the accounting for other long-term post-employment benefits affected equity and net income. Other long-term post-employment benefits are employee benefits that are paid regardless of the reason for the employee's departure. Differences between the aforementioned amounts and the amounts provided in the tables above resulted primarily from such benefits.

g. Termination benefits

A significant portion of the adjustments resulting from termination benefits relates to the partial retirement program available to Siemens' employees in Germany. The majority of participants opted for a partial retirement arrangement that is typically composed of a full-time service period and an inactive period, where the employee receives 50% of the salary for each year during the entire partial retirement period. In addition, participants receive an annual bonus and a severance payment at the end of the inactive period. While under U.S. GAAP both the annual bonus to be paid in the inactive period and the severance payment are recognized as expense on a pro rata basis over the service period, IFRS requires that these benefit elements of the partial retirement arrangement are recognized in full as expense immediately when a partial retirement agreement is established. Adjustments to partial retirement obligations reduced equity under IFRS by €213, €296 and €369 as of September 30, 2006 and 2005, and October 1, 2004, respectively, whereas net income increased by €82 and €73 in 2006 and 2005, respectively.

Another difference between U.S. GAAP and IFRS arises from voluntary termination agreements. Under U.S. GAAP, a liability is recognized only when a voluntary termination agreement has been signed by both the employer and the employee. By contrast, under IFRS, a liability is recognized when the employer has irrevocably committed itself to grant a termination benefit. Such agreements resulted in lower equity under IFRS than under U.S. GAAP by €319, €8 and €5 as of September 30, 2006 and 2005, and October 1, 2004, respectively. Net income decreased by €313 and €3 for the years ended September, 30, 2006 and 2005, respectively.

h. Provisions

Under IFRS, provisions generally must be discounted and recognized at present value at each balance sheet date, i.e. the discount rate should be adjusted at each reporting date to reflect current market conditions. In contrast, under U.S. GAAP, discounting of provisions is limited to specific cases, such as to asset retirement obligations, whereby U.S. GAAP requires such obligations be discounted only using the discount rate determined when the provision is initially recognized. With respect to asset retirement obligations, applicable interest rates were therefore different for IFRS compared to U.S. GAAP. Due to a lower discount rate under IFRS, the present values to be recognized under IFRS increased with a negative effect on equity of €85 as of October 1, 2004. A continuing decline in the discount rate in fiscal 2005 led to a significant increase in the present value with a corresponding decrease in equity of €219 as of September 30, 2005 and in net income of €134 in 2005. As of September 30, 2006 equity under IFRS was €157 lower than under U.S. GAAP, whereas net income was €62 higher due to an increase in the discount rate in fiscal 2006 as compared to 2005.

This reconciling item contains various other differences with respect to recognition and measurement of provisions, such as provisions for vacant property and contingent liabilities with a range of possible outcomes where each point in that range is as likely as any other.

i. Deferred taxes

The adjustments as described above resulted in additional differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and their tax basis. Deferred taxes were recognized on temporary differences, with differences in pension accounting between U.S. GAAP and IFRS having the most significant impact.

This reconciling item also includes tax effects resulting from differences in accounting for income taxes between U.S. GAAP and IFRS. For the Company, such effects mainly result from calculating deferred taxes on elimination of intragroup profits. According to IFRS, deferred taxes on intragroup profit elimination are calculated with reference to the tax rate of the acquiring company whereas, under U.S. GAAP, the tax rate in the seller's or manufacturer's jurisdiction is used.

3 Assets held for disposal and discontinued operations

According to IFRS, a discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale. Under U.S. GAAP, the results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations if the operations and cash flows have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

The results and financial position of the carrier-related business and the enterprise networks business have been presented as discontinued operations under IFRS. These businesses are not presented as discontinued operations under U.S. GAAP due to Siemens' anticipated continuing involvement in the carrier-related business and the enterprise networks business and therefore have been presented as continuing activities in Siemens' Consolidated Financial Statements under U.S. GAAP.

Glossary

A	**Accumulated benefit obligation (ABO)**	A measure to determine a company's pension-related "additional minimum liability." The ABO is based on the same computational methodologies as the projected benefit obligation (PBO), except for compensation levels. The ABO applies to past and current compensation levels. It does not incorporate compensation increases.
	American depositary receipts (ADRs)	Negotiable share certificates issued by major U.S. banks, related to non-American shares deposited with them. ADRs are generally issued in a ratio of 1:1.
	Asset management	The process of managing corporate assets in order to enhance operational efficiency while minimizing costs and associated risks.
B	**Benchmarking**	A technique used to compare the products, services, processes and financials within an organization, in relation to "best of practice" in other similar organizations.
	Business portfolio	The aggregate total of business areas in which Siemens is active.
C	**Captive finance unit**	A financial services unit organized as a business within an industrial enterprise that offers financial solutions primarily to customers of the operating units of that enterprise.
	Cash flow	The net cash inflow or outflow for a specific time period.
	Cash management	The management of cash and cash equivalents within an organization to optimize financial activities.
	Commercial paper	Short-term loan issued in the open market by companies with strong credit ratings. Maturities typically range from 2 to 270 days.
	Consolidated financial statements	Financial statements that bring together all assets, liabilities, net worth, results of operations and cash flows of two or more affiliated companies, as though the business were in fact a single economic entity.
	Corporate Treasury	A corporate function responsible for ensuring the availability of company-wide financing and cash management, including consulting services involving issues of corporate finance, interest rates and currencies, liquidity management and all other questions related to the financial management of operations.
	Cost of capital	The rate that a company must pay for its capital.
D	**Debt-to-equity ratio**	Total long-term debt divided by total shareholders' equity.
	Deferred taxes	Assets and liabilities arising from the different treatment of transactions for financial and tax reporting purposes.
	Derivative	A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).
	Discontinued operations	A separate unit of an enterprise (clearly distinguishable from the rest of the entity) that has been disposed of or is classified as held for sale, if the unit's operations and cash flows are eliminated from the ongoing operations and the ongoing operations will not have any significant continuing involvement in the unit.
E	**Equity method**	Valuation method used to account for interests in companies in which the investor has the ability to exercise significant influence over the investee's operating and financial policies (associated companies).
	EVA	Abbreviation for "economic value added." EVA equals net operating profit after taxes (NOPAT) less a charge for capital employed in the business (cost of capital).
	Expected long-term rate of return on pension plan assets	The average rate of earnings expected on plan assets.

F	**Financing and Real Estate**	The worldwide leasing, lending, financing and real estate activities of Siemens Financial Services (SFS) and Siemens Real Estate (SRE).
	Fully diluted	Earnings per share are fully diluted when they reflect the effects of an assumed conversion or the exercise of all potentially dilutive securities or stock options.
	Functional costs	Functional costs include cost of sales, R&D expenses, marketing and selling expenses, and general administration expenses.
	Funded status ofa pension plan	The difference between a pension plan's projected benefit obligation (PBO) and the fair market value of assets designated to the pension plan (plan assets) as of a specific date.
G	**GASC**	Short for "German Accounting Standards Committee." An independent registered association to develop, among other things, accounting standards for application in the area of consolidated financial reporting.
	German GAAP	Short for "Generally Accepted Accounting Principles in Germany." The accounting concepts, measurements, techniques and standards of presentation used in financial statements in Germany pursuant to the German Commercial Code (HGB).
	Goodwill	The excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed.
	Group profit	Measure of Group profitability, defined as earnings before financing interest, certain pension costs and income taxes.
H	**Hedging**	A strategy used to minimize exposure to changes in prices, interest rates or exchange rates by means of derivative financial instruments (options, swaps, forward contracts, etc.).
	Hybrid bond	A hybrid bond is a bond that due to its subordination bears the character of both debt and equity.
I	**IFRS**	Short for "International Financial Reporting Standards", previously "International Accounting Standards" (IAS). According to IAS Regulation of the European Union publicly traded European Union companies are required to prepare their consolidated financial statements in accordance with IFRS beginning with January 2005, respectively January 2007 at the latest.
J	**Joint venture**	A form of business partnership between two or more companies to engage in a commercial enterprise with mutual sharing of profits and losses.
M	**Medium-term note program**	Flexible financing framework providing for the issuance of notes in rotation in the context of a program unrestricted in time (constant issue). The notes may be issued in several tranches, with terms and conditions and time of issue being determined in accordance with then current goals and prevailing market conditions.
	Moody's Investors Service	Independent rating agency that assesses securities investment and credit risk.
N	**Net capital employed**	Net capital employed is the asset measure used to assess the capital intensity of Operations. Its definition corresponds with the Group profit measure.
	Net cash from operating and investing activities	Total of cash provided by (used in) operating and investing activities as determined in the Statements of Cash Flow.
	Net periodic pension cost	The amount of pension costs recorded in the Statements of Income. Net periodic pension cost components include service cost, interest cost, expected return on plan assets, amortization of unrecognized prior service cost (if any), gains or losses recognized and amortized after exceeding a certain corridor (if any), amortization of unrecognized initial net obligation and/or initial net asset.

O	**Operations**	One component of Siemens' reporting structure. Operations comprises the operating Groups, certain operating activities not associated with these Groups and centrally managed items, but excludes Financing and Real Estate and Corporate Treasury.
P	**Projected benefit obligation (PBO)**	A measure to determine pension liabilities. The PBO is the actuarial present value as of a specific date of employees' vested and non-vested pension benefits incorporating compensation increases, attributable to employee services performed as of that date.
R	**R&D**	Abbreviation for "research and development."
	Rating	Standardized evaluation of issuers' credit standing and debt instruments, carried out by specialized agencies (such as Standard & Poor's or Moody's Investors Service).
	Risk management	Systematic process to identify, assess and monitor various financial risk factors and to select and implement measures to handle those risk factors.
S	**SEC**	Short for "Securities and Exchange Commission." The primary federal agency in the U.S. responsible for regulating the financial reporting practices of most publicly owned corporations in connection with the buying and selling of stocks and bonds.
	Standard & Poor's	Independent rating agency that provides evaluation of securities investment and credit risk.
	Stock options	Form of employee incentive and compensation. The employee is given an option to purchase a company's shares if certain targets are met under specified conditions.
U	**U.S. GAAP**	Short for "United States Generally Accepted Accounting Principles." The accounting concepts, measurements, techniques and standards of presentation applicable to financial statements in the U.S.
V	**Volatility**	The degree of fluctuation for a given price or rate, such as a stock price or currency exchange rate.

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Siemens financial calendar*

First-quarter financial report	Jan. 25, 2007
Annual Shareholders' Meeting – Olympiahalle, Munich, 10:00 a.m.	Jan. 25, 2007
Ex-dividend date	Jan. 26, 2007
Second-quarter financial report and Semiannual Press Conference	Apr. 26, 2007
Third-quarter financial report	July 26, 2007
Preliminary figures for fiscal year / Press conference	Nov. 8, 2007
Annual Shareholders' Meeting for fiscal 2007	Jan. 24, 2008

* Provisional. Updates will be posted at:
www.siemens.com/financial_calendar.

Corporate Structure

Managing Board of Siemens AG[1]

Corporate Executive Committee

Klaus Kleinfeld,
President and
Chief Executive Officer
Head of CD
Special responsibilities: CC, GA

Joe Kaeser
Head of CF
Special responsibility: SFS

Jürgen Radomski
Head of CP
Special responsibilities: Med, OSRAM, MCP

Johannes Feldmayer
Special responsibilities: SBS, SBT, SRE, CIO, CSP, GSS, Europe

Rudi Lamprecht
Special responsibilities: BSH[2], FSC[2], Africa, Middle East, C.I.S.

Hermann Requardt
Head of CT
Special responsibilities: SV, Japan

Uriel J. Sharef
Special responsibilities: PG, PTD, Americas

Corporate Departments

Corporate Development (CD)

Klaus Kleinfeld

Reinhart Bubendorfer
Herbert Figge
Thomas Frischmuth
Horst-J. Kayser

Corporate Finance (CF)

Joe Kaeser

Dominik Asam
Paul Hobeck
Ralf P. Thomas

Corporate Personnel (CP)

Jürgen Radomski

Günther G. Goth
Albrecht Schäfer

Corporate Technology (CT)

Hermann Requardt

Reinhold Achatz
Winfried Büttner

Operations

Automation and Control

Automation and Drives (A&D)

Helmut Gierse

Hannes Apitzsch
Peter Drexel
Anton S. Huber

Industrial Solutions and Services (I&S)

Joergen Ole Haslestad

Bernd Euler
Hans-Jörg Grundmann
Joachim Möller

Siemens Building Technologies[3] (SBT)

Heinrich Hiesinger

Johannes Milde
Rolf Renz

Power

Power Generation (PG)

Klaus Voges

Ralf Guntermann
Michael Süß
Randy H. Zwirn

Power Transmission and Distribution (PTD)

Udo Niehage

Pamela Knapp
Christian Urbanke

Transportation

Transportation Systems (TS)

Hans M. Schabert

Alfred Frank
Jörn F. Sens
Friedrich Smaxwil

Siemens VDO Automotive (SV)

Wolfgang Dehen

Klaus Egger
Helmut Matschi
Reinhard Pinzer

Medical

Medical Solutions (Med)

Erich R. Reinhardt

Thomas Miller
Siegfried Russwurm
Klaus Stegemann

Regional organization

Regional Organization Germany (RD), Regional Companies, Representative Offices, Agencies

(1) See also pages 14 – 15 and 234.
(2) Affiliates: BSH Bosch und Siemens Hausgeräte GmbH, Fujitsu Siemens Computers (Holding) BV
(3) Company unit in Siemens Schweiz AG
(4) Suspended since November 23, 2006

Klaus Wucherer
Special responsibilities: A&D, I&S, TS, Asia, Australia

Eduardo Montes
Head of Com

Erich R. Reinhardt
Head of Med

Corporate Centers

Corporate Communications
(CC)
Janos Gönczöl

Corporate Information Office
(CIO)
Volkhart P. Matthäus

Corporate Supply Chain and Procurement
(CSP)
Bernd Regendantz

Global Government Affairs
(GA)
Harald Braun

Global Shared Services
(GSS)
Denice Kronau

Management Consulting Personnel
(MCP)
Hans-Jürgen Schloß

Information and Communications

Siemens Business Services GmbH & Co. OHG (SBS)

Christoph Kollatz
Jürgen Frischmuth
Michael Schulz-Drost

Communications
(Com)

Eduardo Montes
Andreas Bernhardt
Thorsten Heins
Karl-Heinz Seibert

Lighting

OSRAM GmbH

Martin Goetzeler
Kurt Gerl
Johannes Närger
Claus Regitz

Financing and Real Estate

Siemens Financial Services GmbH
(SFS)

Herbert Lohneiß
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As of October 1, 2006

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